TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 146)

TAI PING

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2006

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 2006. The interim financial statements of the Group are unaudited and the interim report comprising these financial statements has been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited Six months ended 30 June	
			As restated
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Continuing operations			
Turnover	*2*	**379,921**	302,863
Cost of sales		**(218,330)**	(186,111)
Gross profit		**161,591**	116,752
Interest income from bank deposits, finance leases and third parties		**915**	253
Gain on liquidation of an available-for-sale financial asset		**—**	21,346
Surplus on revaluation of investment properties		**3,140**	14,743
Other operating income, net		**3,223**	3,048
Distribution costs		**(72,114)**	(55,450)
Administrative expenses		**(92,117)**	(72,574)
Operating profit	*2, 3*	**4,638**	28,118
Finance costs		**(3,081)**	(1,344)
Share of (losses)/profits of			
— An associate		**(11)**	(608)
— Joint ventures		**10,908**	9,200
Profit before taxation		**12,454**	35,366
Taxation	*4*	**(3,639)**	(7,692)
Profit after taxation from continuing operations		**8,815**	27,674
Discontinued operation			
Profit/(loss) for the period from discontinued operation	*6*	**2,378**	(352)
Loss recognised on measurement to fair value less costs to sell	*6*	**(6,045)**	—
Loss after taxation from discontinued operation		**(3,667)**	(352)
Profit after taxation		**5,148**	27,322
Attributable to:			
Equity holders of the Company		**3,555**	24,106
Minority interests		**1,593**	3,216
		5,148	27,322
Dividends		**—**	—

	Notes		
Earnings/(loss) per share for profit attributable to the equity holders of the Company during the period (expressed in HK cents per share)	*5*		
From continuing and discontinued operations			
— Basic		**1.67**	11.37
— Diluted		**1.67**	11.37
From continuing operations			
— Basic		**3.40**	11.54
— Diluted		**3.40**	11.54
From discontinued operation			
— Basic		**(1.73)**	(0.17)
— Diluted		**(1.73)**	(0.17)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**Unaudited 30 June 2006** ***HK$'000***	Audited 31 December 2005 *HK$'000*
ASSETS			
Non-current assets			
Leasehold land and land use rights		**21,473**	21,739
Property, plant and equipment		**301,224**	303,440
Investment properties		**34,750**	73,130
Construction in progress		**8,717**	12,282
Interests in an associate		**22,955**	21,166
Interests in joint ventures		**141,261**	133,318
Available-for-sale financial asset		**59**	134
Net investment in finance leases		**—**	210
Deferred tax assets		**710**	1,983
		531,149	567,402
Current assets			
Inventories		**210,820**	173,847
Trade and other receivables	*7*	**142,109**	161,658
Current portion of net investment in finance leases		**—**	735
Derivative financial instruments		**295**	—
Investment properties held for sale		**43,540**	—
Cash and cash equivalents		**52,869**	87,079
		449,633	423,319
Assets of a disposal group held for sale	*6*	**26,043**	—
		475,676	423,319
Total assets		**1,006,825**	990,721
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**21,218**	21,193
Reserves		**319,561**	301,871
Retained earnings		**364,098**	360,543
		704,877	683,607
Minority interests		**29,378**	27,864
Total equity		**734,255**	711,471

	Notes	Unaudited 30 June 2006 HK$'000	Audited 31 December 2005 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings — unsecured		**10,000**	9,500
Deferred tax liabilities		**4,668**	5,632
Other long-term liabilities		**1,601**	1,991
		16,269	17,123
Current liabilities			
Bank borrowings — unsecured		**67,153**	99,836
Trade and other payables	*8*	**178,127**	153,016
Other long-term liabilities — current portion		**390**	390
Taxation		**3,788**	8,885
		249,458	262,127
Liabilities directly associated with assets of disposal group held for sale	*6*	**6,843**	—
		256,301	262,127
Total liabilities		**272,570**	279,250
Total equity and liabilities		**1,006,825**	990,721
Net current assets		**219,375**	161,192
Total assets less current liabilities		**750,524**	728,594

1. Basis of preparation and accounting policies

The unaudited condensed consolidated accounts have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The consolidated accounts have been prepared under the historical cost convention except for (i) certain properties which are stated at revalued amounts less subsequent accumulated depreciation and accumulated impairment losses; and (ii) available-for-sale financial assets and investment properties, which are carried at fair value.

