The Group's consolidated turnover for the year ended 31st December 2005 totalled HK$ 755.6 million, a 33% increase from HK$ 567.8 million in 2004. The gross margin also grew, to 40% in 2005 from 38% in 2004. These significant improvements resulted directly from the Group's strategic transformation to a global, customer-focused carpet company.

The Group recorded a profit attributable to equity holders of HK$ 27.6 million in 2005, compared with a HK$ 3.9 million loss in 2004.

This substantial gain resulted principally from the disposal of non-core assets and investments and certain reporting changes required by the adoption of the Hong Kong Financial Reporting Standards, accounting for a net increase in profit of HK$ 43.4 million before tax.

Excluding the items mentioned above, the underlying operating loss of the Group in 2005 amounted to HK$ 18.8 million, compared with HK$ 11.3 million loss in 2004. This figure, however, included significant non-recurring net expenses associated with the Edward Fields acquisition, and inventory provisions by interior furnishings, as well as marketing costs incurred to stimulate sales.

Carpet Operations

In addition to organic growth in the commercial business, the Group spurred the expansion of its U.S. residential business by opening a flagship Tai Ping showroom in New York and by acquiring the business assets of Edward Fields, Inc. ("Edward Fields"), a highly regarded brand name with an established national sales network.

Total turnover as a result increased 36%, from HK$ 459.7 million in 2004 to HK$ 627.3 million in 2005. HK$ 303.2 million, or 48%, arose from turnover in Asia and HK$ 324.1 million or 52%, from turnover in the rest of the world, compared with HK$ 279.2 million (61%) and HK$ 180.5 million (39%) respectively in 2004.

Gross margin also rose from 37% to 40%, an improvement attributable both to rising sales of higher-margin carpets and to improved factory utilisation and efficiencies in production.

Despite the increased turnover and improved gross margin, one-time initial losses sustained by post-acquisition costs associated with incorporating the Edward Fields' operations adversely affected operating results. The Group incurred a segmental loss of HK$ 29.9 million for the carpet operations before tax, finance, and unallocated costs, a slight improvement over the 2004 deficit of HK$ 31.5 million.

Marketing & branding

To support its strategic transformation into a global customer-focused carpet company, the Group implemented a number of marketing initiatives in 2005.

The opening of the flagship Tai Ping showroom in New York, which generated extensive media coverage in targeted journals, together with the new ‘tent’ logo, the creation of a complete set of sales tools (including catalogues and pom box) and a revamped website, helped to increase the market awareness and position Tai Ping as a luxury brand. The construction and repeated use of well-designed, environmentally sustainable trade show environments that reflect the new brand identity further distinguished Tai Ping from the competition.

The acquisition of Edward Fields, a highly respected luxury brand, bolstered the Group’s brand equity in the luxury residential sector, and refinement of the overall brand strategy is under way to ensure complementary positioning of the two distinct brands.

Carpets International Thailand Public Company (“CIT”), the Thai subsidiary, adopted a new brand and logo, “Carpets Inter”, in keeping with a broader marketing strategy to generate wider appeal for its commercial products.

The “Shanhua” commercial products manufactured by the Weihai joint ventures will be repackaged with the Tai Ping Contract brand.

Plans for 2006 outline additional development and refinement of many of these initiatives, as well as the implementation of new proposals focused on continued growth in specific business segments.

USA

The USA continues to be the primary growth market. Investments made in 2004 for long-term expansion, including the addition of experienced sales representatives and field designers and the provision of effective sales and marketing tools, have already yielded measurable results. Despite fierce competition in certain sectors of the commercial market, turnover in the commercial business almost doubled in 2005, with particular focus maintained on the hospitality sector.

The gross margins and operating results of the commercial carpet business showed significant improvement in 2005. Because the Group effectively leveraged initial outlays made in prior years, it incurred much lower incremental costs and expenses.

Due to much higher margins and the Group’s competitive strengths, the residential sector remains another principal target for growth. Bold initiatives to expand residential market share included the opening of a new concept 12,000 sq. ft. showroom in New York, which proved highly successful in raising the profile of the Group and generating significant awareness of the new brand identity.

In March 2005 a wholly-owned subsidiary of the Company entered into an Asset Purchase Agreement with Edward Fields and its shareholders to acquire, for US$ 2 million in cash, certain assets that included, the “Edward Fields” name and its intellectual properties, the rights under existing leases to all showrooms and leasehold improvements, existing inventories, and experienced sales force, and their lists of customers and designers. The acquisition of Edward Fields’ business assets provides immediate access to the high-end residential market in the USA through the company’s nationwide sales network and customer base.

Turnover of the residential business approached HK$ 60 million in 2005. Operating costs and expenses were proportionately higher, however, due to the business launch and additional post-acquisition costs associated with the incorporation of the Edward Fields operations.

