TAI PING CARPETS INTERNATIONAL LIMITED
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

TAI PING

(Incorporated in Bermuda with limited liability)
(Stock Code: 00146)

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 2005. The interim financial statements of the Group are unaudited and interim report comprising these financial statements has been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	**Unaudited six months ended 30 June**	
			As restated
		2005	2004
		HK$'000	*HK$'000*
Turnover	*2*	**322,604**	262,501
Cost of sales		**(194,269)**	(156,123)
Gross profit		**128,335**	106,378
Other revenues		**289**	179
Other operating income/(loss) – net		**3,076**	(1,000)
Gain on liquidation of an available-for-sale investment		**21,346**	–
Surplus on revaluation of investment properties		**14,743**	–
Distribution costs		**(56,312)**	(42,027)
Administrative expenses		**(83,233)**	(60,394)
Operating profit	*3*	**28,244**	3,136
Finance costs		**(1,344)**	(541)
Share of (losses)/profits of			
Associated company		**(608)**	423
Joint ventures		**9,200**	8,472
Profit before taxation		**35,492**	11,490
Taxation	*4*	**(8,170)**	(8,318)
Profit after taxation		**27,322**	3,172
Attributable to:			
Equity holders of the Company		**24,106**	2,946
Minority interests		**3,216**	226
Profit after taxation		**27,322**	3,172
Dividends	*5*	**–**	6,334
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK cents per share)			
– Basic	*6*	**11.37**	1.40
– Diluted	*6*	**11.37**	1.40

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30 June 2005 HK$'000	As restated 31 December 2004 HK$'000
ASSETS			
Non-current assets			
Intangible assets		–	(2,652)
Leasehold land and land use rights		**21,845**	9,763
Investment properties		**77,602**	77,212
Property, plant and equipment		**294,589**	271,005
Construction in progress		**24,054**	18,424
Associated company		**20,961**	21,345
Joint ventures		**117,120**	113,462
Other investments		–	27,530
Available-for-sale investments		**307**	–
Net investment in finance leases		**132**	236
Deferred tax assets		–	243
		556,610	536,568
Current assets			
Inventories		**189,251**	153,740
Trade and other receivables	*7*	**115,325**	119,897
Current portion of net investment in finance leases		**578**	1,200
Held for trading instruments		**2,401**	–
Investment securities		–	2,507
Other investments-short term		–	686
Investment properties held for sale		**20,373**	–
Cash and bank balances		**71,770**	76,965
		399,698	354,995
Total assets		**956,308**	891,563
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**21,193**	21,170
Reserves		**297,442**	326,247
Retained earnings		**357,089**	318,353
		675,724	665,770
Minority interests		**23,915**	20,794
Total equity		**699,639**	686,564
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**7,013**	7,466
Current liabilities			
Bank overdraft-unsecured		**2,137**	–
Short term bank borrowings – unsecured		**98,362**	72,628
Trade and other payables	*8*	**143,625**	119,911
Taxation		**5,532**	4,994
		249,656	197,533
Total liabilities		**256,669**	204,999
Total equity and liabilities		**956,308**	891,563
Net current assets		**150,042**	157,462
Total assets less current liabilities		**706,652**	694,030

Notes:

1. **BASIS OF PREPARATION AND ACCOUNTING POLICIES**

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information. The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below.

(a) New Accounting Policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30 June 2005 are the same as 2004 annual financial statements except for the following accounting standards which have taken effect from 1 January 2005 and affected the Company:

i) HKAS 1 "Presentation of Financial Statements" has revised the formats of certain components of financial statements. The major changes include:

– The share of profits less losses of joint ventures and associated companies in the profit and loss account are now shown after tax. Previously, the tax had been disclosed separately.