The accounting policies used in the condensed consolidated accounts are consistent with those followed in the preparation of the Group's consolidated accounts for the year ended 31 December 2005.

In the current period, the Group has also applied, for the first time, the following new standards, amendments and interpretation issued by the HKICPA (hereinafter collectively referred to as the "new HKFRSs") that are effective for the accounting periods beginning on or after 1 December 2005 or 1 January 2006.

HKAS 19 Amendment	Actuarial gains and losses, Group plans and disclosures
HKAS 21 Amendment	Net investment in a foreign operation
HKAS 39 Amendment	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 Amendment	The fair value option
HKAS 39 & HKFRS 4 Amendments	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS — Interpretation 4	Determining whether an arrangement contains a lease
HKFRS — Interpretation 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) — Interpretation 6	Liabilities arising from participating in a specific market — waste electrical and electronic equipment

The adoption of the above new HKFRSs has had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not applied for the early adoption of the following new standards, amendments and interpretations that have been issued but are not yet effective. The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to the Group's results of operations and financial position in the period of initial application.

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosure	1 January 2007
HK(IFRIC) — Interpretation 7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies	1 March 2006
HK(IFRIC) — Interpretation 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) — Interpretation 9	Reassessment of Embedded Derivatives	1 June 2006

The Company has previously disclosed in the segment information *(Note 2)* the unrealised profit in respect of the inter-company sales by carpets and yarn operations as a separate item in "elimination of segment results". Following the reclassification of the wool spinning operations of Foshan Nanhai Tai Ping Carpets Company Limited from "Yarn" to "Carpet" segment in 2005, virtually all the unrealised profits in such inter-company sales arise within the "Carpet" segment. Management believes that the inclusion of such unrealised profits in "Carpet" segment is a fair 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 revenue and results for the period by business segments is as follows:

	Six months ended 30 June 2006								
	Carpet	**Yarn**	**Interior furnishings**	**Property holding**	**Elimination**	**Unallocated**	**Continuing operations**	**Discontinued operation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue									
— External revenue	**337,257**	**27,436**	**12,308**	**2,920**	**—**	**—**	**379,921**	**23,738**	**403,659**
— Inter-segment revenue	**254**	**—**	**—**	**1,045**	**(1,299)**	**—**	**—**	**—**	**—**
	337,511	**27,436**	**12,308**	**3,965**	**(1,299)**	**—**	**379,921**	**23,738**	**403,659**
Segment results	**(7,676)**	**5,601**	**796**	**6,742**	**—**	**(825)**	**4,638**	**(4,169)**	**469**
Finance costs							**(3,081)**	**—**	**(3,081)**
Share of (losses)/profit of									
— An associate	**(11)**	**—**	**—**	**—**	**—**	**—**	**(11)**	**—**	**(11)**
— Joint ventures	**10,908**	**—**	**—**	**—**	**—**	**—**	**10,908**	**—**	**10,908**
Profit/(loss) before taxation							**12,454**	**(4,169)**	**8,285**
Taxation							**(3,639)**	**502**	**(3,137)**
Profit/(loss) after taxation							**8,815**	**(3,667)**	**5,148**

	Six months ended 30 June 2005 (as restated)								
	Carpet	Yarn	Interior furnishings	Property holding	Elimination	Unallocated	Continuing operations	Discontinued operation	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue									
— External revenue	260,292	29,786	9,332	3,453	—	—	302,863	19,741	322,604
— Inter-segment revenue	—	—	—	34	(34)	—	—	—	—
	260,292	29,786	9,332	3,487	(34)	—	302,863	19,741	322,604
Segment results	(15,155)	5,022	296	18,227	—	19,728	28,118	126	28,244
Finance costs							(1,344)	—	(1,344)
Share of (losses)/profit of									
— An associate	(608)	—	—	—	—	—	(608)	—	(608)
— Joint ventures	9,200	—	—	—	—	—	9,200	—	9,200
Profit before taxation							35,366	126	35,492
Taxation							(7,692)	(478)	(8,170)
Profit/(loss) after taxation							27,674	(352)	27,322

