



TAI PING
TAI PING CARPETS INTERNATIONAL LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 00146)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2004

The Directors of Tai Ping Carpets International Limited (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004, together with the comparative figures for the corresponding period in 2003, are as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited	
		Six months ended 30 June	
		2004	2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	262,501	243,048
Cost of sales		(156,123)	(145,377)
Gross profit		106,378	97,671
Other revenues		179	705
Other operating income		790	3,065
Distribution costs, administrative and other operating expenses		(104,211)	(91,887)
Operating profit	3	3,136	9,554
Finance costs		(541)	(1,325)
Share of profits of			
Associated company		619	211
Joint ventures		9,844	6,236
Profit before taxation		13,058	14,676
Taxation	4	(9,886)	(4,050)
Profit after taxation		3,172	10,626
Minority interests		(226)	(851)
Profit attributable to shareholders		2,946	9,775
Dividends	5	6,334	6,229
Earnings per share	6	1.4 cents	4.7 cents

Notes:

1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with the Hong Kong Statement of Standard Accounting Practice 25, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants).

These condensed interim accounts should be read in conjunction with the 2003 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2003.

(b) *Geographical segments*

An analysis of the Group's turnover and segment results for the period by geographical segment is as follows:

	Turnover		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong and Macau	41,029	38,720	2,359	(4,118)
Mainland China	3,912	6,354	(2,058)	(2,584)
South East Asia	98,008	82,663	10,668	10,833
Middle East	6,347	8,394	1,060	227
Other Asian countries	8,544	8,647	323	948
Europe	23,377	21,818	(1,697)	1,768
North America	78,675	74,073	(7,685)	1,884
Others	2,609	2,379	166	596
	<u>262,501</u>	<u>243,048</u>	<u>3,136</u>	<u>9,554</u>

3. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
<i>Crediting:-</i>		
Profit on disposal of fixed assets	180	36
Negative goodwill recognised as income	307	575
Additional gain on compensation of resumption of land	-	1,821
Release of unvested benefit of the previous retirement scheme	-	459
	<u> </u>	<u> </u>
<i>Charging:-</i>		
Depreciation	17,143	16,585
Amortisation of positive goodwill	1,114	1,114
	<u> </u>	<u> </u>

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the period. Overseas tax has been calculated at the applicable rates of the respective jurisdictions.

The amount of taxation charge/(credit) to the consolidated profit and loss account represents:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	-	-
Overseas taxation	7,646	2,665
Deferred taxation relating to the origination and reversal of temporary differences	672	992
Deferred taxation resulting from an increase in tax rate	-	(150)
	<u>8,318</u>	<u>3,507</u>
Share of taxation attributable to		
Associated company	196	66
Joint ventures	1,372	477
	<u> </u>	<u> </u>
Taxation charge	<u>9,886</u>	<u>4,050</u>

5. Dividends

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
2003 final dividend, payable, of HK\$0.03 per share (<i>note</i>) (2002 final dividend payable: HK\$0.03 per share)	<u>6,334</u>	<u>6,229</u>

Note: The 2003 final dividend was paid on 15 July 2004.

The Board does not recommend the payment of an interim dividend for the period (2003: Nil).

6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$2,946,000 (2003: HK\$9,775,000) and the weighted average of 211,121,275 shares (2003: 207,619,483 shares) during the period.

There is no diluted earnings per share presented as the dilution from the outstanding share options granted by the Company is immaterial.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the period, none of the Directors is aware of information that would reasonably indicate that the Company is not, or was not in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") save that the Independent Non-executive Directors who have not been appointed for a specific term are subject to retirement by rotation and re-election pursuant to the Company's bye-laws 100 and 109(A).

AUDIT COMMITTEE

The authority and duties of the Audit Committee operate within the suggested guidelines as published by the Hong Kong Society of Accountants (now the "Hong Kong Institute of Certified Public Accountants"), namely "A Guide for the Formation of an Audit Committee" issued in 1997 and superseded by "A Guide for Effective Audit Committees" in 2002.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises two Independent Non-executive Directors, namely Mr. Michael T. H. Lee and Mrs. Yvette Y. H. Fung, one Non-executive Director (Mr. John J. Ying), and one Alternate Director (Mr. Nelson K. F. Leong).

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30 June 2004 with the Directors.

BUSINESS REVIEW AND OUTLOOK

Results

For the six months ended 30 June 2004, the Group's unaudited consolidated turnover increased by 8.0% to HK\$262.5 million, compared with HK\$243.0 million for the same period last year. The Group's unaudited consolidated profit attributable to shareholders for the period was HK\$2.9 million, compared with HK\$9.8 million for the corresponding period in 2003.