– Minority interests have been included as part of equity.

ii) HKAS 17 "Leases" has reclassified leasehold land and land use rights from property, plant and equipment (formerly known as "fixed assets") to operating leases. The up-front prepayments made for leasehold land and land use rights are expensed in the profit and loss account on a straight line basis over the period of the lease. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The adoption of HKAS 17 has no material effect on the condensed accounts other than the reclassification as follows:

	As at	
	30 June 2005	31 December 2004
	HK\$'000	*HK\$'000*
Increase in leasehold land and land use rights	**21,845**	9,763
Decrease in property, plant and equipment	**(21,845)**	(9,763)

iii) HKAS 21 "The Effect of Changes of Foreign Exchange Rates" requires the net exchange differences arising from the translation of the results and financial position of foreign operations to be disclosed as separate component of equity. Previously, such exchange differences are disclosed as movement in retained earnings. The adoption of HKAS 21 has resulted in the following reclassification in the balance sheet:

	As at	
	30 June 2005	31 December 2004
	HK\$'000	*HK\$'000*
(Decrease)/increase in exchange reserve	**(1,146)**	15,118
Increase/(decrease) in retained earnings	**1,146**	(15,118)

iv) HKAS 32 "Financial Instruments: Presentation and Disclosures" and HKAS 39 "Financial Instruments: Recognition and Measurement" have resulted in reclassification of certain investments which are previously treated as either investment securities and other investments to available-for-sale investment and held for trading investment.

v) Under HKAS 40 "Investment Property", all movements in fair value are now reflected in the profit and loss account, and the Company has applied the relevant transitional provision in HKAS 40 and elected to apply this new standard from 1 January 2005. The opening amount of the investment property revaluation reserve as at 1 January 2005 (HK$11,978,000) has been transferred to retained earnings. No valuation of the investment property portfolio was carried out at 30 June 2004, and no corresponding adjustment has been made for the half-year ended on that date.

The Group also adopted HKAS Interpretation 21 "Income taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequence from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provision in this Interpretation, this change in accounting policy has been applied retrospectively and comparative figures for 2004 have been restated.

The adoption of HKAS Interpretation – 21 has resulted in the following adjustments:

	As at	
	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Increase in deferred tax liability	**906**	1,729
Decrease in investment property revaluation reserve	**–**	(1,041)
Decrease in minority interests	**(136)**	(136)
Decrease in retained earnings	**(770)**	(552)

	Six month ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Decrease in tax expense	**(823)**	–

vi) Effective on 1 January 2005, the Group expenses the cost of employee share options in the profit and loss account in accordance with HKFRS 2 "Share-based Payments". In the current period, an amount of share option expense of HK$85,000 has been recognized, with a corresponding adjustment recognised in the Group's capital reserve. Previously, the provision of share options to employees did not result in an expense in the profit and loss accounts. However, since all share options granted under the old Share Options Scheme had either been exercised or lapsed before November 2004, and the first batch of share options under the existing Share Option Scheme were granted in January 2005, the adoption of HKFRS 2 did not result in prior period adjustments to condensed accounts.

vii) In accordance with HKFRS 3 "Business Combination", any negative goodwill arising from the excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognized immediately in the profit and loss account in the period in which the acquisition takes place. In previous periods, negative goodwill arising from acquisitions before 1 January 2001 was written off against reserves while that arising from acquisitions after 1 January 2001 was presented in the same balance sheet classification as positive goodwill and recognized in the profit and loss account over their weighted average useful lives of 3 to 15 years.

In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognized all negative goodwill in the balance sheet as at 1 January 2005 of HK$2,652,000 (other than that already written off against reserves), with a corresponding increase in retained profits.

(b) Comparatives

Apart from the changes of the accounting policies as a result of the adoption of the new HKFRS as disclosed aforesaid, the Company has also reclassified the following comparative figures in order to achieve a fairer representation of the Group's activities:

(i) The Group previously disclosed net income from installation and from sales of underlay within 'other revenues'. Management believes that their inclusion in terms of gross amounts in 'turnover' and 'cost of sales' is a fairer representation of the Group's activities.

