TAI PING

Tai Ping Carpets International Limited
Interim Report 2005

(Incorporated in Bermuda with Limited Liability)

Contents

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 2005. The consolidated results, cash flow statement and statement of changes in equity for the Group for the six months ended 30 June 2005, and the consolidated balance sheet as at 30 June 2005, all of which are unaudited and reviewed by the audit committee of the Company, along with selected explanatory notes, can be found on pages 14 to 48 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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 Peoples 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 houseware 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.

Capital Expenditure

During the six-month period ended 30 June 2005, the Group invested HK$42.0 million (2004: HK$9.7 million) in capital expenditure in the form of leasehold land and land use rights, investment properties, property, plant & equipment and construction in progress. As at 30 June 2005, the aggregate net book value of the Group's capital expenditures amounted to HK$418.1 million (HK$376.4 million as at 31 December 2004).

Employees and Remuneration Policy

As at 30 June 2005, the Group had approximately 3,100 employees (as at 31 December 2004: approximately 3,100) in Hong Kong, Thailand, Singapore, Mainland China, USA, Germany, France and United Kingdom. Since 31 December 2004, 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.

As at 30 June 2005, the Group's bank loan stood at HK$98.4 million, with HK$2.1 million of bank overdrafts. The total cash and bank balances amounted to HK$71.8 million. The total borrowings net of cash and bank balances represented 4.1% of the Group's total equity.

All bank loans and overdrafts are unsecured and repayable within 1 year. Except for a bank loan of HK$5,700,000 which carries interest at floating rates, all other bank borrowings have their interest rates fixed throughout the entire terms.

The currency denomination of borrowings was as follows:–

	30 June 2005		31 December 2004	
	Bank loans HK$'000	**Bank overdrafts HK$'000**	Bank loans HK$'000	Bank overdrafts HK$'000
Thai Baht	**60,044**	**–**	51,509	–
United States Dollars	**23,318**	**–**	21,119	–
Hong Kong Dollars	**15,000**	**2,137**	–	–
	98,362	**2,137**	**72,628**	**–**

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 relatively 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 2005, total contingent liabilities of the Group amounted to HK$5.5 million (at 31 December 2004: HK$7.4 million). Full disclosure of contingent liabilities as at 30 June 2005 has been made in note 14 to the accounts.

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.

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 By-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.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the Code) on terms no less exacting than the required standard set out in the Model Code contained in Appendix 10 of the Listing Rules.

Upon specific enquiries made, all Directors have confirmed that, in respect of the accounting period covered by the interim report, they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

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.

Directors' interests in equity or debt securities

At 30 June 2005, 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

	No. of shares held (long position)			
Name	Personal interests	Family interests	Corporate interests	Aggregate % to the total issued share capital
Anthony Y. C. Yeh@	5,036,230	–	–	2.376%
James H. Kaplan	268,000	–	–	0.126%
Alison S. Bailey	1,208,589	3,919,769	–	2.420%
Ian D. Boyce	214,371	–	–	0.101%
John J. Ying	–	–	11,940,722#	5.634%
Kent M. C. Yeh@	1,237,500	–	–	0.584%
Lincoln K. K. Leong	–	–	2,000,000*	0.944%
David C. L. Tong	431,910	–	–	0.204%
Nelson K. F. Leong (alternate director to Lincoln K. K. Leong)	–	–	2,000,000*	0.944%
Lincoln C. K. Yung	30,000	–	–	0.014%

* 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.

@ Mr. Anthony Y. C. Yeh and Mr. Kent M. C. Yeh resigned as Non-executive Directors of the Company on 8 September 2005.

(b) Share options

During the six-month period ending 30 June 2005, a total of 2,000,000 shares options were granted under an employee share option scheme adopted and approved by the shareholders of the Company on 23 May 2002 (the "2002 Share Options Scheme") which fully complies with Chapter 17 of the Listing Rules.

As at 30 June 2005, an aggregate of 1,500,000 share options granted under the 2002 Share Options Scheme remained outstanding, representing approximately 0.71% of the issued share capital of the Company.

