



Report of the Chairman and Managing Director

REPORT OF THE CHAIRMAN AND MANAGING DIRECTOR

We have pleasure in reporting to shareholders the Group's results as follows :

	Year to 31st December 2000 HK\$	Year to 31st December 1999 HK\$
Turnover	439.6 million	481.7 million
Profit after taxation and minority interests	33.7 million	39.6 million
after taking into account:		
– profit on disposal of properties	–	30.0 million
– profit on disposal of interests in an associated company and a joint venture and other investments	5.2 million	6.5 million
– provision for diminution in value of fixed assets, unlisted investments and a subsidiary	(4.6) million	(26.7) million
– revaluation deficit of investment properties	(9.9) million	–
– net write back of provision of trade receivables	3.3 million	–

After three years of consolidation, 2000 was a year in which management concentrated on bringing together its multi-lingual, world wide business team. The final pieces put into place for the operations included:

- the privatization by tender offer for Carpets International Thailand Public Company Limited (CIT) and the increase in the Group's interest to 99.15 %;
- the continuing expansion and improvement programmes in the manufacturing operations of CIT, Nanhai Tai Ping Carpets Limited and Weihai Huabao Carpet Company Limited, and
- the development of technical expertise in our sales and marketing offices to support our sales subsidiaries in France, Germany and the U.S.A. and to support Tai Ping agents and customers worldwide.

After four years in which financial resources had to be preserved, directors of the Company have recommended the payment of a final dividend of 2 cents per share payable to shareholders on the register of members on 25th May 2001. Dividend cheques will be sent to the shareholders on or before 8th June 2001. Albeit small, it reflects confidence in your Company's future.

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Carpet Operations

Hong Kong –

Tai Ping Carpets Limited – 100% owned

The Hong Kong based sales and marketing operations represent the Southern China manufacturing operations in Nanhai and handle the international exports, Hong Kong, and the China markets. The export sales team handles sales to the US and Europe and has added new agents and contacts in Eastern Europe and the Middle East with positive results during the year. After a slow start in 2000, the sales team ended with a successful second half in the competitive Hong Kong market. The reorganization of the China sales team and establishment of a new sales office in Shenzhen to service the Southern China market resulted in an encouraging recovery in China sales volume by the end of the year.



China –

Nanhai Tai Ping Carpets Limited – 80% owned

The manufacturing operations in Nanhai, Guangdong Province, China, had another good year. During the year, the management team concentrated on further improving production efficiency. Water treatment plant improvements were made to the yarn dyeing facilities to minimize effects to the surrounding environment. In planning for increased business volume, the company acquired six Axminster weaving looms.

Weihei Huabao Carpet Company Limited and Weihei Premier Carpet Company Limited – 44% owned

A carpet tile line producing PVC backed polypropylene and nylon carpet tiles, and three tufting machines were commissioned in the last quarter of 2000. This growing company had another profitable year. New product ranges and additional capacity have enhanced its position as the leading carpet manufacturer in China which is supported by its distribution network of 16 branch offices throughout China. Agreement was reached for Tai Ping to increase the investment in this company to 49% during the year and this was completed in March 2001. The remaining 51% interest is owned by local management and employees of the joint venture.

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Thailand –

Carpets International Thailand Public Company Limited (CIT) – 99% owned

Following an upturn in the tourist industry in Thailand, CIT reported a very good year. The manufacturing improvements and expansion plan commenced in 1999 continued with the addition of a new wool spinning line, a tufting machine, seventeen Wilton looms, a new carpet tile production line, and environmental air conditioning for the handmade carpet production areas. CIT has introduced its new carpet tiles including woven patterned carpet tiles and solution-dyed nylon graphics tufted carpet tiles to both the local and export markets with success. A nylon extrusion plant has been added and recently commissioned, and work will soon start on an on-site high voltage electricity substation which will greatly improve the reliability of the power supply to the factory as well as reduce electricity costs. On 24th August 2000 CIT was delisted from The Stock Exchange of Thailand following the increase of the Group's interest in the company to 99.15%.



Philippines –

Philippine Carpet Manufacturing Corporation – 33% owned

Philippine Carpet Manufacturing again recorded profits despite a difficult year in its domestic market following political uncertainties. The company focussed on the export markets with its specialised hand tufted products.

