

Chairman and Managing Director's Report

To Our Shareholders

The Company's consolidated turnover for the year was HK\$481.1 million compared to HK\$456.2 million in 2001. The profits attributable to shareholders were HK\$17.4 million, a decrease of 53.9% compared to HK\$37.6 million in 2001. The terrorist attacks in the U.S.A. and uncertainties felt worldwide in the last quarter of 2001 severely affected the Company's sales in the beginning of 2002 with sales in the first quarter being particularly low. With stability returning to world economies in the second half of the year and market confidence slowly recovering in our major export market, the U.S.A., our sales began to pick up and we achieved an increase of 5.5% over 2001. However, as part of the Group's strategy of changing the Group into a more focused marketing and sales driven organization, additional overhead costs were incurred. This together with a HK\$3.9 million provision for impairment booked against an investment, resulted in a fall in profits for the year.

Carpet Operations

The U.S.A. continues to be the Group's major export market representing 32.1% of the Group's carpet sales. Tai Ping Carpets Americas, Inc. ("TPCA"), serving the U.S.A. market, faced a difficult year in 2002 given the lacklustre U.S.A. economy coupled with unprecedented price cutting from competitors. However, it grew its sales from HK\$67.3 million to HK\$78.3 million, partly attributable to the completion of carpeting work for three convention centres in the U.S.A. and partly with increasing sales coming from the dealer network established to service the residential market.

Sales in Europe fell from HK\$27.3 million to HK\$24.2 million. The weak performance of our German office, Tai Ping Carpets Interieur GmbH ("TPCI") was due to the continuing flat German economy; and the sales of our Paris office, Tai Ping Carpets Europe S.A. ("TPCE") were affected by a temporary closure of the showroom for refurbishment. Across Europe, the Group reached a consensus on its approach to develop the target niche markets requiring and affording luxury custom carpets. Following this approach, TPCE had a year of transition with the opening of a new office, the refurbishment of the showroom, the addition of sales and technical support staff and the launching of specific resources to service the private yacht and aircraft markets, as well as the introduction of a "designer brand" rug collection for worldwide distribution including such names as Kenzo Maison, JC de Castelbajac, Jean Pierre Tortill and Thierry Duru.

Sales in Asia fell marginally to HK\$198.7 million. Sales to the South East Asia markets of Thailand, Philippines, Indonesia, Singapore, Malaysia and Indochina, improved mainly due to the growth in sales of carpet tiles and new broadloom tufted products, but sales in the Hong Kong and China markets fell due to intense price competition. Total sales in the Hong Kong and China markets for 2002 were HK\$45.7 million compared to HK\$62.7 million in 2001 even after the Group responded to the pricing issue by providing more economical products. During the year, Carpets International Thailand Public Co. Ltd. ("CIT") succeeded in securing a supply agreement for carpet fabric for the growing automotive industry in Thailand.

Overall, the carpet manufacturing and trading operations achieved an annual turnover of HK\$342.5 million comparable to 2001 but its segmental profit fell 44.1% to HK\$24.2 million before tax, finance and unallocated costs. By product groups, sales in carpet tiles and textural broadloom carpet grew while the sales of hand tufted and machine woven products declined. In line with uncertain world economies, the Group experienced unprecedented price competition. However, much of the decline in the segment profit was accounted for by the increase in expenses in changing the Group into a more focused sales and marketing driven organization. TPCA, TPCE and TPCI added key operational capabilities to their teams and developed sales and marketing literature and samples. But as with most strategic investments, the benefits take time to come to fruition – for sales teams to develop relationships and markets, for service skills to improve to meet the customers’ needs and for product samples to permeate the distribution networks.

Joint Ventures and Associated Company

Weihai Huabao Carpet Co. Ltd., Weihai Premier Carpet Co. Ltd. and the newly formed Weihai Shanhua Floorcovering Products Co. Ltd. (“Weihai”) increased their sales in the year by 18.3% to Rmb.273.9 million. But the Weihai operations saw a fall in their gross profit margins in the highly competitive China market and a rise in their overhead costs resulting in a 23.4% decrease in the P.R.C. reported results for the year to Rmb. 23.9 million (2001: Rmb. 31.2 million). At the consolidated level further provisions amounting to HK\$5.9 million (2001: HK\$3.9 million) were made against the current year profits attributable to the Group in respect of Weihai’s working capital items.

The Group’s share of profits before taxation from its associated company, Philippine Carpet Manufacturing Corporation for the year amounted to HK\$3.1 million and is comparable to 2001.