Details of options granted and outstanding under the 2002 Share Options Scheme during the period are as follows:

			Changes during the period					
Name	Balance as at 1 January 2005	Date of grant	Granted	Cancelled /lapsed	Exercised	Balance as at 30 June 2005	Exercise price (HK$) (Note 1)	Exercisable period
James H Kaplan	–	10 January 2005	500,000	270,000	230,000	–	1.21	10 January 2005-31 January 2005
	–	10 January 2005	500,000	–	–	500,000	1.21	31 December 2005-31 January 2006
	–	10 January 2005	500,000	–	–	500,000	1.21	31 December 2006-31 January 2007
	–	10 January 2005	500,000	–	–	500,000	1.21	31 December 2007-31 January 2008

Note 1: The exercise price of share options granted to James H. Kaplan was fixed at the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant. The closing price of the shares immediately before the date on which the options were granted (as of 10 January 2005) was HK$1.18.

Apart from the above, the Company had not granted any share option under the 2002 Share Options Scheme to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

Pursuant to Rule 17.08 of the Listing Rules, the value of the share options granted during the period is as follows:

The Company has used the Black Scholes option pricing model (the "Model") to value the share options granted during the review period. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in he variables so adopted may materially affect the estimation of the fair value of an option.

In the current period, share options were granted to Mr. James H. Kaplan, the Company's Chief Executive Officer on 10 January 2005. The aggregate fair value of the options determined at the date of grant using the Model was HK$341,000. Such value will be expensed through the Group's profit and loss account over the respective vesting periods of each batch of options. In the current period, an amount of share option expense of HK$85,000 has been recognized, with a corresponding adjustment recognized in the Group's capital reserve.

Details of calculation of the fair value of share options with significant variables and assumptions are as follows:

Date of grant	10 January 2005
Closing price at the date of grant	HK$1.18
Risk free rate (Note 1)	0.58%-1.63%
Expected life of options	1 – 3 years
Expected volatility (Note 2)	38.65%
Expected dividend per annum (Note 3)	HK$0.0218

Notes:

1. Risk free rate: being the approximate yields of Exchange Fund Notes and Bills traded on the date of grant, matching the expected life of each batch of options.

2. Expected volatility: being the approximate volatility of closing prices of the share of he Company in the past one year immediately before the date of grant.

3. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

(c) Interest in associated corporations of the Company

Name	No. of ordinary shares held in associated corporation of the Company			
	Personal Interests	Family Interests	Corporate interests	Aggregate % to total issued share capital of the associated corporation
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. Mr. Yeh resigned as Non-executive Director of the Company on 8 September 2005.

Substantial shareholders

As at 30 June 2005, 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 Peak Capital Partners I, L.P., these interests are in addition to those disclosed above in respect of the Directors.

Name	No. of shares held (long position)	Aggregate % to the total issued share capital of the Company
Bermuda Trust Company Limited	117,688,759*	55.531%
HWR Trustees Limited	117,688,759*	55.531%
Esko Limited	117,688,759*	55.531%
Hesko Limited	117,688,759*	55.531%
Lawrencium Corporation	117,688,759*	55.531%
Acorn Holdings Corporation	117,688,759*	55.531%
New Holmium Holding Corporation	117,688,759*	55.531%
Peak Capital Partners I, L.P.	11,940,722**	5.634%

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* Bermuda Trust Company Limited and HWR Trustees Limited are deemed to be interested in the 117,688,759 shares in which Esko Limited and Hesko Limited are deemed to be interested. Esko Limited and Hesko Limited are deemed to be interested in the 117,688,759 shares in which Lawrencium Corporation and Acorn Holdings Corporation are deemed to be interested. Lawrencium Corporation and Acorn Holdings Corporation are deemed to be interested in the 117,688,759 shares in which New Holmium Holding Corporation is interested. The 117,688,759 shares are owned by New Holmium Holding Corporation.

** Mr. John J. Ying (a Director of the Company) is the sole shareholder of the general partner of Peak Capital Partners I, L.P. and is deemed to have interest in the Shares held by Peak Capital Partners 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).

Audit Committee

The authority and duties of the Audit Committee operate within the suggested guidelines as published by 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, and one Non-executive Director, Mr. John J. Ying.

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 2005 with the Directors.

