

Chairman & Managing Director's Report

To our shareholders

Your Company achieved a further improvement in its business in 2001 with an increase of 3.8% in turnover and 11.8% in profit attributable to you as shareholders, despite unsettled and turbulent times. The year started well for the Group, but the tragedy of September 11 shook the world. We reached out to our colleagues in the US to support them and offered our deepest sympathies in those early days after the tragedy. As a Group, we experienced a noticeable fall in export sales in November and December as some ongoing projects were placed on hold by customers. But our Team faced the issue with determination and flexibility and responded rapidly to the market changes.

Carpet operations

CARPET OPERATIONS reported a 12.2% increase in turnover of HK\$343.4 million and segment profits of HK\$43.4 million before tax, finance and unallocated costs. Sales in Axminster and the newly introduced Wilton products increased, whilst the sales of handmade carpets saw a decline. The steadily growing reputation of the Group to manage and supply large carpet contracts, coupled with customers seeking more cost effective solutions to their flooring requirements, resulted in increased volume. However the lower gross margins on woven carpets reduced the overall profit percentage margins.

GROUP EXPORT SALES represented approximately 46.4% of the Group turnover with sales to Asian countries including Thailand, Hong Kong and China representing approximately 53.6% of the turnover. The Group was honoured when the Hong Kong Trade Development Council awarded Tai Ping Carpets Limited the Hong Kong Export Marketing Award for 2001.

Sales continued to grow in the USA, our major export market served by OPTIONS TAI PING CARPETS, INC. ("OPTIONS"). Despite the slowdown following September 11, sales at Options increased by 19.1% but net losses before tax of HK\$6.5 million were incurred as the Group continued to invest in building our technical expertise and service capabilities to support our increasing sales network. A new design studio and related facilities were added to our Calhoun, Georgia headquarters. To further penetrate the residential market, we launched a program of in-stock product offerings including Wilton & Axminster woven carpets, and area rugs. These new products were introduced with encouraging results at the Surfaces Exhibition held in Las Vegas in January 2002. In October, we acquired 100% of White Oak Carpet Mills, Inc. ("White Oak") in Spindale, North Carolina. White Oak manufactures custom tufted carpets aimed at the private aviation and motor yacht industries, their products are highly complimentary to the Tai Ping product range. The events of September 11 had a major effect particularly on the hospitality sector of our US business in the last quarter. OPTIONS reacted swiftly with optimism and persistence, by refocusing their efforts on other sectors of the market to minimize the effects. Signs of some recovery in the market have been seen in early 2002.

EUROPEAN SALES WERE MIXED. TAI PING CARPETS INTERIEUR GmbH ("TPCI") in Dusseldorf experienced a 20.7% fall in turnover reflecting the continued economic slowdown in Germany, resulting in a loss before tax for the year of HK\$1.0 million. The lower turnover was attributable to a reduction in the demand from a major private label customer. As we do not anticipate a quick recovery in our traditional hand tufted private label supply business, we have been

targeting other market sectors. Several hotel installations with carved Axminster carpets – a unique Tai Ping development – were successfully completed during the year. This product will see increased success in the European market. TAI PING CARPETS (EUROPE) S.A. (“TPCE”) operations in Paris, under new management, successfully addressed various strategic issues during the year leading to a renewed business strategy; a reorganization of the administrative functions; renovations of the showroom, and the establishment of a separate division to develop designer brand name carpet collections. The company incurred a loss before tax of HK\$3.0 million including the additional investments to build a strengthened operation.

OUR FACTORIES AT CARPETS INTERNATIONAL THAILAND PUBLIC CO. LTD. (“CIT”) AND NANHAI TAI PING CARPETS CO. LTD. (“NANHAI”), in line with the rest of the carpet group, reported strong growth and earnings until the effects of September 11 were felt and the last quarter was noticeably slower.

CIT reported an increase in its turnover of 11.0% to HK\$187.5 million from HK\$168.5 million in 2000 and a fall in profits before tax to HK\$24.5 million from HK\$25.3 million (excluding results from investment properties). The 2000 results included an exchange gain of HK\$3.4 million. During the year CIT successfully introduced several new products to the markets. [These products included an Axminster carpet range with specifications suitable for use by passenger cruise liners, a solution dyed nylon Axminster carpet range suitable for the hospitality and health care market, a range of semi-worsted wool woven Wilton for the US residential market, and four carpet tile collections aimed at the high end of the commercial market.

The soft economy of Hong Kong and the fall in business travelers and tourists led to the deferment of several renovation projects and new construction. The Group is coping with the continuing fall in turnover and the use of more economical products in place of luxury hand tufted carpets. Our sales in China improved in 2001. In anticipation of the excellent long-term prospects for China, we opened a showroom in Shanghai in October 2001 to introduce the Tai Ping brand to the high-end consumer residential market.

WEIHAI HUABAO CARPETS CO. LTD. AND WEIHAI PREMIER CARPETS CO. LTD. (“WEIHAI”) We increased our holding into these two profitable joint venture companies from 44.1% to 49% in March 2001. Weihai successfully launched the “Shanhua” brand carpet tile line to the market place. In addition, commissioning of the first space dye line in China started and is expected to be in production in early 2002. Our joint venture companies continue to be the market leader in the fast growing China carpet market.



2nd Floor Reception at Ironwood Country
Club, Omaha, Nebraska U.S.A.

Other operations

Our commission dyeing and yarn trading operation of PREMIER YARN DYERS, INC. ("PYD") in Georgia, U.S.A. had a disappointing year due to the generally sluggish carpet industry in the U.S. PYD reported a reduction in its turnover and a fall in its profitability. Some delays were experienced in the final commissioning of the closed loop water treatment facility, but adjustments are being made to ensure its 100% effectiveness.

