



TAI PING

TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2004**

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INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2004

The Directors of Tai Ping Carpets International Limited (the “Company”) are pleased to present the Interim Report and condensed consolidated accounts of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004. The consolidated results, cash flow statement and statement of changes in equity for the Group for the six months ended 30 June 2004, and the consolidated balance sheet as of 30 June 2004, all of which are unaudited and condensed, along with selected explanatory notes, can be found on pages 8 to 19 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

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 programmes 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) excluding litigation. Full disclosure of contingent liabilities as at 30 June 2004 has been made in note 14 to the Accounts.

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.

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.

Directors' interests in equity or debt securities

At 30 June 2004, the interests of the Directors in the shares and options of the Company and its associated corporations (within the meaning of the Part XV of Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company under Part XV of SFO were as follows:

(a) Ordinary shares of HK\$0.10 each in the Company

Name	No. of ordinary shares held (long position)		Aggregate % to the share capital
	Personal interests	Corporate interests	
James S. Dickson Leach	3,826,442	—	1.812%
Anthony Y. C. Yeh	5,036,230	—	2.385%
Kent M. C. Yeh	1,237,500	—	0.586%
Ian D. Boyce	209,267	—	0.099%
Lincoln C. K. Yung	30,000	—	0.014%
Lincoln K.K. Leong	—	2,000,000*	0.947%
Alison S. Bailey	1,179,814	—	0.559%
David C. L. Tong	304,484	—	0.144%
John J. Ying	—	11,656,420#	5.521%
Nelson K.F. Leong (Alternate Director to Lincoln K.K. Leong)	—	2,000,000*	0.947%

* Mr. Nelson K.F. Leong is interested in the same shares as disclosed by Mr. Lincoln K.K. Leong. The shares are held through a company which is controlled by Messrs. Lincoln K.K. Leong and Nelson K.F. Leong.

The shares are held through a company of which Mr. John J. Ying is interested in more than one-third of the voting shares.

(b) Share options

Name	Options held at 1 January 2004 and 30 June 2004	Exercise price (HK\$)	Date of grant	Exercisable from	Exercisable until
Alison S. Bailey	253,500	1.67	15/9/1999	15/9/2001	14/9/2004

The existing share options were granted to Directors and employees of the Group under an employee share option scheme adopted and approved by the shareholders of the Company on 25 November 1997 (the "1997 Share Option Scheme").

At the annual general meeting held on 23 May 2002, ordinary resolutions relating to the adoption of a new share option scheme (the "2002 Share Option Scheme") and the termination of the 1997 Share Option Scheme were duly approved by the Shareholders.

Despite the fact that no further options may be granted under the 1997 Share Option Scheme after the date of its termination, all other provisions of the 1997 Share Option Scheme will remain in force to govern the exercise of all the options previously granted.

Each option entitles the holder to subscribe for one share of HK\$0.10 each in the Company at a predetermined subscription price as above.

No share options has been granted under the 2002 Share Option Scheme since its adoption.

(c) *Interest in associated corporations of the Company*

Name	No. of ordinary shares held in associated corporations of the Company			Aggregate % to total issued share capital of the associated corporation
	Personal Interests	Family Interests	Corporate interests	
China Industrial Investments Limited of US\$1 each				
Anthony Y. C. Yeh	420	400	1,380*	22.000%

* *The shares are held through a company of which Mr. Anthony Y. C. Yeh and his family are interested in more than one-third of the voting shares.*

Substantial shareholders

As at 30 June 2004, the register of substantial shareholders required to be kept under Section 336 of the SFO showed that the Company had been notified of the following interests, being 5% or more in the issued ordinary share capital of the Company. Except for Mr. John J. Ying whose shares are held through iVentures I, L. P., these interests are in addition to those disclosed above in respect of the Directors.

Name	No. of ordinary shares held in the Company of HK\$0.10 each (long position)	Aggregate % to the share capital
Bermuda Trust Company Limited	117,688,759*	55.745%
Hesko Limited	117,688,759*	55.745%
Esko Limited	117,688,759*	55.745%
New Holmium Holding Corporation	114,144,497*	54.066%
iVentures I, L. P.	11,656,420**	5.521%

* *Bermuda Trust Company Limited has an interest in Esko Limited and Hesko Limited. Of the 117,688,759 shares, 114,144,497 shares are owned by New Holmium Holding Corporation with the balance of the shares being held through other companies held by Esko Limited and Hesko Limited. Esko Limited and Hesko Limited together own 100% New Holmium Holding Corporation.*

** *Mr. John J. Ying (a Director of the Company) is the sole shareholder of the general partner of iVentures I, L.P. and is deemed to have interest in the shares held by iVentures I, L. P. (the Company is advised that the term “general partner” commonly refers to the entity liable for all the debts and obligations of a limited partnership and has power to bind a limited partnership).*

Compliance with the Code of Best Practice of the Listing Rules

Throughout the period, the Company has complied 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 the 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.