By order of the Board

Nicholas T.J. Colfer
Chairman

James H. Kaplan
Chief Executive Officer

Hong Kong, 23 September 2005

Condensed Consolidated Profit and Loss Account

		Unaudited Six months ended 30 June	
			As restated
		2005	2004
	Note	**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	3	**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	4	**28,244**	3,136
Finance costs	5	**(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	6	**(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	7	**–**	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	8	**11.37**	1.40
– Diluted	8	**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	9	**–**	(2,652)
Leasehold land and land use rights	9	**21,845**	9,763
Investment properties	9	**77,602**	77,212
Property, plant and equipment	9	**294,589**	271,005
Construction in progress	9	**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	13	**–**	243
		556,610	536,568
Current assets			
Inventories		**189,251**	153,740
Trade and other receivables	10	**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	12	**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	13	**7,013**	7,466
Current liabilities			
Bank overdraft – unsecured		**2,137**	–
Short term bank borrowings – unsecured		**98,362**	72,628
Trade and other payables	11	**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

Condensed Consolidated Cash Flow Statement

	Unaudited Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(4,608)**	2,881
NET CASH USED IN INVESTING ACTIVITIES	**(30,905)**	(6,973)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	**28,736**	(2,004)
DECREASE IN CASH AND CASH EQUIVALENTS	**(6,777)**	(6,096)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**76,965**	84,687
EFFECT OF FOREIGN EXCHANGE RATES CHANGES	**(555)**	(104)
CASH AND CASH EQUIVALENTS AT 30 JUNE	**69,633**	78,487
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS:		
Bank balances and deposits	**71,770**	80,197
Bank overdrafts	**(2,137)**	(1,710)
	69,633	78,487

	Unaudited										
	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Investment property revaluation reserve HK$'000	Other properties revaluation reserve HK$'000	General reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Sub-total HK$'000	Minority Interests HK$'000	Total HK$'000
Balance at 31 December 2003, as previously reported as equity	21,112	188,504	88,335	8,781	6,850	16,000	–	341,828	671,410	–	671,410
Balance at 31 December 2003, as previously separately reported as minority interests	–	–	–	–	–	–	–	–	–	17,992	17,992
Effect of the changes in accounting policies											
Deferred tax liabilities arising on revaluation of properties	–	–	–	(530)	–	–	–	(500)	(1,030)	(129)	(1,159)
Reclassification of exchange reserve from retained earnings	–	–	–	–	–	–	12,738	(12,738)	–	–	–
Balance at 31 December 2003 and 1 January 2004, as restated	21,112	188,504	88,335	8,251	6,850	16,000	12,738	328,590	670,380	17,863	688,243
Currency translation differences	–	–	(177)	–	(70)	–	(13,776)	–	(14,023)	(109)	(14,132)
Profit for the period	–	–	–	–	–	–	–	2,946	2,946	226	3,172
Dividend relating to 2003	–	–	–	–	–	–	–	(6,334)	(6,334)	–	(6,334)
Balance at 30 June 2004	21,112	188,504	88,158	8,251	6,780	16,000	(1,038)	325,202	652,969	17,980	670,949

Condensed Consolidated Statement of Changes in Equity

	Unaudited											
	Attributable to equity holders of the Company											
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Investment property revaluation reserve HK$'000	Other properties revaluation reserve HK$'000	Available-for-sale investment reserve HK$'000	General reserve HK$'000	Exchange reserve HK$'000	Retained earning HK$'000	Sub-total HK$'000	Minority Interests HK$'000	Total HK$'000
Balance at 31 December 2004, as previously reported as equity	21,170	189,162	88,861	13,019	5,128	–	16,000	–	334,023	667,363	–	667,363
Balance at 31 December 2004, as previously separately reported as minority interests	–	–	–	–	–	–	–	–	–	–	20,930	20,930
Effect of the changes in accounting policies applied retrospectively												
Deferred tax liabilities arising on revaluation of properties	–	–	–	(1,041)	–	–	–	–	(552)	(1,593)	(136)	(1,729)
Reclassification of exchange reserve from retained earnings	–	–	–	–	–	–	–	15,118	(15,118)	–	–	–
Balance at 31 December 2004, as restated	21,170	189,162	88,861	11,978	5,128	–	16,000	15,118	318,353	665,770	20,794	686,564
Effect of the opening adjustments applied prospectively												
Opening adjustment for the adoption of HKAS 40	–	–	–	(11,978)	–	–	–	–	11,978	–	–	–
Opening adjustment for the adoption of HKAS 39	–	–	–	–	–	6,505	–	–	–	6,505	–	6,505
Derecognition of negative goodwill	–	–	–	–	–	–	–	–	2,652	2,652	–	2,652
Balance at 1 January 2005, as restated	21,170	189,162	88,861	–	5,128	6,505	16,000	15,118	332,983	674,927	20,794	695,721
Currency translation differences	–	–	(620)	–	(283)	–	–	(16,264)	–	(17,167)	(95)	(17,262)
Profit for the period	–	–	–	–	–	–	–	–	24,106	24,106	3,216	27,322
Changes in fair value of available-for-sale investments	–	–	–	–	–	6,420	–	–	–	6,420	–	6,420
Liquidation of an available-for-sale investment	–	–	–	–	–	(12,925)	–	–	–	(12,925)	–	(12,925)
Employee share option scheme:												
– value of employee services	–	–	85	–	–	–	–	–	–	85	–	85
– proceeds from shares issued	23	255	–	–	–	–	–	–	–	278	–	278
Balance at 30 June 2005	**21,193**	**189,417**	**88,326**	**–**	**4,845**	**–**	**16,000**	**(1,146)**	**357,089**	**675,724**	**23,915**	**699,639**