In the first six months of 2004, under the guidance of the new Chief Executive Officer, Mr. James Kaplan, the Group began its transformation to create a more powerful customer experience. Using Mr. Kaplan's strong branding and sales background, initiatives are under way to build front-end sales expertise and to enhance the Tai Ping brand name in the North American and European markets. The Group is reworking its sales and marketing tactics; it is recruiting talented and experienced personnel and revamping its sales organization, creating a centralized global marketing team and overhauling its marketing tools and programme in order to strengthen the brand name. While the initial costs to fund these changes have negatively impacted the first six months' results, the costs are within management's expectations.

Carpet Operations

For the first half of 2004, the Group's turnover in carpet manufacturing and trading increased 11.3% to HK\$203.5 million.

USA

Sales in the US, primarily through Tai Ping Carpets Americas Inc. ("TPCA"), increased by 7.0% to HK\$48.9 million, accounting for about 24.0% of the Group's carpet sales. During the period, commercial sales of TPCA grew by more than 57%, but sales to the residential sector remained disappointing, due mainly to the loss of OEM business. Various actions are being taken which should result in positive changes to this sector. The cost of adding sales and design expertise to the operation to extend coverage in the US, to establish a New York office and to implement global marketing initiatives increased operating costs by HK\$8.5 million.

Europe

Sales in Europe increased by 7.1% to HK\$23.4 million, due partly to the appreciation of the Euro and partly to an increase in sales. However, gross margins from European operations fell following the establishment of a strategic new European OEM distributor and an increased proportion of sales in the commercial market, which generally carries lower gross margins than the residential market. Overhead increased by HK\$5.1 million, compared to the same period the previous year due to the recruitment of more salespeople and the development of necessary support functions.

Hong Kong, Macau and China

The Hong Kong, Macau and China markets continue to be price driven. In this environment, sales grew in Hong Kong by selling more economical products from our factory in Thailand, but at the expense of gross margins. Sales in China fell in the face of continuing aggressive price competition from PRC competitors. Sales in the combined Hong Kong-Macau-China market totaled HK\$17.6 million, compared to HK\$15.3 million in the corresponding period the previous year.

Thailand and Southeast Asia

Sales in Thailand and Southeast Asia, through our Thai subsidiary, Carpets International Thailand Public Company Ltd. ("CIT"), increased by 19.5% to HK\$96.2 million, representing 47.3% of the Group's total carpet sales. Almost half of this increase was a result of the appreciation of the Baht, with the remainder generated by real growth in sales from the supply of carpets to the fast-growing automotive industry in Thailand and neighbouring countries. During the period, automotive carpet sales accounted for 32% of CIT's total sales, compared with 16% in the same period last year. Gross margins fell from 26% to 24% due to raw material price increases, particularly in synthetic yarn and fiber and continuing competition in the commercial tufted and tiles from China.

The overall gross margin of the carpet operation remained stable at 39%, which is comparable to the same period last year. Based on the increase in carpet turnover, the gross margin increased by 8.8% to HK\$79.4 million. However, the cost to the carpet operation of implementing the strategy to move closer to the customer with the recruitment of additional salespeople, the enhancement of customer service and the production of uniform marketing materials, resulted in carpet segmental profits falling to HK\$1.3 million from HK\$10.6 million in the same period in 2003.

Joint Ventures and Associated Company

With combined sales that increased by 28.6% to HK\$178.6 million during the first half of the year, Weihai Shanhua Huabao Carpet Co., Ltd and Weihai Shanhua Premier Carpet Co., Ltd. benefited from the robust market in China. The increased sales, improved product mix and reduction in unit production cost resulting from economies of scale increased the Company's share of their pre-tax profit by 57.9% to HK\$9.8 million over the same period last year. On the other hand, the price of raw materials such as wool, polypropylene and nylon grew in this period.

Philippine Carpet Manufacturing Corporation results improved during the period and the Group's share of their pre-tax profits amounted to HK\$0.6 million, compared to HK\$0.2 million in 2003.

Other Operations

At the Group's yarn manufacturing and dyeing operations in Nanhai in the PRC and Premier Yarn Dyers, Inc. ("PYD") in Georgia, USA, turnover increased by 5.5% to HK\$31.1 million, but segmental profits remained flat at HK\$5.6 million. The continuing slow US contract carpet market affected PYD's sales performance. The contraction of demand in the hank dyeing area reduced overhead and labour costs. The increase in the space dyeing capacity that took place during 2003 to meet the growing demand in this area placed the company in a position to be able to handle an increase in this business sector. Nanhai's external woollen yarn sales remained flat, but its gross margin fell due to raw material price increases effected by the devaluation of the US dollar which could not be recovered in the very competitive Chinese market.

The interior furnishing operations of Banyan Tree Limited and Options Home Furnishings Ltd. reported an 8.6% decrease in combined turnover to HK\$25.0 million, compared with the similar period in 2003. The higher margins earned on a change in sales mix resulted in a significant gross margin improvement; segmental profits increased to HK\$3.4 million.