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

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited	
		30 June 2004	31 December 2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Intangible assets	7	519	1,324
Fixed assets	8	339,065	361,628
Construction in progress	9	12,610	11,201
Associated company		22,333	21,711
Joint ventures		105,109	96,565
Other investments		27,465	27,465
Net investment in finance leases		260	344
Deferred tax assets	13	378	834
Current assets			
Inventories		146,868	127,727
Trade and other receivables	10	101,723	103,127
Current portion of net investment in finance leases		1,237	1,371
Investment securities		2,869	2,624
Bank deposits		3,530	3,530
Cash and bank balances		76,667	81,157
		332,894	319,536
Current liabilities			
Short term bank loans			
– Secured		20,041	15,747
– Unsecured		30,132	34,519
Bank overdrafts			
– Unsecured		1,710	–
Current portion of long term bank loans		–	4,040
Trade and other payables	11	98,782	88,352
Final dividend payable	5	6,334	–
Taxation		6,354	3,536
		163,353	146,194
Net current assets		169,541	173,342
Total assets less current liabilities		677,280	694,414
Financed by:			
Share capital	12	21,112	21,112
Reserves		308,223	308,470
Retained earnings		324,664	335,494
Proposed final dividends	5	–	6,334
Shareholders' funds		653,999	671,410
Minority interests		18,109	17,992
Deferred tax liabilities	13	5,172	5,012
		677,280	694,414

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
OPERATING ACTIVITIES		
Cash generated from operations	7,474	18,573
Profits tax paid	(4,593)	(2,985)
NET CASH FROM OPERATING ACTIVITIES	2,881	15,588
INVESTING ACTIVITIES		
Purchase of fixed assets	(5,548)	(5,409)
Construction in progress	(4,130)	(9,002)
Proceeds on disposal of fixed assets	1,567	52
Sale of investments	30	27
Repayment of finance lease receivables	929	–
Interest received	179	369
Dividend received from joint ventures	–	6,474
NET CASH USED IN INVESTING ACTIVITIES	(6,973)	(7,489)
FINANCING ACTIVITIES		
New bank loans	–	5,161
Repayment of bank loans	(1,463)	(9,122)
Interest paid	(541)	(1,325)
NET CASH USED IN FINANCING ACTIVITIES	(2,004)	(5,286)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(6,096)	2,813
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	84,687	105,610
EFFECT OF FOREIGN EXCHANGE RATES CHANGES	(104)	(292)
CASH AND CASH EQUIVALENTS AT 30 JUNE	78,487	108,131
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS:		
Bank balances and deposits	80,197	111,173
Bank overdrafts	(1,710)	(3,042)
	78,487	108,131

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited	
	2004	2003
	HK\$'000	HK\$'000
At 1 January, as previously reported	671,410	635,214
Change in accounting policy:		
– provision for net deferred tax assets	<u>–</u>	<u>(2,436)</u>
At 1 January, as restated	671,410	632,778
Exchange differences	(14,023)	6,788
Final dividend declared	(6,334)	(6,229)
Profit for the period	<u>2,946</u>	<u>9,775</u>
At 30 June	<u>653,999</u>	<u>643,112</u>

NOTES TO THE CONDENSED INTERIM ACCOUNTS

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.

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 2004								
	Carpet HK\$'000	Yarn HK\$'000	Interior furnishings HK\$'000	Property holding HK\$'000	Others HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenues								
– External revenues	203,479	31,089	24,955	2,978	–	–	–	262,501
– Inter-segment revenues	683	8,356	205	270	–	(9,514)	–	–
	<u>204,162</u>	<u>39,445</u>	<u>25,160</u>	<u>3,248</u>	<u>–</u>	<u>(9,514)</u>	<u>–</u>	<u>262,501</u>
Segment results	<u>1,303</u>	<u>5,629</u>	<u>3,405</u>	<u>2,800</u>	<u>–</u>	<u>(2,695)</u>	(7,306)	3,136
Finance costs								(541)
Share of profits of								
Associated company	619	–	–	–	–	–	–	619
Joint ventures	9,844	–	–	–	–	–	–	9,844
Profit before taxation								13,058
Taxation								(9,886)
Minority interests								(226)
Profit attributable to shareholders								<u>2,946</u>

2. Segment information (continued)

(a) Business segments (continued)