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.

1. Basis of preparation and accounting policies (Continued)

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS – Int 12	Scope of HKAS-Int 12 Consolidation – Special Purpose Entities
HKAS – Int 15	Operating Leases – Incentives
HKAS – Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

1. Basis of preparation and accounting policies (Continued)

(a) Effect of adopting new HKFRS *(Continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33, 38 and HKAS-Ints 12 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33, 38 and HKAS-Ints 12 and 15 had no material effect on the Group's policies.

– HKAS 21 has no material effect on the Group's accounting policy except for a reclassification of an exchange reserve from the retained earnings as a separate component of the Group's equity. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the 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 or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment. The change in the accounting policy has no material effect on the condensed accounts other than the aforesaid reclassification of the leasehold land and land use rights.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of held for trading investments and available-for-sale investments. The accumulated unrealized gains and losses arising from the changes in the fair values of the available-for-sale investments are recognized as an opening adjustment in equity as at 1 January 2005.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the profit and loss account as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis in each individual company and thereafter expensed in the profit and loss account. Such net deficit charged to respective company's operating profit was not set off against increase in valuation of other companies' investment properties which have been credited to the investment properties revaluation reserve.

1. Basis of preparation and accounting policies (Continued)

(a) Effect of adopting new HKFRS *(Continued)*

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. The Interpretation removes the presumption that the carrying amounts 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 HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the profit and loss accounts. Effective on 1 January 2005, the Group expenses the cost of share options in the profit and loss account. However, since all share options granted under the old 1997 Share Options Scheme had either been exercised or lapsed in 2004, and the first batch of share options under the 2002 Share Option Scheme are granted in 2005, the adoption of HKFRS 2 does not result in prior period adjustments in the accompanying condensed accounts.

The adoption of HKFRS 3 and HKAS 36 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– Amortised on a straight line basis over a period ranging from 3 to 15 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– The Group ceased amortisation of goodwill from 1 January 2005;

– Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

1. Basis of preparation and accounting policies (Continued)

(a) Effect of adopting new HKFRS *(Continued)*

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognized at 1 January 2005.

– HKAS 40 since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property.

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005.

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively after the adoption date.

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

HKFRS – Int 4 Determining whether an Arrangement contains a Lease

1. Basis of preparation and accounting policies (Continued)

(b) 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 those set out in note 1 to the 2004 annual financial statements except for the following:

(i) Goodwill/negative goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries, associated company or joint ventures by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the profit and loss account.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/joint ventures at the date of acquisition. Goodwill on acquisitions of subsidiaries and is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in investments in associates and in joint ventures respectively. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

1. Basis of preparation and accounting policies (Continued)

(b) New Accounting Policies *(Continued)*

(ii) Foreign currency translation (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1. Basis of preparation and accounting policies (Continued)

(b) New Accounting Policies *(Continued)*

(iii) Property, plant and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(iv) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed at least annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognized as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognized in the financial statements.

1. Basis of preparation and accounting policies (Continued)

(b) New Accounting Policies *(Continued)*

(iv) Investment properties (Continued)

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

Changes in fair values are recognized in the profit and loss account.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognized in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognized in the profit and loss account.

Investment property held for sale without redevelopment is classified within assets held for sale, under HKFRS 5.

(v) Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

1. Basis of preparation and accounting policies (Continued)

(b) New Accounting Policies *(Continued)*

(vi) Investments

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and joint ventures, as investment securities and other investments.