The overall operating loss of the USA operations in 2005 was larger than that of 2004, therefore, despite significantly higher turnover and better gross margin percentages in both the commercial and residential businesses. Improved operating results are expected for 2006, however, due to the effect of a full year of sales for the residential business and continued strong growth in business overall.

Europe

Total turnover generated by the European subsidiaries amounted to HK$ 65.3 million, a 71% increase over 2004.

Tai Ping Carpets Europe SAS (“TPCE”), based in Paris, increased turnover by 69% to HK$ 34.7 million in 2005. While the residential business showed signs of recovery in 2005, competition remained intense due to an influx of cheaper products from Eastern Europe and North Africa. TPCE stayed focused on niche markets and the high-end interior design community for its residential business, while targeting medium-scale lower-margin commercial projects. Despite a significant increase in sales in 2005, the consequential improvement in TPCE’s operating results was smaller due to lower gross margin percentages and increased operating expenses. The continued growth of the commercial business, however, is expected to help reduce overheads proportionately and further improve TPCE’s overall profitability in the coming years.

Tai Ping Carpets Interieur GmbH (“TPCI”) enhanced turnover by 59% to HK$ 26.2 million, due to increased commercial sales in Germany. The operating results also improved because of this turnover growth and a relatively stable percentage in gross margin.

Targeting the commercial sector in the UK, Middle East and Europe, the Group recruited an experienced, UK-based sales and design team in early 2005. While turnover was only HK$ 4.4 million during the past year, it is expected to grow substantially during 2006. Operating expenses, consisting principally of sales costs, remain low and are scalable to match business growth.

Hong Kong, Macau and China

In the Hong Kong, Macau and China region, turnover rose to HK$ 63.6 million, a 20% improvement over 2004. Tourism in Hong Kong and Macau's booming casino and resort markets buoyed the commercial sectors, which are Tai Ping's primary segments in this region. The Group maintained a relatively stable gross margin percentage in 2005 despite the competitive market.

The Group also exercised tight control of incremental selling expenses, while cost management at the Nanhai factory in the PRC benefited from improved utilization and factory efficiencies. Operating results consequently showed a marked improvement in 2005.

For comparative purposes, the 2004 figures have been restated, with minor effect, to include turnover of the Nanhai factory's wool spinning operation under carpet operations instead of yarn operations, since all external wool sales ceased in the first half of 2005 as production focused solely on internal demand.

Thailand and South East Asia

Thailand's healthy overall economy benefited CIT which is the dominant player in that domestic market. Sales in 2005 increased in this region by 6% to HK$ 218.2 million, due to the commercial sector's overall growth both in Thailand and throughout South East Asia.

The gross margin percentages remained relatively flat in 2005 as increases in raw material prices and energy costs offset improved factory utilization, so any ensuring gain in operating results was on par with turnover growth in 2005.

CIT also developed an environmentally friendly felt-backed modular carpet tile to increase sales in markets such as Hong Kong, which are proposing a ban on imported PVC-backed modular carpet tiles that are not biodegradable.

Joint Ventures and Associate

The Weihai joint venture group consists, collectively, of Weihai Shanhua Huabao Carpet Co. Ltd. and Weihai Shanhua Premier Carpet Co. Ltd. (both 49% owned), and Weihai Shanhua Floorcovering Products Co. Ltd. (42% owned). The Weihai group turnover rose in 2005 to HK$ 534.1 million, a 25% increase over the 2004 total of HK$ 427.8 million, due to continued aggressive sales and marketing of Weihai products within China. With the Group's assistance in both marketing and distribution, these companies also sell Weihai 'Shanhua' products globally outside the PRC, a complementary arrangement that expands the Group's range of existing products and price points. The Group's share of the joint ventures' profit after tax of 2005 amounted to HK$ 24.3 million, an 8% increase over the 2004 results (HK$ 22.4 million).

Despite stable sales, Philippine Carpet Manufacturing Corporation ("PCMC"), the 33% owned associate, recorded a small loss in 2005, compared with a share of net profit after tax of HK$ 1.6 million in 2004. Certain manufacturing difficulties, which were resolved in 2005, adversely affected the cost of sales and led to a substantial decline in gross margin.

Other Operations

Yarn Dyeing

Premier Yarn Dyers, Inc. ("PYD"), which operates the Group's USA-based yarn-dyeing facilities, posted relatively stable turnover and segmental results for 2005, at HK$ 57.6 million (2004: HK$ 55.9 million) and HK$ 8.7 million (2004: HK$ 7.9 million), respectively.

Dyeing operations at Nanhai in the PRC are mainly for the Group's own use and have been re-classified as part of the carpet operations for segmental reporting purposes.