U.S.A. –

Options Tai Ping Carpets, Inc. (Options) – 57% owned

Options has brought together the U.S. distribution for the Group companies and this year the company concentrated on developing market share and investigating new market sectors. Inroads were made into the American residential market which had not previously been accessed by taking over the distribution of a particular range of products. Staff numbers were doubled to add technical and service expertise to support the expected increasing volumes in the U.S. To accommodate the enlarged staff, the company relocated to the Group owned premises in Calhoun, Georgia.

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U.S.A. –

Premier Yarn Dyers, Inc. – 100% owned

The commission yarn dyeing business located in Adairsville, Georgia had another successful year. In September the company began the installation of a state-of-the-art water treatment facility. Once commissioned in 2001, this facility will become a pioneering environmentally responsible facility which will allow complete recycling of water with minimal discharge of pollutants.

Europe –

Tai Ping Carpets Interieur GmbH – 100% owned

Based in Dusseldorf, Germany, Tai Ping Carpets Interieur GmbH distributes proprietary designed rug collections for major interior decoration houses throughout Germany and



surrounding countries. In 2000 the company successfully introduced a unique sculptured woven Axminster product for a major hotel renovation project creating interest in this new product in Europe. The company was profitable for the year.

Tai Ping Carpets Europe S.A. – 100% owned

The appointment of a new manager to manage this Paris based operation has added to the flair and innovation of Tai Ping's French team. Several luxury yachts, hotels and casinos have been completed and although the company was not profitable for the year following changes in the administration, we believe the new team and business focus will create greater reach and awareness of Tai Ping and its products in the European market.

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Non-Core Operations

Banyan Tree Limited – 100% owned

Banyan Tree operated profitably despite difficult retailing conditions in Hong Kong. On the retirement of the previous managing director, her deputy was promoted and has continued to influence and guide the individuality of the operations into the unique interior furnishings and furniture market appealing to both local Asian and western tastes.

Corporate Transactions

In January 2000, the Group sold a 20% investment in Summit Wool Spinners Limited, New Zealand. Sale of the investment resulted in a profit of HK\$1.6 million.

On 30th June 2000, the managing director of Banyan Tree Limited retired. She beneficially owned a 20% interest in Banyan Tree. As stated in the Group's announcement of 20th July 2000 on 19th July 2000 the Group acquired the 20% minority interest in Banyan Tree for a cash consideration of HK\$2,577,000 under the terms of the Shareholder Agreement. The Group now owns 100% of the company.



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On 31st July 2000, a second tender offer for shares in CIT closed with the Group's shareholding increasing to 99.15%. The tender offer followed the approval of the CIT shareholders and the Board of Governors of the Stock Exchange of Thailand for the delisting of CIT which became effective on 24th August 2000.

On 14th March 2001, the Group announced that on 13th March 2001, it had acquired the 10% minority interest in Treasure Looms (China) Limited from Unison Pacific Investment (US) Limited together with its shareholder's loans for a cash consideration of US\$560,000. Treasure Looms (China)'s major investment is the 49% interest in Weihai Huabao Carpet Company Limited. The acquisition will increase the Group's interest in Weihai Huabao Carpet Company from 44.1% to 49%.



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Outlook

The foundations are now in place with three major factories in Asia catering to domestic and worldwide markets with a wide product range of stock and custom carpets. Late in 2000 the Group set its new strategy of “Beyond Manufacturing”. This strategy will be developed in 2001 to increase the Group’s market coverage and improve customer services. Towards this goal the Group has commenced the implementation of global information and design database systems which in total will be less than HK\$ 1 million in investment.

The Group aims to expand through organic growth and by acquisition. For this purpose the Group announced on 17th April 2001 a Rights Issue to raise approximately HK\$102 million by way of offering to shareholders one new share for every two existing shares of the Company. We believe that there are many opportunities for expansion both



in Asia, Europe and North America. The growing China market, with large numbers of new hotels and increasing demands in residential requirements as home ownership spreads, offers an opportunity to Tai Ping to expand in an existing market. The restructuring of our worldwide subsidiaries in recent years will enable us to take advantages of opportunities that may arise outside Asia.

In the last few years the Group’s results have been affected by capital profits and investment provisions. In contrast, the 2000 results show solid operating performance. The improved cash flow has been applied to capital improvements and new plant and equipment, and barring unforeseen circumstances another solid year should follow in 2001.

On behalf of the Board and the shareholders, we wish to thank the management and staff of the Group for their hard work, patience and persistence shown in the transformation of the Group over the recent years and in achieving the current year results. Their efforts have been recognised in part by granting share options in 1999 under the Group share option scheme.