(a) Investment securities
Investment securities are carried at fair value. At each balance sheet date, the net unrealized gains or losses arising from the changes in fair value of investment securities are recognized in the profit and loss account. Profit and losses on disposal of investment, representing the difference between the net sales proceeds and the carrying amounts, are recognized in the profit and loss account as they arise

(b) Other investments
Other investments held for long term purposes are stated at cost, less provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment is reduced to its fair value. The impairment loss is recognized as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

From 1 January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

1. Basis of preparation and accounting policies (Continued)

(b) New Accounting Policies *(Continued)*

(vi) Investments (Continued)

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

1. Basis of preparation and accounting policies (Continued)

(b) New Accounting Policies *(Continued)*

(vi) Investments (Continued)

(ii) Available-for-sale financial assets *(Continued)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss account – is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(vii) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the profit and loss account.

(viii) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

1. Basis of preparation and accounting policies (Continued)

(b) New Accounting Policies *(Continued)*

(viii) Borrowings (Continued)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(ix) Share-based compensation

The Group operates an equity-settled, share-based compensation plan for certain employees. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(x) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

(xi) Comparatives

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.

The Group previously disclosed the results of the supporting functions 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 the 'Carpet' segment is a fairer representation of the Group's activities.

1. Basis of preparation and accounting policies (Continued)

(b) New Accounting Policies *(Continued)*

(xi) Comparatives (Continued)

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.

Reconciliation of profit for the period per accounts and profit under the old HKAS

For the six months ended 30 June 2005

	Profit per accounts	HKAS 1 Presentation of financial statements (Note a)	HKAS 40 HKAS-Int 21 Fair value changes (Note e)	HKFRS 2 Expenses in relation to share options (Note f)	HKFRS 3 Negative goodwill (Note g)	Profit under the old HKAS
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**322,604**	–	–	–	–	322,604
Cost of sales	**(194,269)**	–	–	–	–	(194,269)
Gross profit	**128,335**	–	–	–	–	128,335
Other revenues	**289**	–	–	–	–	289
Other operating income – net*	**39,165**	–	(14,743)	–	442	24,864
Distribution costs	**(56,312)**	–	–	–	–	(56,312)
Administrative expenses	**(83,233)**	–	–	(85)	–	(83,318)
Operating profit	**28,244**	–	(14,743)	(85)	442	13,858
Finance costs	**(1,344)**	–	–	–	–	(1,344)
Share of profits of						
Associated company	**(608)**	25	–	–	–	(583)
Joint ventures	**9,200**	2,834	–	–	–	12,034
Profit before taxation	**35,492**	2,859	(14,743)	(85)	442	23,965
Taxation	**(8,170)**	(2,859)	(823)	–	–	(11,852)
Profit after taxation	**27,322**	–	(15,566)	(85)	442	12,113
Attributable to:						
Equity holders of the Company	**24,106**	–	(15,360)	(85)	442	9,103
Minority interests	**3,216**	–	(206)	–	–	3,010
Profit after taxation	**27,322**	–	(15,566)	(85)	442	12,113

* Including a gain on liquidation of an available-for -sale investment of HK$21,346,000 and surplus on revaluation of investment properties of HK$14,743,000.

1. Basis of preparation and accounting policies (Continued)

Reconciliation of profit for the period per accounts and profit under the old HKAS

For the six months ended 30 June 2004

	Profit per accounts	HKAS 1 Presentation of financial statements (Note a)	Profit under the old HKAS
	HK$'000	HK$'000	HK$'000
Turnover	**262,501**	–	262,501
Cost of sales	**(156,123)**	–	(156,123)
Gross profit	106,378	–	106,378
Other revenues	**179**	–	179
Other operating loss – net	**(1,000)**	–	(1,000)
Distribution costs	**(42,027)**	–	(42,027)
Administrative expenses	**(60,394)**	–	(60,394)
Operating profit	**3,136**	–	3,136
Finance costs	**(541)**	–	(541)
Share of profits of			
Associated company	**423**	196	619
Joint ventures	**8,472**	1,372	9,844
Profit before taxation	**11,490**	1,568	13,058
Taxation	**(8,318)**	(1,568)	(9,886)
Profit after taxation	**3,172**	–	3,172
Attributable to:			
Equity holders of the Company	**2,946**	–	2,946
Minority interests	**226**	–	226
Profit after taxation	**3,172**	–	3,172