Interior Furnishings

The increase in segmental turnover for interior furnishings in 2005 was attributable mainly to the consolidation of the results of Suzhou Shuilian Mattress Company Limited ("SSMCL"), reporting for the first time as a Group subsidiary after the December 2004 acquisition of the 52% share of the PRC joint venture partner.

Turnover for Indigo Living Limited ("Indigo") in 2005 reached HK$ 46.2 million, a level similar to 2004 (HK$ 45.8 million). While retail sales continued to decline because of progressively intense competition, an increase in the rental business due to an influx of expatriates to Hong Kong offset the decrease in retail sales. Indigo incurred an operating loss of HK$ 3.0 million in 2005 because of higher rental and payroll expenses, as well as provisions made against certain slow-moving inventories.

The overall segmental results of interior furnishings was a loss of HK$ 2.0 million, compared with a profit of HK$ 9.4 million in 2004, despite consolidation of SSMCL's operating profit in 2005.

Property Holding

The Group disposed of several investment properties in Hong Kong and in the USA for an aggregate sum of HK$ 28.2 million, which produced a net loss on disposal of HK$ 0.5 million. Rental income decreased slightly in 2005 as a result, to HK$ 5.6 million.

Revaluation of investment properties held on 31st December 2005 generated for the Group a net surplus of HK$ 15.6 million, included in the profit and loss account.

Others

The Group sold its 54.5% interest in Changzhou Nantai Construction Materials Company Limited, a joint venture in the PRC, to the other joint venture partner for RMB 8 million in cash. This sales yielded a net profit of HK$ 7.7 million, since the investment had been fully provided for in prior years.

The Group also received in 2005 certain Hong Kong properties as dividends in specie, with a resulting gain of HK$ 21.1 million, from the liquidation of Oceanic Cotton Mill Limited, in which the Group held a 5% interest.

Capital Expenditure

Capital expenditure in the form of property, plant and equipment and construction in progress incurred by the Group totalled HK$ 63.8 million in 2005 (2004: HK$ 33.9 million). As at 31st December 2005, the aggregate net book value of the Group's property, plant and equipment, leasehold and land use rights, and construction in progress amounted to HK$ 337.5 million (2004: HK$ 299.2 million).

Liquidity and Financial Resources

The Group, which usually funds its business with internally generated cash flows and through banking facilities at various subsidiaries, coordinates its financing and cash management activities at the corporate level.

At 31st December 2005, the Group had total bank borrowings of HK$ 109.3 million (2004: HK$ 72.6 million). Total cash and bank balances amounted to HK$ 87.1 million (2004: HK$ 77.0 million). The gearing ratio, calculated as net bank borrowings (total bank borrowings net of cash and bank balances) divided by total equity, was 3% at 31st December 2005 (2004: Nil).

All bank loans to date were unsecured. Of those outstanding on 31st December 2005, 91% carried interest at floating rates; the remainder were at fixed interest rates throughout their terms.

The currency denomination of the loans and their maturity dates as at 31st December 2005 were as follows:

	2005 HK$'000	2004 HK$ '000
Within 1 year		
Thai Baht	55,859	51,509
United States Dollars	16,977	21,119
Hong Kong Dollars	27,000	–
	99,836	72,628
Between 1 and 2 years		
Thai Baht	9,500	–
	9,500	–
Total borrowings	109,336	72,628

Foreign Exchange Risks and Related Hedges

The Group has overseas operations in the PRC, Thailand, Singapore, the USA and Europe. The Group treats its investments in these foreign operations as permanent equity, so exchange differences from translating the net investments in these foreign operations do not affect cash flows and are dealt with in the reserves.

As the European and Singaporean operations are not significant in term of the Group's results and the Chinese Renminbi has been relatively stable, the exchange differences arising from overseas operations relate mostly to Thailand. The effect of these exchange differences, however, is reduced as borrowings are in local currency.

The Group's export sales are denominated primarily in US dollars, and to a much lesser extent in Euros. The Group, therefore, considered its exposure to exchange rate movements in 2005 insignificant, but continues to monitor exchange rate movements closely to ascertain if any material exposure may arise.

Employee and Remuneration Policies

As at 31st December 2005, the Group employed 3,100 employees (2004: 3,100 employees). Employees are remunerated according to the nature of the job and market trends, with built-in merit components incorporated as annual incentives to reward and motivate individual performance. Staff costs and retirement benefit costs for 2005 totalled HK$ 221.5 million (2004: HK$ 172.4 mllion) and HK$ 4.5 million (2004: HK$ 3.2 million) respectively.

Contingent Liabilities

As at 31st December 2005, the Group's total contingent liabilities (see Note 36 to the accounts for full disclosure) amounted to HK$ 8.5 million (2004: HK$ 7.4 million).

James H. Kaplan
Chief Executive Officer

Hong Kong, 24th April 2006