(ii) The Group previously disclosed the results of the supporting function of carpet operations in Hong Kong within 'unallocated items' in the analysis of the Group's results by business segment. Management believes that their inclusion in 'carpet', segment is a fairer representation of the Group's activities.

(iii) The Group previously disclosed the turnover and results of the wool spinning operation of Nanhai Tai Ping Carpets Company Limited ("NHTP") within the 'Yarn' operation in the analysis of the Group's results by business segment. As most of the products of this wool spinning operation were supplied to NHTP as raw materials of carpet production, management believes that their inclusion in the 'Carpet' segment is a fairer representation of the Group's activities.

2. SEGMENT INFORMATION

(a) Business segments

The principal activities of the Group consist of manufacture, import, export and sale of carpets, manufacture and sale of yarn, trading of interior furnishings, investment and property holding.

An analysis of the Group's revenues and results for the period by business segments is as follows:

	Six months ended 30 June 2005						
	Carpet *HK$'000*	**Yarn** *HK$'000*	**Interior furnishings** *HK$'000*	**Property holding and others** *HK$'000*	**Elimination** *HK$'000*	**Unallocated** *HK$'000*	**Group** *HK$'000*
Turnover							
– From third parties	**260,292**	**29,786**	**29,073**	**3,453**	**–**	**–**	**322,604**
– Inter-segment turnover	**–**	**–**	**–**	**34**	**(34)**	**–**	**–**
	260,292	**29,786**	**29,073**	**3,487**	**(34)**	**–**	**322,604**
Segment results	**(17,003)**	**5,022**	**422**	**18,227**	**1,848**	**19,728**	**28,244**
Finance costs							**(1,344)**
Share of (losses)/profits of							
– Associated company	**(608)**	**–**	**–**	**–**	**–**	**–**	**(608)**
– Joint ventures	**9,200**	**–**	**–**	**–**	**–**	**–**	**9,200**
Profit before taxation							**35,492**
Taxation							**(8,170)**
Profit after taxation							**27,322**

	Six months ended 30 June 2004 (as restated)						
	Carpet *HK$'000*	Yarn *HK$'000*	Interior furnishings *HK$'000*	Property holding and others *HK$'000*	Elimination *HK$'000*	Unallocated *HK$'000*	Group *HK$'000*
Turnover							
– From third parties	205,087	29,481	24,955	2,978	–	–	262,501
– Inter-segment turnover	683	–	205	270	(1,158)	–	–
	205,770	29,481	25,160	3,248	(1,158)	–	262,501
Segment results	(2,548)	4,019	3,405	2,800	(2,695)	(1,845)	3,136
Finance costs							(541)
Share of profits of							
– Associated company	423	–	–	–	–	–	423
– Joint ventures	8,472	–	–	–	–	–	8,472
Profit before taxation							11,490
Taxation							(8,318)
Profit after taxation							3,172

(b) Geographical segments

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

	Turnover Six months ended 30 June		**Segment results Six months ended 30 June**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong and Macau	**34,593**	41,029	**32,559**	2,359
Mainland China	**18,538**	3,912	**3,860**	(2,058)
South East Asia	**103,574**	98,008	**6,627**	10,668
Middle East	**11,353**	6,347	**(301)**	1,060
Other Asian countries	**8,393**	8,544	**1,577**	323
Europe	**31,643**	23,377	**(3,231)**	(1,697)
North America	**111,100**	78,675	**(13,129)**	(7,685)
Others	**3,410**	2,609	**282**	166
	322,604	262,501	**28,244**	3,136

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Crediting:–		
Profit on disposal of property, plant and equipment	**369**	180
Negative goodwill recognised as income	**–**	307
Charging:–		
Depreciation	**19,281**	17,143
Amortisation of positive goodwill	**–**	1,114

4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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	
		As restated
	2005	2004
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**856**	–
Overseas taxation	**7,430**	7,646
Deferred taxation relating to the origination and reversal of temporary differences	**(116)**	672
Taxation charge	**8,170**	8,318

Share of taxation of an associated company and joint ventures for the six months ended 30 June 2005 of HK$25,000 (2004: HK$196,000) and HK$2,834,000 (2004: HK$1,372,000) respectively are included in the share of profits less losses of the associated company and joint ventures.