	Six months ended 30 June 2003							Group HK\$'000
	Carpet HK\$'000	Yarn HK\$'000	Interior furnishings HK\$'000	Property holding HK\$'000	Others HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	
Revenues								
– External revenues	182,801	29,467	27,292	3,408	80	–	–	243,048
– Inter-segment revenues	–	8,428	737	25	–	(9,190)	–	–
	<u>182,801</u>	<u>37,895</u>	<u>28,029</u>	<u>3,433</u>	<u>80</u>	<u>(9,190)</u>	<u>–</u>	<u>243,048</u>
Segment results	<u>10,617</u>	<u>5,984</u>	<u>1,088</u>	<u>3,226</u>	<u>80</u>	<u>(2,076)</u>	<u>(9,365)</u>	<u>9,554</u>
Finance costs								(1,325)
Share of profits of								
Associated company	211	–	–	–	–	–	–	211
Joint ventures	6,236	–	–	–	–	–	–	6,236
Profit before taxation								14,676
Taxation								(4,050)
Minority interests								(851)
Profit attributable to shareholders								<u>9,775</u>

(b) Geographical segments

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

	Turnover		Segment results	
	Six months ended 30 June 2004 HK\$'000	2003 HK\$'000	Six months ended 30 June 2004 HK\$'000	2003 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
Crediting:–		
Profit on disposal of fixed assets	180	36
Negative goodwill recognised as income (note 7)	307	575
Additional gain on compensation of resumption of land	–	1,821
Release of unvested benefit of the previous retirement scheme	–	459
	<u>17,143</u>	<u>16,585</u>
Charging:–		
Depreciation (note 8)	17,143	16,585
Amortisation of positive goodwill (note 7)	1,114	1,114
	<u>1,114</u>	<u>1,114</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>1,372</u>	<u>477</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 (note)		
(2002 final dividend payable: HK\$0.03 per share)	6,334	6,229
	<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.

7. Intangible assets

	Six months ended 30 June 2004		
	Positive goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
Opening net amount	1,680	(356)	1,324
Exchange adjustments	—	2	2
Amortisation charges (<i>note 3</i>)	(1,114)	307	(807)
Closing net amount	<u>566</u>	<u>(47)</u>	<u>519</u>
At 30 June 2004			
Gross amount	6,682	(3,512)	3,170
Accumulated amortisation	(6,116)	3,465	(2,651)
Net amount	<u>566</u>	<u>(47)</u>	<u>519</u>
At 31 December 2003			
Gross amount	6,682	(3,515)	3,167
Accumulated amortisation	(5,002)	3,159	(1,843)
Net amount	<u>1,680</u>	<u>(356)</u>	<u>1,324</u>

8. Fixed assets

	Six months ended 30 June 2004			Total HK\$'000
	Investment properties HK\$'000	Other properties HK\$'000	Other fixed assets HK\$'000	
Opening net book value	74,053	113,550	174,025	361,628
Exchange adjustments	(2,020)	(3,439)	(5,468)	(10,927)
Additions	—	70	5,478	5,548
Transfer from construction in progress	—	—	2,286	2,286
Disposals	(1,871)	(85)	(371)	(2,327)
Depreciation	—	(2,609)	(14,534)	(17,143)
Closing net book value	<u>70,162</u>	<u>107,487</u>	<u>161,416</u>	<u>339,065</u>

9. Construction in progress

	Six months ended 30 June 2004 HK\$'000
Opening balance	11,201
Exchange adjustments	(400)
Additions	4,130
Transfer to fixed assets	(2,286)
Write off	(35)
Closing balance	<u>12,610</u>

10. Trade and other receivables

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Trade receivables (<i>note</i>)	83,153	85,626
Other receivables	18,570	17,501
	101,723	103,127

Note: The credit terms of the Group depend on the credit status and repayment history of customers and range from 0 to 90 days. At 30 June, 2004, the ageing analysis of the trade receivables is as follows:

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Current – 30 days	57,849	58,242
31 days – 60 days	9,029	10,285
61 days – 90 days	6,045	7,650
Over 90 days	10,230	9,449
	83,153	85,626

11. Trade and other payables

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Trade payables (<i>note</i>)	28,512	27,136
Other payables	70,270	61,216
	98,782	88,352

Note: At 30 June, 2004, the ageing analysis of the trade payables is as follows:

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Current – 30 days	25,757	24,661
31 days – 60 days	1,093	911
61 days – 90 days	300	160
Over 90 days	1,362	1,404
	28,512	27,136

12. Share capital

		Ordinary shares of HK\$0.10 each	
		No. of shares	HK\$'000
<i>Authorised:</i>			
At 1 January 2004 and 30 June 2004		<u>400,000,000</u>	<u>40,000</u>
<i>Issued and fully paid:</i>			
At 1 January 2004 and 30 June 2004		<u>211,121,275</u>	<u>21,112</u>

The movement of outstanding share options during the interim period was as follows:

Subscription period	Subscription price per share	Number of share options outstanding as at 1 January 2004 and 30 June 2004
15 September 2001 to 14 September 2004	HK\$1.67	<u>879,000</u>

The options were granted under a share option scheme approved by the shareholders at a Special General Meeting on 24 November 1997 ("1997 Share Options Scheme").