(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					
	Continuing operations		**Discontinued operation**		**Total**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong and Macau	**28,923**	15,139	**23,489**	19,454	**52,412**	34,593
Mainland China	**16,385**	18,251	**—**	287	**16,385**	18,538
South East Asia	**102,602**	103,574	**96**	—	**102,698**	103,574
Middle East	**10,101**	11,353	**—**	—	**10,101**	11,353
Other Asian countries	**8,101**	8,393	**—**	—	**8,101**	8,393
Europe	**31,889**	31,643	**—**	—	**31,889**	31,643
North America	**177,360**	111,100	**153**	—	**177,513**	111,100
Others	**4,560**	3,410	**—**	—	**4,560**	3,410
	379,921	302,863	**23,738**	19,741	**403,659**	322,604

	Segmental results					
	Six months ended 30 June					
	Continuing operations		**Discontinued operation**		**Total**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong and Macau	**2,960**	32,492	**(4,266)**	67	**(1,306)**	32,559
Mainland China	**(5,786)**	3,801	**—**	59	**(5,786)**	3,860
South East Asia	**1,971**	6,627	**57**	—	**2,028**	6,627
Middle East	**1,918**	(301)	**—**	—	**1,918**	(301)
Other Asian countries	**(163)**	1,577	**—**	—	**(163)**	1,577
Europe	**(8,327)**	(3,231)	**—**	—	**(8,327)**	(3,231)
North America	**11,303**	(13,129)	**40**	—	**11,343**	(13,129)
Others	**762**	282	**—**	—	**762**	282
	4,638	28,118	**(4,169)**	126	**469**	28,244

3. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
Crediting:		
Profit on disposal of property, plant and equipment	**—**	369
Charging:		
Depreciation of property, plant and equipment	**22,198**	19,163
Amortisation of leasehold land and land use rights	**266**	118
Loss on disposal of property, plant and equipment	**196**	—

4. **Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the applicable rates of taxation prevailing in the respective countries.

The amount of taxation charged/(credited) to the condensed consolidated profit and loss account represents:

	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
Taxation relating to continuing operations		
Current taxation		
Hong Kong profits tax	**2,168**	856
Overseas taxation	**2,404**	7,430
Deferred taxation relating to the origination and reversal of temporary differences	**(933)**	(594)
	3,639	7,692
Taxation relating to discontinued operation		
Current taxation		
Hong Kong profits tax	**35**	—
Deferred taxation relating to the origination and reversal of temporary differences	**(537)**	478
	(502)	478
Total taxation charge	**3,137**	8,170

Share of taxation of an associate and joint ventures for the six months ended 30 June 2006 of HK$33,000 (2005: HK$25,000) and HK$3,340,000 (2005: HK$2,834,000) respectively are included in the share of profits/(losses) of an associate and joint ventures.

5. **Earnings per share**

(a) ***From continuing and discontinued operations***

Basic

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of HK$3,555,000 (2005: HK$24,106,000) and the weighted average of 212,187,488 shares (2005: 211,933,488 shares) during the period.

Diluted

The calculation of diluted earnings per share is based on the Group's profit attributable to equity holders of the Company of HK$3,555,000 (2005: HK$24,106,000) and the weighted average of 212,187,488 shares during the period (2005: 211,939,219 shares, after adjusting the dilutive effect of the outstanding share options). No adjustment for share options is made as all share options outstanding as at 30 June 2006 had an anti-dilutive effect on the earnings per share of the Company.