5. DIVIDENDS

	Six months ended 30 June 2005 HK$'000	2004 HK$'000
2003 final dividend, payable, of HK$0.03 per share	–	6,334

The Board resolves not to pay an interim dividend for the period (2004: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of HK$24,106,000 (2004: as restated HK$2,946,000) and the weighted average of 211,933,488 shares (2004: 211,121,275 shares) during the period.

The calculation of diluted earnings per share is based on the Group's profit attributable to equity holders of the Company of HK$24,106,000 (2004: as restated HK$2,946,000) and the weighted average of 211,939,219 shares (2004: 211,127,006 shares) during the period, after adjusting the dilutive effect of the outstanding share options.

7. TRADE AND OTHER RECEIVABLES

	30 June 2005 HK$'000	31 December 2004 HK$'000
Trade receivables *(note)*		
– Current – 30 days	**62,360**	63,023
– 31 days – 60 days	**12,788**	12,814
– 61 days – 90 days	**3,613**	7,825
– Over 90 days	**8,089**	14,931
	86,850	98,593
Other receivables	**28,475**	21,304
	115,325	119,897

Note: The credit terms of the Group depend on the credit status and repayment history of customers and range from 0 to 90 days. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers, internationally dispersed.

8. TRADE AND OTHER PAYABLES

	30 June 2005 HK$'000	31 December 2004 HK$'000
Trade payables		
– Current – 30 days	**28,967**	19,911
– 31 days – 60 days	**2,202**	6,211
– 61 days – 90 days	**543**	1,420
– Over 90 days	**2,344**	2,199
	34,056	29,741
Customer deposits and other payables	**109,569**	90,170
	143,625	119,911

9. EVENTS AFTER BALANCE SHEET DATE

(a) On 12 August 2005, Delvincourt Limited, an indirect wholly owned subsidiary of the Company, entered into provisional sale and purchase agreements with independent third parties to sell Units 8-13 on the Ground Floor of Wing On Plaza, Tsim Sha Tsui East for an aggregate consideration of HK$20,700,000. The units have been reclassified as "Investment properties held for sale" under current assets under HKFRS 5 "Non-current assets held for Sale and Discontinued Operations" and the estimated capital gain of HK$11,373,000 has already been reflected in the results for the half year ended 30 June 2005 as surplus on revaluation of the property.

(b) On 22 August 2005, CII Cement Limited, an indirect non-wholly owned subsidiary of the Company, entered into an agreement to transfer its 54.5% stake in Changzhou Nantai Construction Materials Company Limited ("Nantai Construction") to its Chinese joint venture party for a consideration of RMB8,000,000 (HK$7,700,000). As Nantai Construction has been fully written off in the Group's books of accounts, the sale will realise a net gain of HK$7,600,000 net of expenses which will be included in the second half results of the Group.

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 have purchased or sold any of the Company's shares during the period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2005, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), with the exception of the following:–

Code provision A.2.1

This code stipulates that the division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

The Company has separate persons to hold these two roles but their division of responsibilities was formally set out in writing at the board meeting on 23 September 2005.

Code provision A.4.1

This code stipulates that Non-executive Directors should be appointed for a specific term subject to re-election.

The Company's Non-executive Directors are not appointed for specific terms. However, at the Company's Annual General Meeting on 10 June 2005, in order to be more consistent with this code provision A.4.1, the relevant Bye-law was amended to ensure that every director other than any Executive Chairman or Managing Director retire by rotation at least once every 3 years. The Executive Chairman or Managing Director cannot be required to retire by rotation in the Bye-laws as pursuant to section 2(e) of the Tai Ping Carpets International Limited Company Act 1990 of Bermuda. Notwithstanding this, the Directors intend to comply with this code provision A.4.1 by asking any Executive Chairman or Managing Director to voluntarily retire by rotation at least once every 3 years.