1. Basis of preparation and accounting policies (Continued)

Reconciliation of balance sheet per accounts and per the old HKAS
As at 30 June 2005

	As at 30 June 2005 per accounts HK$'000	HKAS 17 Reclassification of leasehold land & land use rights (Note b) HK$'000	HKAS 21 Exchange reserve (Note c) HK$'000	HKAS32/39 Reclassification (Note d) HK$'000	HKAS 40 HKAS Int-21 Investment property fair value changes (Note e) HK$'000	HKFRS 2 Expenses in relation to share options (Note f) HK$'000	HKFRS 3 Negative goodwill (Note g) HK$'000	As at 30 June 2005 under old HKAS HK$'000
NET ASSETS								
Intangible assets	–	–	–	–	–	–	(2,210)	(2,210)
Leasehold land and land use rights	21,845	(21,845)	–	–	–	–	–	–
Investment properties	77,602	–	–	–	(3,370)	–	–	74,232
Property, plant and equipment	294,589	21,845	–	–	–	–	–	316,434
Construction in progress	24,054	–	–	–	–	–	–	24,054
Associated company	20,961	–	–	–	–	–	–	20,961
Joint ventures	117,120	–	–	–	–	–	–	117,120
Available-for-sale investments	307	–	–	(307)	–	–	–	–
Other investments	–	–	–	307	–	–	–	307
Net investment in finance leases	710	–	–	–	–	–	–	710
Inventories	189,251	–	–	–	–	–	–	189,251
Trade and other receivables	115,325	–	–	–	–	–	–	115,325
Held for trading instruments	2,401	–	–	(2,401)	–	–	–	–
Investment property held for sale	20,373	–	–	–	(11,373)	–	–	9,000
Investment securities	–	–	–	2,401	–	–	–	2,401
Cash and bank balances	71,770	–	–	–	–	–	–	71,770
Bank overdraft – unsecured	(2,137)	–	–	–	–	–	–	(2,137)
Short term bank borrowings – unsecured	(98,362)	–	–	–	–	–	–	(98,362)
Trade and other payables	(143,625)	–	–	–	–	–	–	(143,625)
Taxation	(5,532)	–	–	–	–	–	–	(5,532)
Deferred tax liabilities – net	(7,013)	–	–	–	906	–	–	(6,107)
Total net assets	699,639	–	–	–	(13,837)	–	(2,210)	683,592
EQUITY								
Share capital	21,193	–	–	–	–	–	–	21,193
Share premium	189,417	–	–	–	–	–	–	189,417
Capital reserve	88,326	–	–	–	–	(85)	–	88,241
Investment property revaluation reserve	–	–	–	–	11,978	–	–	11,978
Other property revaluation reserve	4,845	–	–	–	–	–	–	4,845
General reserve	16,000	–	–	–	–	–	–	16,000
Exchange reserve	(1,146)	–	1,146	–	–	–	–	–
Retained earnings	357,089	–	(1,146)	–	(25,745)	85	(2,210)	328,073
Minority interests	23,915	–	–	–	(70)	–	–	23,845
Total equity	699,639	–	–	–	(13,837)	–	(2,210)	683,592

1. Basis of preparation and accounting policies (Continued)

Reconciliation of balance sheet per accounts under per the old HKAS
As at 31 December 2004