(b) ***From continuing operations***

Basic

The calculation of basic earnings per share from continuing operations is based on the Group's profit attributable to equity holders of the Company from continuing operations of HK$7,222,000 (2005: HK$24,458,000) and the weighted average of 212,187,488 shares (2005: 211,933,488 shares) during the period.

Diluted

The calculation of diluted earnings per share is based on the Group's profit attributable to equity holders of the Company of HK$7,222,000 (2005: HK$24,458,000) and the weighted average of 212,187,488 shares during the period (2005: 211,939,219 shares, after adjusting the dilutive effect of the outstanding share options). No adjustment for share options is made as all share options outstanding as at 30 June 2006 had an anti-dilutive effect on the earnings per share of the Company.

(c) ***From discontinued operation***

Basic

The calculation of basic loss per share from discontinued operation is based on the Group's profit attributable to equity holders of the Company from discontinued operation of HK$3,667,000 (2005: HK$352,000) and the weighted average of 212,187,488 shares (2005: 211,933,488 shares) during the period.

Diluted

The calculation of diluted loss per share is based on the Group's profit attributable to equity holders of the Company of HK$3,667,000 (2005: HK$352,000) and the weighted average of 212,187,488 shares during the period (2005: 211,939,219 shares, after adjusting the dilutive effect of the outstanding share options). No adjustment for share options is made as all share options outstanding as at 30 June 2006 had an anti-dilutive effect on the loss per share of the Company.

6. Discontinued operation/disposal group held for sale

During the period, the Company decided to dispose of Indigo Living Limited ("Indigo") and Banyan Tree Limited ("Bayan Tree"), both wholly-owned subsidiaries of the Company. Indigo and Banyan Tree collectively represented a separate line of business under the category "Interior Furnishings" for the purpose of HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Sale and purchase agreements were executed on 7 July 2006, whereby the Company's entire interests in both Indigo and Banyan Tree were sold to the acquirer at a consideration of HK$19,200,000. The disposal was completed on the same date.

The aggregate results of Indigo and Banyan Tree for the period are as follows:

	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
Turnover	**23,738**	19,741
Cost of sales	**(9,056)**	(8,158)
Gross profit	**14,682**	11,583
Interest income from banks and finance leases	**43**	36
Distribution costs	**(1,773)**	(862)
Administrative expenses	**(10,987)**	(10,659)
Other operating (expenses)/income, net	**(89)**	28
Profit before tax	**1,876**	126
Taxation credit/(charge)	**502**	(478)
Profit/(loss) after tax	**2,378**	(352)
Loss recognised on measurement to fair value less costs to sell	**(6,045)**	—
	(3,667)	(352)

During the period, Indigo and Banyan Tree used an aggregate of HK$3,910,000 (2005: HK$1,555,000) of cash in respect of Group's net operating cash flows, and paid HK$2,091,000 (2005: HK$935,000) in respect of investing activities.

The assets and liabilities of Indigo and Banyan Tree were classified as a disposal group held for sale under HKFRS 5. The major classes of assets and liabilities comprising the disposal group are as follows:

	30 June 2006
	HK$'000
Property, plant and equipment	**5,148**
Deferred tax assets	**1,663**
Inventories	**6,693**
Net investment in finance leases	**1,312**
Trade and other receivables	**12,460**
Cash and cash equivalents	**4,812**
	32,088
Less: Loss recognised on measurement to fair value less costs to sell	**(6,045)**
Assets of the disposal group held for sale	**26,043**
Trade and other payables, and total for liabilities associated with assets classified as held for sale	**(6,843)**

7. Trade and other receivables

	30 June 2006 *HK$'000*	31 December 2005 *HK$'000*
Trade receivables	**139,302**	151,745
Less: Impairment loss of receivables	**(14,917)**	(15,493)
Trade receivables — net	**124,385**	136,252
Other receivables	**30,184**	25,406
Less: Reclassified to assets of a disposal group held for sale	**(12,460)**	—
	142,109	161,658

Note:

The amount approximated to the fair value as at 30 June 2006. The credit terms of the Group range from 0 to 90 days, depending on the credit status and repayment history of customers. At balance sheet dates the ageing analysis of the trade receivables was as follows:

	30 June 2006 *HK$'000*	31 December 2005 *HK$'000*
Current — 30 days	**74,166**	86,020
31 days — 60 days	**17,483**	27,705
61 days — 90 days	**9,273**	8,037
Over 90 days	**38,380**	29,983
	139,302	151,745

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 2006 *HK$'000*	31 December 2005 *HK$'000*
Trade payables	**36,483**	46,482
Other payables	**148,487**	106,534
Less: Reclassified to liabilities directly associated with assets of a disposal group held for sale	**(6,843)**	—
	178,127	153,016

At balance sheet dates, the ageing analysis of the trade payables was as follows:

	30 June 2006 *HK$'000*	31 December 2005 *HK$'000*
Current — 30 days	**30,323**	29,374
31 days — 60 days	**3,583**	11,094
61 days — 90 days	**742**	3,214
Over 90 days	**1,835**	2,800
	36,483	46,482

9. Events after balance sheet date

(a) On 7 July 2006, Dong Fung Lim Mei Company Limited and Hong Kong Carpet (Holdings) Limited (both wholly-owned subsidiaries of the Company) entered into sale and purchase agreements on normal commercial terms pursuant to which they sold, the entire issued share capital of Indigo and Banyan Tree respectively, at a consideration of HK$19,200,000. The operations of Indigo and Banyan Tree have been classified as discontinued operation under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Following the disposals, Indigo and Banyan Tree ceased to be subsidiaries of the Company.

(b) On 23 August 2006, Carpets International Thailand Public Company Limited ("Carpets Inter"), a subsidiary of the Company, sold on normal commercial terms all its rights, title and interest in a piece of land located in the Pathumthani Province, Thailand and the buildings, structures, fixtures, landscaping, roads, electrical and mechanical items, water facilities and general infrastructure on the land to an independent third party. The consideration amounted to Baht 217,700,000 (approximately HK$43,540,000). The land and building was previously included under "Investment properties" and was classified as "Investment properties held for sale" under current assets in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The difference between the consideration and the carrying value as at 31 December 2005 of HK$3,140,000 has been included in the results for the half year ended 30 June 2006 as revaluation surplus of the property.

DIVIDENDS

The Board resolves not to pay an interim dividend for the period (2005: Nil).

BUSINESS REVIEW AND OUTLOOK

The Group's consolidated turnover of continuing operations for the six months ended 30 June 2006 was HK$379.9 million, a year-on-year increase of 25% or HK$77.1 million. The gross margin for the period also increased to 43%, compared with 39% in the same period in 2005. The significant increase in turnover and gross margin percentage was mainly driven by the sustained business growth and improved profitability of the carpet operations.

However, despite the increases in turnover and gross margin, the unaudited consolidated profit before tax during the period decreased to HK$12.5 million from HK$35.4 million in the corresponding period in 2005. This was mainly attributable to the HK$36.1 million gain reported in the first half of last year, which resulted from the disposal of certain non-core investments and certain reporting changes required by the adoption of the Hong Kong Financial Reporting Standards. Excluding such items, the Group made a profit before tax of HK$9.4 million in the first six months of 2006 and incurred a loss before tax of HK$0.7 million during the corresponding period in 2005.

Profit after tax of the Group in the first six months of 2006 was further reduced by HK$3.7 million due to the sale of Indigo and Banyan Tree, which was completed in July 2006 at a consideration of HK$19.2 million in cash. As a result, the Group's profit after tax during the period decreased to HK$5.1 million, compared with HK$27.3 million in the corresponding period in 2005.

Carpet Operations

During the six-month period ended 30 June 2006, total turnover of carpet operations increased by HK$77.0 million, or 30%, to HK$337.3 million. This increase was mainly attributable to growth in the USA, in both the commercial and residential businesses. Turnover in the USA accounted for 44% of total carpet turnover in the first half year of 2006, and Asia and Europe/Others accounted for 42% and 14% respectively. In the corresponding period in 2005, the respective shares of total carpet turnover by the USA, Asia and Europe/Others were 31%, 51% and 18%.