Code provision B.1.1

This code stipulates that a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be Independent Non-executive Directors.

The terms of reference of the Company's remuneration committee were not formally set out as those contained in the code provision B.1.3 and the majority of its members were not Independent Non-executive Directors. At the board meeting on 23 September 2005, the terms of reference for the remuneration committee in accordance with those set out in the Code were adopted and its composition will be changed so that the majority of its members will be Independent Non-executive Directors.

Code provision C.3.3

This code stipulates that the terms of reference of the audit committee should include at least the duties as set out thereunder.

The terms of reference of the Company's audit committee were not in accordance with those set out in the Code. In order to comply with the Code, the Company adopted the terms of reference of the audit committee as set out in the Code at the board meeting held on 23 September 2005.

BUSINESS REVIEW AND OUTLOOK

The Group's unaudited consolidated turnover for the six month period was HK$322.6 million, a 22.9% increase from HK$262.5 million for the same period last year. The unaudited consolidated profit after tax for the period was HK$27.3 million compared to the profit of HK$3.2 million in the same period in 2004. The comparative figures where necessary have been re-stated in accordance with the recent reporting changes required by the newly adopted Hong Kong Financial Reporting Standards ("HKFRS") effective for reporting periods commencing on or after 1 January 2005. During the period certain items in the condensed profit and loss account affected the results by a net favourable adjustment of HK$36.0 million. ***(see below).***

In line with the overall strategy as agreed by the Directors to transform the Group from a high-quality Asian manufacturer into a world-class customer-focused carpet company, during the period the Company increased its banking lines by HK$100 million to fund working capital growth.

Carpet Operations
In the six months to 30 June 2005 the Group's carpet manufacturing and trading turnover rose by 26.9% to HK$260.3 million as compared to the HK$205.1 million in the same period in 2004. HK$133.0 million or 51.1% arose from sales in Asia and 48.9% from sales to the rest of the world, compared to the split of 60.4% from Asian sales and 39.6% from sales to the rest of the world in the same period in 2004.

Gross margins remained stable at 39%. The benefit of improved factories utilization counter-balanced the effect of increases in raw material, energy and operating costs. Planned increases in overheads to build sales teams and develop global resources and marketing tools resulted in overhead costs increasing by HK$31.2 million to HK$116.1 million. This resulted in the carpet operations reporting a segmental loss before tax, finance and unallocated costs of HK$17.0 million compared to a restated loss of HK$2.5 million for the same period in 2004.

USA
The Group's turnover in carpet manufacturing and trading increased by 65.7% to HK$81.0 million in the first six months of 2005 compared to 2004.

The general economic environment in the USA for the first half of 2005 was good and the significant growth in the American commercial turnover was a direct result of Tai Ping Carpets Americas, Inc. ("TPCA") recruitment of key sales and design teams placed in important territories and effective new marketing materials supporting the development of key business relationships. Despite fierce competition in certain sectors of the commercial market, turnover grew in the hospitality and mass transit sectors serviced by the company.

The development of Tai Ping's residential business in the USA continued with the opening in May 2005 of a new concept showroom for the Tai Ping brand. The 12,000 sq.ft. showroom and office centrally located in Union Square, New York raised the profile of the Group and generated significant amounts of publicity and interest in the new brand identity and Tai Ping's signature custom made rugs. The showroom sells mainly to the design trade and interior specifiers.

