
Carpet Operations

The Group's carpet manufacturing and trading turnover rose by 10% to HK\$ 451.0 million in 2004 from HK\$ 409.6 million in 2003. HK\$ 270.4 million or 60% arose from turnover in Asia and HK\$ 180.5 million or 40% from turnover to the rest of the world, compared to HK\$ 233.1 million and 57% and HK\$ 176.5 million and 43% respectively in 2003.

In 2004 the impact of increases in raw material costs, energy and operating costs resulted in a fall in gross margins to 37% from 39% in 2003. Coupled with the increase in overheads of HK\$ 48.2 million incurred mainly in the planned build up of the sales teams with new hires in the U.S. and Europe and global marketing tools, resulted in the carpet operations reporting a segmental loss before tax, finance and unallocated costs of HK\$ 21.6 million compared to a profit of HK\$ 18.6 million in 2003.

U.S.A.

The United States is the primary growth market targeted for the Group. In 2004 major changes to management, operations and strategy were made to build the foundations for the long term. Direct sales people and field designers were hired in key locations to service the commercial markets and experienced residential sales people were hired in the New York market where the Group's initial foray into the U.S. residential market is planned with the opening of a New York showroom in May 2005. The costs of these new hires, supporting marketing and sales tools, and the establishment of a New York based head office for the CEO resulted in additional overheads of HK\$ 18.1 million and losses in the U.S. Group in 2004. But the beginning of the growth was seen with an increase in turnover to HK\$ 109.8 million, representing 24% of the total carpet sector turnover and an increase from HK\$ 107.7 million in 2003. More importantly, entry into the residential and designer market will bring the benefit of higher margin business.

Europe

Turnover in Europe remained flat at HK\$ 43.5 million representing 10% of the carpet operations turnover. The European market for the Group continues to be mainly in the high end residential and luxury yacht market. Overhead costs rose by HK\$ 12.3 million with the addition of sales and service people and the move to a more convenient central Paris office location. However planned growth in commercial sales did not materialize except for some limited success in the German market. How best to develop the Group's representation in Europe is still being considered and will be the next focus of the Group CEO once the U.S. residential business is established.

Hong Kong, Macau and China

Turnover in the Hong Kong, Macau and China region amounted to HK\$ 44.3 million in 2004, 10% of the carpet operation's turnover, showing good growth over the turnover of HK\$ 38.2 million in 2003. Strong growth occurred in Hong Kong and with the new opportunities brought by the rapid expansion of the Macau casino industry. However, sales in China remained low. These markets continued to be price-driven and many of the sales were in the lower cost and margin products with tufted and tiled products being sourced from Carpets International Thailand PCL ("CIT") in Thailand.

Thailand and Southeast Asia

Turnover in Southeast Asia grew to HK\$ 205.7 million, 46% of the Group's carpet turnover compared to HK\$ 179.1 million in 2003. These sales were mainly through the Thai subsidiary, CIT, whose turnover (including sales to other markets) grew to HK\$ 246.2 million, an increase of 15% compared to HK\$ 215.1 million in 2003. Thailand's economy experienced strong growth in 2004 and CIT benefited as the property and hospitality sectors recovered with growth in the tourism industry and consumer spending leading to renovation and new property projects. The needle punch carpet turnover grew with the increased demand from the Thai automotive industry and the use of this product in the exhibition and convention market. However, gross margins weakened with the continued increase in raw material prices and fixed supply contracts to the automotive industry. Export sales gross margin fell by 5% during the year due to the strengthening of the Thai Baht and increases in raw material synthetic yarn and fibre prices.

Joint Ventures and Associated Company

The collective group of Weihai companies (49% owned) consisting of Weihai Shanhua Huabao Carpet Co. Ltd., Weihai Shanhua Premier Carpet Co. Ltd. and Weihai Shanhua Floorcovering Products Co. Ltd., reported 35% growth in their turnover to HK\$ 427.8 million from HK\$ 325.0 million in 2003. Weihai's efforts over the past two years to exploit overseas markets gave rise to an increase of 75% in their export turnover to HK\$ 74.1 million with domestic turnover increasing 25% to HK\$ 353.7 million. Gross margins remained constant at 30%. The Group's share of profits before taxation rose by 79% to HK\$ 26.7 million from HK\$ 14.9 million in 2003.

Philippine Carpet Manufacturing Corporation and Pacific Carpets Ltd. (33% owned) grew their domestic and export market turnover in 2004. The manufacturing facilities of Pacific Carpets situated in Clark Base expanded their operations in 2004 to meet customer demands from the Middle East and the U.S. The Group's share of the Philippine operations' results amounted to HK\$ 2.7 million in 2004 compared to HK\$ 0.9 million in 2003.

