



Chairman's Statement

In 2006 we maintained the transformation process that I outlined last year, focusing strongly on relaunching the brand and building sales capabilities.

At the same time, we made considerable efforts to enhance production efficiencies in support of the recent vigorous sales growth while maintaining strict controls on capital expenditure.

Turnover increased by 27% to HK\$900 million as a result, with particularly good growth in the USA and Asia. It is a tribute to both sales and production staff that core carpet sales have increased during this transformation period to last year's HK\$817 million from HK\$410 million in 2003, while the strength of the brand and quality of the product range raised average margins from 38% to 44%.

Tai Ping was recognised with several awards in 2006, including two for Domotex in Germany and one for Most Innovative Products at Hospitality Design in the USA.

On the commercial front, large scale prestigious projects were won in 2006 such as the MGM and Wynn Casinos in Macau. Hospitality projects such as the Crowne Plaza in Prague as well as the luxurious carpet at the Mandarin Oriental Bangkok supplied by Carpets Inter were also completed. In 2006, Tai Ping began installation of our Axminster carpet at the world's largest convention centre at McCormick Place in Chicago.

In 2006 we also began to see the positive impact of this strategy on profitability. Our investment to strengthen our global sales capability over the last three years inevitably affected profit adversely in the short term. Now, however, the resultant increased sales at improved margins are at a level to enhance profitability. Thus, operating profit excluding extraordinary items was HK\$24 million in 2006, compared with a loss of HK\$15 million and HK\$21 million in 2005 and 2004 respectively.

Our Weihai joint ventures in China also performed well in 2006, with combined sales up 34% year-on-year. Weihai retains a dominant position in its domestic market, while increasing international sales through our expanding distribution channels. Its large new factory will be operational in 2007, which will increase capacity to support further sales growth.

We continued our programme of disposal of non-core assets, and during the year sold Indigo, the furniture operation. Although Indigo had been a stable contributor, it would have required further investment to develop the business significantly, and it was considered more appropriate to focus resources on the core carpet operations.

During 2007 the Company expects to maintain sales growth in both its existing markets and, after opening distribution channels, in new markets in Asia, Europe and the Americas.

On behalf of the Board, I should like to thank all staff for their considerable efforts during 2006. I am also grateful to the Directors for their valuable support and advice during past year.

Nicholas T. J. Colfer
Chairman

Hong Kong, 20 April 2007