	As at 31 December 2004 per account as previously reported	HKAS 17 Reclassification of leasehold land & land use rights (Note b)	HKAS 21 Exchange reserve (Note c)	HKAS-Int 21 Deferred tax on non-depreciable assets (Note e)	**As at 31 December per account 2004 as restated**	HKAS32/39 Reclassification and fair value changes (Note d)	HKAS40 Investment properties fair value changes (Note e)	HKFRS3 Negative goodwill (Note g)	As at 1 January 2005 as restated
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
NET ASSETS									
Intangible assets	(2,652)	–	–	–	**(2,652)**	–	–	2,652	–
Leasehold land and land use rights	–	9,763	–	–	**9,763**	–	–	–	9,763
Investment properties	77,212	–	–	–	**77,212**	–	–	–	77,212
Property, plant and equipment	280,768	(9,763)	–	–	**271,005**	–	–	–	271,005
Construction in progress	18,424	–	–	–	**18,424**	–	–	–	18,424
Associated company	21,345	–	–	–	**21,345**	–	–	–	21,345
Joint ventures	113,462	–	–	–	**113,462**	–	–	–	113,462
Available-for-sale investments	–	–	–	–	**–**	34,035	–	–	34,035
Other investments	27,530	–	–	–	**27,530**	(27,530)	–	–	–
Net investment in finance leases	1,436	–	–	–	**1,436**	–	–	–	1,436
Inventories	153,740	–	–	–	**153,740**	–	–	–	153,740
Trade and other receivables	119,897	–	–	–	**119,897**	–	–	–	119,897
Held for trading instruments	–	–	–	–	**–**	3,193	–	–	3,193
Investment securities	2,507	–	–	–	**2,507**	(2,507)	–	–	–
Other investment – short term	686	–	–	–	**686**	(686)	–	–	–
Cash and bank balances	76,965	–	–	–	**76,965**	–	–	–	76,965
Short term bank borrowings – unsecured	(72,628)	–	–	–	**(72,628)**	–	–	–	(72,628)
Trade and other payables	(119,911)	–	–	–	**(119,911)**	–	–	–	(119,911)
Taxation	(4,994)	–	–	–	**(4,994)**	–	–	–	(4,994)
Deferred tax liabilities – net	(5,494)	–	–	(1,729)	**(7,223)**	–	–	–	(7,223)
Total net assets	688,293	–	–	(1,729)	**686,564**	6,505	–	2,652	695,721
EQUITY									
Share capital	21,170	–	–	–	**21,170**	–	–	–	21,170
Share premium	189,162	–	–	–	**189,162**	–	–	–	189,162
Capital reserve	88,861	–	–	–	**88,861**	–	–	–	88,861
Investment property revaluation reserve	13,019	–	–	(1,041)	**11,978**	–	(11,978)	–	–
Other property revaluation reserve	5,128	–	–	–	**5,128**	–	–	–	5,128
Available-for-sale investment reserve	–	–	–	–	**–**	6,505	–	–	6,505
General reserve	16,000	–	–	–	**16,000**	–	–	–	16,000
Exchange reserve	–	–	15,118	–	**15,118**	–	–	–	15,118
Retained earnings	334,023	–	(15,118)	(552)	**318,353**	–	11,978	2,652	332,983
Minority interests	20,930	–	–	(136)	**20,794**	–	–	–	20,794
Total equity	688,293	–	–	(1,729)	**686,564**	6,505	–	2,652	695,721

1. Basis of preparation and accounting policies (Continued)

Notes:

a) 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.

b) 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.

c) 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.

d) HKAS 32 "Financial Instruments: Disclosure and Presentation" 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 instruments.

e) 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 has been transferred to retained earnings. The Group also adjusted the carrying amount of its investment properties to their fair values during the first half of 2005. No such adjustment has been made at 30 June 2004.

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.

1. Basis of preparation and accounting policies (Continued)

f) 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 recognized 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 Options Scheme were granted in January 2005, the adoption of HKFRS 2 did not result in prior period adjustments to condensed accounts.

g) 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 life 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.

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	Yarn	Interior furnishings	Property holding and others	Elimination	Unallocated	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	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

2. Segment information (Continued)

(a) Business segments *(Continued)*

	Six months ended 30 June 2004 (as restated)						
	Carpet	Yarn	Interior furnishings	Property holding and others	Elimination	Unallocated	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	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. Other revenues

Other revenues represent interest income received from bank deposits, finance leases and third parties.

4. 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 recognized as income	**–**	307
Charging:–		
Depreciation (note 9)	**19,281**	17,143
Amortisation of positive goodwill	**–**	1,114

5. Finance costs

Finance costs represent interest expenses on bank overdraft and short term bank borrowings repayable within 1 year.

6. 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

6. Taxation (Continued)

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.

7. Dividends

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'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).

8. 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.