The furniture and interior furnishings operations of BANYAN TREE LTD. ("Banyan Tree") had been resilient to the soft retail market in Hong Kong and operated profitably in the past few years. But in 2001, it could not escape the impact of the persistently weak retail market, reporting a 18.5% drop in turnover and a small loss for the year. To counter these trends, Banyan Tree has successfully established a furniture rental business to complement its showroom operations.

Group capital expenditure

In line with Group strategy, we continued to invest to upgrade and introduce new technology to expand our product range and capabilities. At CIT, two new tufting machines, additional nylon extrusion capacity, and a high voltage electricity sub-station were commissioned during the year. In Nanhai, additional Axminster looms and upgrades were acquired. These improvements will extend the Group's capability to lead in the markets that we serve, and to provide the best products & services to our customers.

Environmental Management and Social Responsibility

As the Group expands, environmental management and social responsibilities have become increasingly important management issues. To enhance the corporate awareness on these fronts, the Group set up an Environmental and Social Responsibility (ESR) Committee at the end of 2001. By the first quarter of 2002, the ESR Committee has completed an in-house ESR audit involving all operations within the Group. This internal audit not only gives management a better understanding of where the Group stands in terms of ESR management, but also serves as a good benchmark and helps to raise the awareness of such issues among all Group operations. On this basis, the Committee is now defining the corporate ESR policy and plan for actions to be taken for the establishment of the corporate ESR management system. One such action, for instance, would be to seek ISO 14000 certification.

Acquisitions of subsidiaries

On 14th March 2001, we reported a connected transaction for the acquisition of 10% of Treasure Looms (China) Ltd., a 90% subsidiary of the Group. Together with its shareholders loan, the total cash consideration was US\$560,000 (approximately HK\$4.4 million). The acquisition has increased the Group's holding in the joint ventures, Weihai Huabao Carpets Co. Ltd. and Weihai Premier Carpets Co. Ltd. to 49% and gave rise to negative goodwill of HK\$3.5 million.

On 9th October 2001 we acquired 100% of White Oak Carpet Mills, Inc. based in Spindale, North Carolina for US\$1.4 million (approximately HK\$10.9 million). The acquisition represented a strategic step to enlarge the premium product range offered by the Group in custom small volume tufting products, and to add technical expertise acquired from personnel with the White Oak operations to assist Group product and engineering development.

Liquidity and financial resources

The Group generally finances its businesses with internally generated cash flows and banking facilities at its different geographical locations. Financing and cash management activities of the Group are coordinated at the corporate level.

The Company completed a 1 for 2 rights issue exercise on 18th June 2001 and raised HK\$101.5 million before expenses of HK\$3.9 million. HK\$40.0 million was placed on bank deposit pending investment opportunities and the balance of HK\$57.6 million was used to repay bank loans and overdrafts and as working capital of the Group companies in Hong Kong. The proceeds will also provide funding for the Group to expand its operations by organic growth or through acquisitions if such opportunities arise.

The debt maturity profile of the Group at 31st December 2001 was :

	As at 31st December	
	2001	2000
	HK\$'000	HK\$'000
Repayable within one year (including bank overdrafts)	60,748	106,497
Repayable after 1 year, but within 2 years	7,992	7,992
Repayable after 2 years, but within 5 years	3,636	11,628
Total	<u>72,376</u>	<u>126,117</u>

Borrowings are mainly denominated in Hong Kong Dollar and Thai Baht. Total borrowing decreased by 42.6% as a result of repayment of Hong Kong Dollar-denominated bank loans after the Company's rights issue in June 2001.

At the balance sheet date assets with carrying values of HK\$39.9 million (2000: HK\$65.3 million) were pledged to secure some of the banking facilities granted to the Group.

As the cash deposits and bank balances of the Group amount to HK\$107.6 million and the net working capital totals HK\$166.0 million, the management believes that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditure.

The earnings before interest, tax, depreciation and amortisation for the year to 31st December 2001 was HK\$82.3 million and HK\$82.2 million for 2000.

Employee and remuneration policy

The Group had approximately 2,500 employees as at 31st December 2001(2000: approximately 2,500). Total staff costs and retirement benefit costs for the year 31st December 2001 amounted to HK\$116.8 million (2000: HK\$93.2million) and HK\$2.8 million (2000: HK\$2.2million) respectively. The Group's employment and remuneration policies remained the same as those set out in the Annual Report 2000.



Rabobank Interior Fit-out, Australia

Contingent liabilities

Full disclosure of contingent liabilities as at 31st December 2001 have been made in the note 32 to the Accounts.

Outlook

In 2001 our Group focused on the development of new collections, products and marketing tools. The global design database is operational in Hong Kong and Thailand allowing intranet access to the vast catalogues of over 45 years of carpet designs at Tai Ping. Options will have access to the system in 2002. In the year we have also concentrated on collecting our Group's considerable product knowledge and experience, and assembling marketing tools to clearly demonstrate to our customers the full extent of our knowledge and experience in the international custom carpet market.

The effect of the fall in the US market in the last quarter of 2001 continued into 2002. Much will depend on the recovery of this market. Although we have the capacity to serve a much larger demand, rebuilding of market confidence will be an important factor.

The past year has clearly shown that life and business conditions can change quickly. Contending with the ever changing markets and the trends of specific economies is a skill that we can provide.

In 2002, we will build on the successes of this past year, and learn from our failures. We greatly appreciate your ongoing support as we work hard to deliver our superior products to our consumers and create additional value for our shareholders, customers, business partners and associates around the world. Finally, we wish to express our appreciation to our colleagues for the hard work and dedication in achieving the results for the year.

James S. Dickson Leach
Chairman

Kent M. C. Yeh
Managing Director

Hong Kong, 17th April, 2002