Capital Expenditure

During the six-month period ended 30 June 2004, the Group invested HK\$9.7 million (2003: HK\$16.0 million) in capital expenditure in the form of fixed assets and construction in progress ("CIP"). As at 30 June 2004, the aggregate net book value of the Group's fixed assets and CIP amounted to HK\$351.7 million (HK\$372.8 million as at 31 December 2003).

Employees and Remuneration Policy

As at 30 June 2004, the Group had approximately 2,900 employees (as at 31 December 2003: approximately 2,900) in Hong Kong, Thailand, Singapore, Mainland China, USA, Germany and France. Since 31 December 2003, there has been no material change to the Group's employment and remuneration policies.

Liquidity and Financial Resources

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

The Group's balance sheet remains in a strong position with cash deposits and bank balances amounting to HK\$80.2 million at 30 June 2004 which exceeded all the outstanding bank loans and overdrafts of a total of HK\$51.9 million (representing 7.9% of the shareholders' funds) at the same date. Therefore no gearing ratio has been calculated. The management believes that the Group has sufficient financial resources and an ungeared balance sheet available to raise any borrowings necessary to finance its operation and capital expenditure during the implementation of the strategy to be closer to the customer and while the expected growth materialises.

All bank loans and overdrafts are repayable within 1 year. Total borrowings decreased by 4.5% reflecting the repayment of bank loans during the period.

The currency denomination of the borrowings was as follows:—

	30 June 2004		31 December 2003	
	Borrowings (including overdraft) HK\$'000	Carrying value of assets pledged HK\$'000	Borrowings (including overdraft) HK\$'000	Carrying value of assets pledged HK\$'000
Thai Baht				
– Secured	20,041	41,567	19,787	43,788
– Unsecured	16,621	–	24,050	–
United States Dollars				
– Unsecured	13,511	–	10,469	–
Hong Kong Dollars				
– Unsecured	1,710	–	–	–
	<u>51,883</u>	<u>41,567</u>	<u>54,306</u>	<u>43,788</u>

At 30 June 2004, 96.7% of the borrowings are on fixed interest rates, and 3.3% on floating interest rates.

Exposure to Foreign Exchange Risks and Related Hedges

The Group has overseas operations in the PRC, Thailand, Singapore, USA and Europe. Given the Group's European and Singaporean operations are not significant in terms of the Group's results and the Chinese Renminbi has been quite stable, the exchange differences arising from translation of the overseas operations relate mostly to our CIT Thailand operation. However, the effect of these exchange differences is further reduced by CIT borrowings in local Thai Baht currency. The Group's investments in these foreign operations are treated as permanent equity, and the exchange differences from translating the net investments in these foreign operations do not affect cash flows and are dealt with in the reserves.

The Group's export sales are mostly denominated in US Dollars, and to a much lesser extent in Euros. Therefore, the Group's exposure to exchange rate movements is not significant and it is not considered necessary to effect any hedges against it.

Contingent Liabilities

As at 30 June 2004, the total contingent liabilities of the Group amounted to HK\$5.2 million (at 31 December 2003: HK\$6.1 million). All litigation cases against the Group have no material effect on the financial position of the Group as the Company believes that the claims are without merit and that the outcome against the Group will not be successful.

Outlook

Substantial changes are happening in the carpet industry worldwide, primarily through technical change and the search by global companies to seek lower-cost manufacturing bases. Many new entrants are establishing factories in Asia and price competition is fierce. Last year the Board decided that the Group needed to alter its focus towards the European and North American markets and to extend sales beyond the factory operations. With a new CEO and his team in place, Tai Ping is moving closer to the customer and is controlling more of the Company's supply chain. As reported in the last Annual Report, these changes come with additional expenses, and the Board understands and recognizes that in the immediate period the impact of these expenses will be felt in the Company's results.

By Order of the Board

James S. Dickson Leach

Chairman

James H. Kaplan

Chief Executive Officer

Hong Kong, 21 September, 2004

The names of Directors as at the date hereof are – Chairman: Mr. James S. Dickson Leach, Honorary Life President: Mr. Anthony Y. C. Yeh, Chief Executive Officer: Mr. James H. Kaplan, Executive Director: Ms. Alison S. Bailey, Independent Non-Executive Directors: Mr. Michael T. H. Lee, Mrs. Yvette Y. H. Fung, Non-Executive Directors: Mr. Ian D. Boyce, Mr. John J. Ying, Mr. Kent M. C. Yeh, Mr. Nicholas T. J. Colfer, Mr. Lincoln K. K. Leong, Mr. Lincoln C. K. Yung, Alternate Directors: Mr. Nelson K. F. Leong (Alternate to Mr. Lincoln K. K. Leong), Mr. David C. L. Tong (Alternate to Messrs James S. Dickson Leach, Nicholas T. J. Colfer and Ian D. Boyce)

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules in force prior to 31 March 2004, which remain applicable to results announcement in respect of accounting periods commencing before 1 July 2004 under the transitional arrangement, will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) in due course.