Gross margin during this period also grew to 44% from 39% in the same period in 2005, despite increases in fuel costs and labour rates. This improvement was mainly attributable to rising sales of higher margin carpets in the residential business and improved factory efficiencies.

As a result, the segmental loss of carpet operations during the period decreased by 49% from HK$15.2 million in the corresponding period in 2005 to HK$7.7 million.

The USA continued to be the primary growth market. Total carpet turnover in the USA during the period almost doubled year-on-year to HK$150.0 million, increasing significantly in both the commercial and residential businesses.

Despite fierce competition in certain sectors of the commercial market, the general economic environment in the USA was strong during the period, and turnover of the commercial business increased by 51% year-on-year to HK$92.2 million with improved gross margin. This strong performance was the result of the Group's investments during the past few years to support long-term growth, including recruitment of experienced sales personnel and field designers and the use of effective sales and marketing tools.

The growth of the residential business in the USA has been the result of initiatives undertaken in 2005, including the opening of the flagship Tai Ping showroom and the acquisition of Edward Fields with its national distribution network. In March 2006, Tai Ping opened a second showroom in Los Angeles, relocating and converting an old Edward Fields showroom. This was branded a Tai Ping showroom with dedicated display space and sales staff reserved for Edward Fields products. The showroom launch was well received and its average monthly sales have tripled compared with the old showroom.

The residential sector is a principal target for growth of the Group in view of its higher margin and the Group's competitive strengths in product quality, customer service, and brand positioning. The efforts made in 2005 to rationalise the Edward Fields operations after the acquisition and to develop the sales organisation started to produce results in 2006. Turnover of the residential business during the first six months of 2006 amounted to HK$54.0 million, close to the full-year turnover of 2005, and the gross margin also increased.

Another region which showed significant growth in turnover during the period was Hong Kong/China, increasing by 40% to HK$31.8 million, mainly driven by the strong hospitality sector in Hong Kong and Macau. As this growth was demand-driven and the Group's strategy has been to compete with strong customer service and product quality rather than price, the Group maintained a stable gross profit margin comparable with last year, despite intense competition from certain Chinese manufacturers.

In Thailand, both turnover and gross margin during the first half year of 2006 were flat compared with 2005, as the economy started to slow down in 2006. The launch of the environmental friendly felt-backed modular carpet tiles, branded "Eco-Soft", which was developed in-house, is expected to increase sales by expanding into new markets.

Turnover from Europe during the period was also relatively flat compared with 2005. Tai Ping used to be a niche player targeting the high-end residential market in Europe due to the fragmented markets and strong competition from small local suppliers. However, since 2005, the Group has started building a commercial business in Europe and has been making good progress in developing new markets and securing orders with new customers during the period. It is expected that most of these orders will turn into sales in the second half of 2006.

Other Operations

Market competition in the furniture and home furnishing business in Hong Kong, being operated by Indigo and Banyan Tree, continued to be intense with many new small competitors entering into the market. Overall profitability as well as returns on assets deployed were relatively low during the past few years but this business also required significant working capital to carry substantial inventories which bore a relatively high obsolescence risk.

As a result, during the period the Group initiated negotiations for a sale of this business which was considered non-core. The sale was completed in July 2006 at a consideration of HK$19.2 million in cash. The financial results of Indigo and Banyan Tree (including the loss on subsequent disposal) and their assets and liabilities (adjusted to fair values) were re-grouped and presented as a "discontinued operation" in the consolidated accounts for the six months ended 30 June 2006, and the 2005 comparative figures were also restated accordingly to conform with the current presentation. As a result of this reclassification, the Group's profit after tax for the first six months of 2006 from continuing operations was reduced by HK$3.7 million.