Other Operations

Yarn Dyeing

The Group's yarn dyeing turnover of Premier Yarn Dyers, Inc. ("PYD") in the US and Nanhai in the PRC increased by 5% to HK\$ 60.0 million in 2004 compared to HK\$ 57.2 million in 2003. PYD's turnover in 2004 of HK\$ 55.9 million arose mainly in space dyeing with the demand for hank dyeing significantly reduced. Woollen yarn sales in China by Nanhai grew by 18% to HK\$ 4.1 million but increased raw material wool fleece costs resulted in a reduction in the gross margins achieved. The overall yarn dyeing segmental results in 2004 rose by 7% to HK\$ 11.2 million from HK\$ 10.5 million in 2003.

Interior Furnishings

During 2004 the operations of Banyan Tree Ltd. and Options Home Furnishings Ltd. were merged and renamed Indigo Living Ltd. in order to jointly rebrand the companies and to take advantage of overseas opportunities. The combined operations reported a fall in turnover of 11% to HK\$ 45.8 million from HK\$ 51.5 million in 2003 reflecting decrease in the contract turnover offset by steady growth in the rental and lease market. Costs of the combined operations rose by HK\$ 2.5 million, mainly due to rebranding, and Indigo Living reported a profit of HK\$ 4.6 million compared to HK\$ 5.1 million in 2003. With the acquisition of the remaining 52% of Suzhou Shuilian Mattress Co. Ltd. in December 2004, the Group is now in a better position to explore the opportunities of this profitable business.

How did we do in 2004

Tai Ping's Financial Results and Position at a Glance

Last Year's Balance Sheet

(Consolidated Balance Sheet at 31.12.2003)

Assets:	HK\$'000
Fixed assets and construction in progress	372,829
Intangible assets	1,324
Investments in affiliates	118,276
Investment securities and other investments	30,089
Cash & cash equivalents	84,687
Finance lease investments	1,715
Deferred tax assets	834
Other current assets	230,854
	840,608

Shareholders' equity and liabilities:

Share capital, premium and reserves	329,582
Retained earnings	341,828
Bank borrowings	54,306
Other current liabilities	91,888
Minority interests	17,992
Deferred tax liabilities	5,012
	840,608

Cash Flow For The Year

(Consolidated Cash Flow Statement for the year ended 31.12.2004)

	HK\$'000
Cash generated from operations	13,275
Tax paid	(10,162)
Net interest received	234
Net dividend received	381
① Capital expenditure	(33,892)
Purchase of subsidiaries, net of cash received	578
② Other investing activities	3,775
Net increase in bank loans	17,864
Net decrease in cash	(7,947)
Foreign exchange rate effect	225
Cash & cash equivalent	
at 31.12.2003	84,687
at 31.12.2004	76,965

Loss For The Year

(Consolidated Profit and Loss Account for the year ended 31.12.2004)

	HK\$'000
③ Turnover	563,165
Cost of sales	(347,678)
Gross profit	215,487
Other revenue and income	11,570
④ Expenses	(238,380)
Operating loss	(11,323)
Finance costs	(1,203)
⑤ Share of profits of affiliates	29,427
Profit before taxation	16,901
Taxation	(17,829)
Loss after taxation	(928)
Minority interests	(2,924)
Net loss	(3,852)

Earnings Retained

(Consolidated Retained Earnings for the year ended 31.12.2004)

	HK\$'000
Balance at 31.12.2003	341,828
Exchange adjustments	2,381
Net loss	(3,852)
2003 final dividend paid	(6,334)
Balance at 31.12.2004	334,023

Current Year's Balance Sheet

(Consolidated Balance Sheet at 31.12.2004)

Assets:	HK\$'000
① Fixed assets and construction in progress	376,404
Negative goodwill	(2,652)
⑥ Investments in affiliates	134,807
Investment securities and other investments	30,723
Cash & cash equivalents	76,965
Finance lease investments	1,436
Deferred tax assets	570
Other current assets	273,637
	891,890

Shareholders' equity and liabilities:

Share capital, premium and reserves	333,340
Retained earnings	334,023
Bank borrowings	72,628
Other current liabilities	124,905
Minority interests	20,930
Deferred tax liabilities	6,064
	891,890

① The capital expenditure includes additions of fixed assets of HK\$ 14,705,000 and construction in progress of HK\$ 19,187,000.

② Cash inflow from other investing activities included disposal of fixed assets of HK\$ 1,890,000, disposal of investment securities of HK\$ 141,000 and repayment of finance lease receivables of HK\$ 1,744,000.

③ Turnover represented revenue from sale of carpets, yarn, interior furnishing and rental income from property investment and interior furnishings. The turnover increased by 7.2%.

④ Expenses include distribution costs of HK\$ 94,738,000, administrative expenses of HK\$ 136,310,000 and other operating expenses of HK\$ 7,332,000.

⑤ Share of profits of affiliates include HK\$ 2,677,000 from an associated company and HK\$ 26,750,000 from joint ventures.