Other Operations

The yarn manufacturing and trading operations from the Asian manufacturers in Nanhai, the P.R.C., CIT in Thailand and Premier Yarn Dyers, Inc. (“PYD”) in Georgia, U.S.A. reported a 18.2% increase in turnover to HK\$95.4 million for the year. Asian external sales of yarn remained level, but PYD in the U.S.A. improved its sales of commission dyeing services to the major carpet mills and saw an improvement in its turnover and profitability. Further cost savings arising from the change in product mix at PYD gave rise to an overall improvement in the segmental results to HK\$19.7 million for the year. The final commissioning of the closed loop water treatment facility at PYD continues and the system has begun to achieve the standards required by the local environment protection authorities.

During the year, in addition to the interior furnishings operations of Banyan Tree Ltd. (“Banyan Tree”), the Group also formed Options Home Furnishings Ltd. (“Options”) as a new furniture rental operation. The two companies work closely and have developed the rental and contract furniture market to complement the original Banyan Tree showroom operations. In 2002, the turnover grew significantly to HK\$35.4 million and although the combined result of the operations was a loss of HK\$508,000, this was anticipated with the start up of Options.

Group Capital Expenditure

Our factories at CIT in Thailand and Nanhai Tai Ping Carpets Co. Ltd. in Guangdong Province, the P.R.C. continued to invest in improving efficiency and expanding production capabilities. In 2002 HK\$58.6 million was incurred on capital expenditure with the addition of a nylon fibre extrusion plant, a needle-punched fabric line and a broadloom tufting machine at CIT, new dye house equipment, factory building additions, and Axminster looms at Nanhai. Both factories are presently working towards their ISO 14000 certifications. These improvements will enable both factories to meet current and anticipated demands of the market and will further reinforce the competitiveness of our products.

Environmental Management and Social Responsibility

The Group continued its effort on improving its environmental management in 2002. During the year, the Group's Environmental and Social Responsibility Committee developed a guideline on the important aspects of the operation, measures of which are being implemented in various operations of the Group. Information on the best practices adopted by some American carpet manufacturers were collected and provided to the Group's manufacturing operations as a benchmark. PYD, Nanhai and Weihai are improving their waste water treatment facilities while CIT and Nanhai continue in their research and development into environmental friendly products, some of which have been certified by the Indoor Air Quality Program, an American certification for environmental friendly carpets. At the end of 2002 our CIT and Nanhai factories have started the implementation of the ISO 14000 environmental management system, with certifications expected in 2003. In November 2002, the Group successfully sponsored and organized a carpet design competition in conjunction with a charity auction of the winning rug designs together with rugs designed by prominent designers from Asia. The charity event, held at the Government House in Hong Kong, raised over HK\$850,000 for the Mother's Choice charity which supports foster care for orphans in China and Hong Kong.

Acquisition of Subsidiaries

On 3rd January 2002, Costigan Ltd., a wholly owned subsidiary of the Company entered into a Sale and Purchase Agreement with Philippine Carpet Manufacturing Corporation and its subsidiary, P.C.M.C. (Hong Kong) Ltd., collectively known as the P.C.M.C. Group, to acquire 10% of Singapore Carpet Manufacturers Pte. Ltd. ("SCM"), a 90% owned subsidiary of Costigan Ltd. at a consideration of S\$495,517 (HK\$2,101,000). This was a connected transaction by virtue of the substantial shareholding held by P.C.M.C. Group in SCM. Subsequent to the acquisition, the SCM operations in carpet trading have been successfully re-established in the Singapore market.

Outlook

In 2002, our Group continued to focus on enhancing the sales and market presence of Tai Ping worldwide, bringing the technical expertise of our custom manufacturing capabilities to our customers through our international sales teams. Worldwide, the Group looked carefully at the needs of our customers to provide a one-stop solution for quality, design and service.



It is difficult to assess the effects on our business and that of our customers of the war in Iraq and the health issues emerging in Asia. The immediate impact will be unfavourable but the medium term outlook appears to be one where our low cost base will stand us in good stead. We will continue to focus on the necessary changes required to develop the Group into a customer focused and sales driven organization. The past year has shown that life and business conditions continue to change rapidly and the Group must be proactive to succeed in both our Asian and export markets. A period of change can be unsettling but brings growth and learning – which coupled with the Tai Ping name and products – will enable us to meet the challenges of the future.

We greatly appreciate our shareholders' continuing support as we work hard to deliver service and superior products, creating value for our stakeholders as stated in our corporate mission. We would like to express our thanks to our colleagues for their hard work and dedication in achieving the results for the year in difficult and politically unstable times.

J.S. Dickson Leach
Chairman
Hong Kong
17th April 2003

Kent M.C. Yeh
Managing Director
Hong Kong
17th April 2003