Each option entitles the holder to subscribe for one share of HK\$0.10 each in the Company at a predetermined subscription price as above.

The 1997 Share Options Scheme has been terminated by the shareholders in an Annual General Meeting held on 23 May 2002 to the effect that no further share options could be granted under this Scheme, but all share options granted under the 1997 Share Options Scheme prior to its termination shall continue to be exercisable in accordance with their terms of issue.

13. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement on the net deferred tax liabilities account is as follows:

	6 months ended 30 June 2004 HK\$'000	Year ended 2003 HK\$'000
At the beginning of the period/year	4,178	2,363
Exchange differences	(56)	59
Deferred taxation charged to profit and loss account		
– relating to the origination and reversal of temporary differences	672	1,895
– resulting from an increase in tax rate	<u>–</u>	<u>(139)</u>
At the end of the period/year	<u>4,794</u>	<u>4,178</u>

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable.

13. Deferred taxation (continued)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the period is as follows:

<i>Deferred tax liabilities</i>	Accelerated tax depreciation		Revaluation of properties		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	4,040	4,013	8,952	7,826	12,992	11,839
(Credited)/charged to profit and loss account	(52)	27	103	269	51	296
Exchange differences	–	–	(437)	857	(437)	857
At 30 June 2004/31 December 2003	<u>3,988</u>	<u>4,040</u>	<u>8,618</u>	<u>8,952</u>	<u>12,606</u>	<u>12,992</u>

Deferred tax assets

	Impairment of assets		Tax losses		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	7,670	7,693	1,028	1,703	116	80	8,814	9,476
(Charged)/credited to profit and loss account	(94)	(821)	(527)	(675)	–	36	(621)	(1,460)
Exchange differences	(381)	798	–	–	–	–	(381)	798
At 30 June 2004/31 December 2003	<u>7,195</u>	<u>7,670</u>	<u>501</u>	<u>1,028</u>	<u>116</u>	<u>116</u>	<u>7,812</u>	<u>8,814</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the condensed consolidated balance sheet:

	30 June 2004	31 December 2003
	HK\$'000	HK\$'000
Deferred tax assets	378	834
Deferred tax liabilities	(5,172)	(5,012)
	<u>(4,794)</u>	<u>(4,178)</u>

14. Contingent liabilities

(a) Guarantees and counter-indemnity

	30 June 2004	31 December 2003
	HK\$'000	HK\$'000
Corporate guarantee in respect of performance bonds issued by subsidiaries to customers	2,485	2,982
Counter-indemnity in respect of performance bonds issued by banks	1,255	–
Guarantee in lieu of utility deposit	1,429	1,533
Guarantee in respect of import duty	–	1,601
	<u>5,169</u>	<u>6,116</u>

(b) Litigation

As disclosed in the Group's 2003 Annual Report, the former Director and Administrator of Tai Ping Carpets Europe S.A. ("TPCE") issued proceedings and a claim for Euro180,790 (HK\$1,716,000) against the company for wrongful dismissal. TPCE's lawyers were confident that the outcome of the proceedings against TPCE in the French Labour Court would not be successful. There was no significant change in the situation during the interim period and no provision has been made by TPCE in respect of such claim (except the gross cost of holiday pay due to him provided in the accounts of 2000).

15. Capital commitments

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Contracted but not provided for in respect of – fixed assets	<u>1,123</u>	<u>793</u>
The Group's share of capital commitments of the joint ventures themselves not included in the above were as follows:		
– contracted but not provided for in respect of fixed assets	50,021	28,767
– authorised but not contracted for in respect of fixed assets	<u>18,906</u>	<u>15,301</u>
	<u>68,927</u>	<u>44,068</u>

16. Related party transactions

The following is a summary of significant related party transactions, which were carried out in the normal course of the Group's business:

	Six months ended 30 June 2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Sales to an associated company (<i>note a</i>)	851	2,232
Sales to joint ventures (<i>note a</i>)	234	547
Sales to related companies (<i>note b</i>)	281	564
Rental expenses payable to a related company (<i>note b</i>)	<u>238</u>	<u>283</u>

- (a) Sales to an associated company and to a joint venture were conducted in the normal course of business and at terms mutually agreed between the parties.
- (b) Sales to and rental expenses payable to related companies are related party transactions by virtue of the fact that the substantial shareholder of the Company is also interested in more than 30% of the entire issued share capital in such related companies. Such transactions also constitute connected transactions under the Chapter 14 of the Listing Rules. The sales were conducted either in accordance with the terms of the agreements governing the transactions or on terms no less favourable than those available to independent third parties.

James S. Dickson Leach
Chairman

James H. Kaplan
Chief Executive Officer

Hong Kong, 21 September, 2004