In April 2005, Tai Ping completed the purchase of the business assets of Edward Fields, Inc. – a well known USA custom rug manufacturer with seven showrooms in Chicago, Dania, Dallas, Houston, New York, Los Angeles and San Francisco. Edward Fields was established in the 1940's with its major manufacturing undertaken in Long Island, New York. The Group's strategy is to transition Edward Fields' manufacturing to the Group's Asian manufacturing bases. This has been partially completed and, as anticipated, during this transition period the operation has negatively impacted the Group's results. However, the benefits of controlling the supply chain from manufacturing to retailing are beginning to affect positively operations in both the USA and Asia. The Group is delighted with the purchase of the business assets of Edward Fields since it holds a unique and greatly respected place in the market and many of its experienced employees have been re-employed by Tai Ping.

The Group's custom manufacturer in Spindale, North Carolina, USA – White Oak Carpets Mills, Inc. – continued to develop 'quick ship' programs for its major aircraft outfitter client and for the Group as well as provide warehousing and distribution services for the carpet sales throughout the USA.

Europe
European sales in the period increased by 35.4% to HK$31.6 million as compared to 2004.

Tai Ping Carpets (Europe) ("TPCE") turnover grew by 46.9% in the period, and gross margins were maintained at 28%. Showroom and high-end residential project sales were encouraging but the slow development of the residential distribution and boutique commercial markets was disappointing. However, the development of new sales tools to be delivered later this year should help spur growth in 2006.

Tai Ping Carpets Interieur GmbH ("TPCI") turnover grew 44.4%, mainly through increased commercial sales, but with a negative impact on gross margins, which fell to 16% to match local competition. However, the growth in the commercial sales has reduced TPCI's dependence on a major residential client.

Early in 2005 the Group recruited an experienced UK-based commercial sales and design team similar to the operating units successfully established in America by TPCA, and opened an office in Kidderminster. This UK team will focus on the commercial markets in the UK, Europe and the Middle East.

Hong Kong, Macau and China
Turnover for the first half of 2005 increased by 19.2% to HK$22.8 million over the prior year period's figures. Selling prices were generally lower and gross margins fell from 39% to 37%. Operating expenses increased with the cost of bringing 'manufacturing excellence' to the southern Chinese factory in Nanhai and to support the development and travel of a more international pan-Asian sales team. These figures have been restated with minimal impact to include the turnover of the Nanhai wool spinning operations in China, as Carpet Operations instead of Yarn Operations, since all external wool sales by Nanhai have stopped in the period and production focused to meet the increased internal demand from the Group.

Thailand and Southeast Asia
Carpet International Thailand Public Company Ltd. ("CIT") turnover rose 7.6% to HK$119.7 million for the period. The growth in the Thai economy slowed in the first half of 2005 in the face of soaring oil prices and the high Thai current account deficit. CIT's domestic sales were flat but growth occurred in export sales to the Middle East and South East Asia and in automotive products to Asian car assembly manufacturers. Improved factory utilization during the period offset the effect of increased raw material and energy costs and keen competition in the automotive market from China and Malaysia but the gross margin fell to 25.5% compared to 28.9% in the same period in 2004. A relaunch of the CIT corporate identity is being planned to strengthen the overall CIT brand.

Singapore Carpet Manufacturers was renamed Tai Ping Carpets (S) Pte. Ltd. in January 2005 to be easily recognizable as part of the Group and change made for the office to be a support operation for sales growth plans into South East Asia.

Joint Ventures and Associated Company
The combined sales of the Group's joint ventures in Weihai, China grew by 15.9% to HK$206.9 million. The Group's share of profit after tax in the joint ventures increased to HK$9.2 million in the period as compared to HK$8.5 million for the period to 30 June 2004. The joint ventures continued to market and grow their sales aggressively in China with competitive pricing but with some impact on gross margins.

At the end of 2004 the Company signed a Memorandum of Understanding with Weihai Shanhua Carpet Group Company Limited ("Weihai") agreeing that with effect from 1 January 2005 the Company would represent Weihai to market and distribute globally all Weihai products outside the People's Republic of China. In addition the Company would cease all sales in China by 1 April 2005 and Weihai and the Company would cooperate for 18 months on all sales in Asia Pacific. This strategic agreement signed with Weihai will add Weihai's 'Shanhua' brand to the Group's range of products, add factory capacity and increase the Group's product offerings from the viewpoint of strategic price positioning. Sales made directly into China by the Group ceased on 1 April 2005 following the signing of the agreement except for the completion of prior orders.