⑥ Investment in affiliates included HK\$ 113,462,000 in joint ventures in Weihai, Shandong Province of the PRC and HK\$ 21,345,000 in an associated company in the Philippines.



Group Capital Expenditure

Total capital expenditure for the year, excluding acquisition of a subsidiary, amounted to HK\$ 33.9 million in the form of fixed assets and construction in progress, primarily financed from internal resources. The Group also added a further HK\$ 2.6 million of fixed assets on acquisition of a subsidiary. The net book value of the Group's fixed assets and construction in progress stood at HK\$ 376.4 million as at 31st December 2004.

Investments in Joint Ventures, Associated Company and Other Investments

The breakdown of the Group's investments in joint ventures, associated company and other investments in each geographical region is shown below:

		2004		2003	
		HK\$'000	%	HK\$'000	%
Carpets Business	– Mainland China	113,462	69.6	96,565	66.3
	– South East Asia	21,538	13.2	21,904	15.0
Property and Others	– Hong Kong	27,223	16.7	27,272	18.7
	– China	114	0.1	–	–
	– United States	686	0.4	–	–
		163,023	100.0	145,741	100.0

Additional financial information on the Group's significant associated company in the Philippines and two significant joint ventures in Weihai, Shandong Province, the People's Republic of China (the "PRC") are disclosed in notes 15 and 16 to the accounts.

Net Current Assets

The breakdown of the Group's net current assets by geographical region is shown below:

	2004	2003
	HK\$'000	HK\$'000
– Hong Kong	25,241	61,232
– China	49,226	36,369
– South East Asia	34,114	27,834
– Europe	4,726	6,739
– United States	44,155	41,168
	157,462	173,342

Note: Certain Group companies have receivables and payables with other fellow subsidiaries, which are eliminated on consolidation and not reflected in the above analysis.

Shareholders' Funds

Shareholders' funds at 31st December 2004 decreased to HK\$ 667.4 million from HK\$ 671.4 million at 31st December 2003, reflecting the loss incurred in the year.

Financial Position and Liquidity

The Group's cash deposits and bank balances amounted to HK\$ 77.0 million at the end of 2004 (2003: HK\$84.7 million).

Bank loans at 31st December 2004 amounted to HK\$ 72.6 million (2003: HK\$ 54.3 million). All debts are repayable within one year.

The currency denomination of the borrowings at 31st December 2004 was as follows:

	2004		2003	
	Borrowings	Carrying value of assets pledged	Borrowings	Carrying value of assets pledged
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Thai Baht				
– Secured	–	–	19,787	43,788
– Unsecured	51,509	–	24,050	–
United States Dollars				
– Unsecured	21,119	–	10,469	–
	72,628	–	54,306	43,788

Total borrowings increased to finance the strategic changes as outlined above. As at 31st December 2004, 16% of the borrowings were charged at floating interest rates, and 84% at fixed interest rates.

Cash deposits and bank balances exceeded all the outstanding bank loans as at 31st December 2004, therefore no gearing ratio has been calculated.

Contingent Liabilities

As at 31st December 2004, the total contingent liabilities of the Group amounted to HK\$ 7.4 million (2003: HK\$ 4.6 million). Full disclosure of contingent liabilities as at 31st December 2004 is made in note 31 to the Accounts.

Foreign Exchange Exposure

The Group has overseas operations in the PRC, Thailand, Singapore, U.S. and Europe. Given that our Singaporean and European operations are relatively small, and the Chinese Renminbi currency is relatively stable, most of the exchange differences arising from translation of overseas operations arose from CIT in Thailand. However, the effect of these exchange differences is reduced by CIT's borrowings being denominated in local Thai Baht currency. As these exchange differences arise from translating the Group's net investments in these foreign operations, they are dealt with in the reserves and do not affect cash flows or the profit and loss account.

Cash Flows

	2004 HK\$'000	2003 HK\$'000	Change HK\$'000
Cash provided by/(used in):			
– Operating activities	3,113	32,905	(29,792)
– Investing activities	(22,422)	(16,946)	(5,476)
– Financing activities	11,362	(36,663)	48,025
	(7,947)	(20,704)	12,757

Net cash provided by operating activities decreased by HK\$ 30.0 million reflecting the decline in the operating profits in 2004.

Cash used in investing activities was primarily for capital expenditure on fixed assets and construction in progress.

Net cash from financing activities in 2004 was mainly derived from net increase in bank borrowings, less interest and dividend paid.

Employee and Remuneration Policy

The Group had approximately 3,100 employees as at 31st December 2004. Employees are remunerated according to the nature of their job and market trends, with built in merit components incorporated in the annual incentive to reward and motivate individual performance. Total staff costs and retirement benefit costs for the year ended 31st December 2004 amounted to HK\$ 172.4 million (2003: HK\$ 151.7 million) and HK\$ 3.2 million (2003: HK\$ 3.2 million) respectively.

James H. Kaplan
Chief Executive Officer

Hong Kong, 18th April 2005