In addition, the Group received an offer to buy a warehouse property in Thailand from the existing tenant for Thai Baht 217.7 million in cash. Rental income amounted to Thai Baht 17.8 million in 2005. The property was grouped under "investment properties" under "non-current assets" in the Group's audited accounts for the year ended 31 December 2005, and its value in the consolidated accounts amounted to Thai Baht 202.0 million as at 31 December 2005 based on the valuation conducted on an open market basis by an independent property valuer. The sale was completed in August 2006, and the property was reclassified as "current assets" from "non-current assets" and revalued to Thai Baht 217.7 million in the consolidated accounts for the six months ended 30 June 2006, resulting in a surplus of Thai Baht 15.7 million (approximately HK$3.1 million).

Outlook

The Group will continue its focus and commitment to transform itself into a global customer-focused and vertical-integrated carpet group.

On the marketing side, the Group will continue to expand market awareness of its brands and products, particularly within the architectural and design community. A branding strategy has been developed to distinguish and integrate the Tai Ping and Edward Fields brands.

Management is confident that the sales momentum can continue in the second half year of 2006 and overall operating results of the Group will continue to improve. The Group will continue to grow the business through innovative marketing and strong product quality and service, and improve its profitability through cost controls, working capital management, and continuous improvement in production efficiencies and factory utilisation.

Capital Expenditure

During the six-month period ended 30 June 2006, the Group invested HK$13.3 million (2005: HK$42.0 million) in capital expenditure in the form of property, plant and equipment, investment properties and construction in progress. As at 30 June 2006, the aggregate net book value of the Group's property, plant and equipment, investment properties, leasehold and land use rights and construction in progress (excluding those reclassified under the category "Assets of a Disposal Group Held for Sale") amounted to HK$366.1 million (as at 31 December 2005: HK$410.6 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.

As at 30 June 2006, the Group had total bank borrowings of HK$77.2 million (as at 31 December 2005: HK$109.3 million). Total cash and cash equivalents amounted to HK$52.9 million (as at 31 December 2005: HK$87.1 million). The gearing ratio, calculated as net bank borrowings (total bank borrowings net of cash and cash equivalents) divided by total equity, was 3% at 30 June 2006 (as at 31 December 2005: 3%).

All bank loans to date were unsecured. Of those bank loans outstanding on 30 June 2006, 13% 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 30 June 2006 were as follows:

	As at 30 June 2006 *HK$'000*	As at 31 December 2005 *HK$'000*
Within 1 year		
Thai Baht	**27,619**	55,859
United States Dollars	**10,534**	16,977
Hong Kong Dollars	**29,000**	27,000
	67,153	99,836
Between 1 and 2 years		
Thai Baht	**10,000**	9,500
Total borrowings	**77,153**	109,336

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 2006 insignificant, but continues to monitor exchange rate movements closely to ascertain if any material exposure may arise.

Employee and Remuneration Policies

As at 30 June 2006, the Group employed 3,000 employees (as at 31 December 2005: 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. Since 31 December 2005, there has been no material change to the Group's employment and remuneration policies.

Contingent Liabilities

As at 30 June 2006, the Group's total contingent liabilities amounted to HK$15.5 million (as at 31 December 2005: HK$8.5 million).

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six-month period ended 30 June 2006. 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 2006, 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 following exception:

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, in accordance with the Company's Bye-laws, every Director other than any Executive Chairman or Managing Director retires 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 A.4.1 by asking any Executive Chairman or Managing Director to voluntarily retire by rotation at least once every 3 years.

By order of the Board
James H. Kaplan
Chief Executive Officer

Hong Kong, 22 September 2006

As at the date of this announcement, the Directors of the Company are: Chairman and Non-executive Director — Mr Nicholas T. J. Colfer; Chief Executive Officer and Executive Director — Mr James H. Kaplan; Independent Non-executive Directors — Mrs Yvette Y. H. Fung, Mr Michael T. H. Lee, Mr Roderic N. A. Sage, Mr Lincoln C. K. Yung; Non-executive Directors — Mr Ian D.Boyce, Mr Lincoln K. K. Leong, Mr David C. L. Tong, Mr John J. Ying; Alternate Director — Mr Nelson K. F. Leong (Alternate to Mr Lincoln K. K. Leong).