Philippine Carpet Manufacturing Corporation ("PCMC") results were disappointing with the Group's share of the reported losses after tax being HK$0.6 million compared to a profit of HK$0.4 million for the comparative period in 2004. The losses arose as a result of manufacturing difficulties which have been resolved.

Other Operations
With regard to the Group's yarn dyeing operations of Premier Yarn Dyers, Inc. ("PYD") in Georgia, USA, sales and segmental results remained constant at HK$29.8 million and a profit of HK$5.0 million compared to the previous year's comparative period's results of HK$29.5 million and a profit of HK$4.0 million. The Directors wish to acknowledge the many years of valuable service contributed by the previous Managing Director Mr. Edward Jones, who retired on 31 December 2004, and congratulate PYD's senior management for the smooth transition and continuation of business operations and profits into 2005.

The improvement in the Hong Kong property market has had a positive impact in the territory's tourism and top-end retailers but less impact on the mid-range retailers including the house ware and furniture sectors. The impact of the name change of the operations to Indigo Living Limited ("Indigo") took longer to establish then expected and it was only towards the mid year of 2005 that retail and rental sales begin to improve with the influx of new expats. Project sales were also slow with the limited number of new projects coming into the Hong Kong market. As a result, Indigo reported a fall in turnover of HK$5.2 million to HK$19.7 million and its results were breakeven as compared to a profit of HK$3.4 million in the same period in 2004. With many small new competitors entering the Hong Kong project market the company continued to explore opportunities for growth outside the territory.

The results of Suzhou Shuilian Mattress Company Limited ("SSMCL"), the Group's mattress operation in China, were first reported as a subsidiary of the Group following the acquisition of the 52% Chinese joint venture party's shares in December 2004. SSMCL reported sales for the period of HK$9.3 million and a profit of HK$0.3 million.

During the period the investment in Oceanic Cotton Mill Ltd. was liquidated and various office units on the 13th floor and the entire 26th floor of Tower A, Regent Centre, Kwai Chung were transferred to the Group on the 1 June 2005 in the form of a dividend in specie. The aggregate fair values of these properties at the date of transfer resulted in gain on liquidation of investment of HK$21.3 million credited directly to the Profit and Loss Account.

In addition, under the Hong Kong Accounting Standard ("HKAS") 40 "Investment Property" the Group has performed a fair value assessment of its investment properties and restated certain investment properties to their fair values as at 30 June 2005 with a favourable adjustment of HK$14.7 million being reported in the current period results. HK$11.4 million arose on the 6 shops owned in Wing On Plaza, Hong Kong which have been reclassified under current assets and are subject to contract for sale for HK$20.7 million with a completion date due on 15 November 2005.

OUTLOOK

The transformation of the Group into a world-class customer-focused carpet company is proceeding as planned and on schedule. Turnover is growing as forecast and the new Tai Ping brand is gaining recognition in key markets as a vertically integrated company. With the development of new and effective sales and marketing tools, the Group is beginning to leverage its heritage and superior manufacturing capabilities. However in a period of significant growth, the Company's focus will continue to be on the most effective use of its resources and careful management of working capital.

By order of the Board

Nicholas T. J. Colfer
Chairman

James H. Kaplan
Chief Executive Officer

Hong Kong, 23 September 2005

The names of Directors as at the date hereof are – Chairman: Mr. Nicholas T. J. Colfer, 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, Mr. Lincoln C. K. Yung, Non-executive Directors: Mr. Ian D. Boyce, Mr. John J. Ying, Mr. Lincoln K. K. Leong, Mr. David C. L. Tong, Alternate Director: Mr. Nelson K. F. Leong (Alternate to Mr. Lincoln K. K. Leong).