9. Capital expenditure

	Six months ended 30 June 2005							
				Property, plant and equipment				
	Intangible assets (negative goodwill) HK$'000	Leasehold land and land use rights HK$'000	Investment properties HK$'000	Other properties HK$'000	Other fixed assets HK$'000	Sub-total HK$'000	Construction in progress HK$'000	Total HK$'000
Opening net book value as at 31 December 2004, as previously reported	(2,652)	–	77,212	109,082	171,686	280,768	18,424	373,752
Reclassification of leasehold and land use rights	–	9,763	–	(9,763)	–	(9,763)	–	–
Opening net book value as at 31 December 2004, as restated	(2,652)	9,763	77,212	99,319	171,686	271,005	18,424	373,752
Derecognition of negative goodwill	2,652	–	–	–	–	–	–	2,652
Opening net book value as at 1 January 2005, as restated	–	9,763	77,212	99,319	171,686	271,005	18,424	376,404
Exchange adjustments	–	–	(2,030)	(3,655)	(5,352)	(9,007)	(1,241)	(12,278)
Additions	–	–	–	70	26,310	26,380	15,650	42,030
Properties received in the form of dividend in specie upon liquidation of an available-for-sale investment	–	12,200	10,950	16,900	–	16,900	–	40,050
Transfer from construction in progress to property, plant and equipment	–	–	–	503	8,276	8,779	(8,779)	–
Fair values changes	–	–	14,743	–	–	–	–	14,743
Reclassified to assets held for sale	–	–	(20,373)	–	–	–	–	(20,373)
Disposals	–	–	(2,900)	(179)	(126)	(305)	–	(3,205)
Depreciation	–	(118)	–	(2,676)	(16,487)	(19,163)	–	(19,281)
Closing net book value at 30 June 2005	**–**	**21,845**	**77,602**	**110,282**	**184,307**	**294,589**	**24,054**	**418,090**

10. 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.

11. 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

12. Share capital

	Ordinary shares of HK$0.10 each	
	No. of shares	HK$'000
Authorised:		
At 1 January 2005 and 30 June 2005	400,000,000	40,000
Issued and fully paid:		
At 1 January 2005	211,703,488	21,170
Exercise of share options	230,000	23
At 30 June 2005	**211,933,488**	**21,193**

For the movement of share options, please refer to Management Discussion and Analysis.

13. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

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

	6 months ended 30 June 2005 HK$'000	As restated Year ended 31 December 2004 HK$'000
At the beginning of the period/year, as previously reported	**5,494**	4,178
Change in accounting policy		
– Adoption of HKAS-Int 21	**1,729**	1,159
At the beginning of the period/year, as restated	**7,223**	5,337
Exchange differences	**(94)**	17
Deferred taxation charged to profit and loss account relating to the origination and reversal of temporary differences	**(116)**	1,869
At the end of the period/year	**7,013**	7,223

Deferred income tax assets recognized 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 was as follows:

Deferred tax liabilities

	Accelerated tax depreciation		Revaluation of properties		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1st January, as previously reported	**4,436**	4,040	**9,248**	8,952	**13,684**	12,992
Change in accounting policy – Adoption of HKAS-Int 21	**599**	546	**1,130**	614	**1,729**	1,160
At 1 January, as restated	**5,035**	4,586	**10,378**	9,566	**15,413**	14,152
(Credited)/charged to profit and loss account	**(264)**	449	**(534)**	805	**(798)**	1,254
Exchange differences	**–**	–	**(448)**	7	**(448)**	7
At 30 June 2005/ 31 December 2004	**4,771**	5,035	**9,396**	10,378	**14,167**	15,413

Deferred tax assets

	Impairment of assets		Tax losses		Others		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1st January	**7,180**	7,670	**841**	1,028	**169**	116	**8,190**	8,814
(Charged)/credited to profit and loss account	**(202)**	(478)	**(480)**	(187)	**–**	50	**(682)**	(615)
Exchange differences	**(348)**	(12)	**–**	–	**(6)**	3	**(354)**	(9)
At 30 June 2005/ 31 December 2004	**6,630**	7,180	**361**	841	**163**	169	**7,154**	8,190

13. Deferred taxation (Continued)

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 2005 HK$'000	31 December 2004 HK$'000
Deferred tax assets	**–**	243
Deferred tax liabilities	**(7,013)**	(7,466)
	(7,013)	(7,223)

14. Contingent liabilities

	30 June 2005 HK$'000	31 December 2004 HK$'000
Corporate guarantee in respect of performance bonds issued by subsidiaries to customers	**3,017**	4,002
Counter-indemnity in respect of performance bonds issued by banks	**2,450**	491
Shipping guarantee on goods received	**–**	1,022
Guarantee in respect of import duty	**–**	1,896
	5,467	7,411

15. Capital commitments

	30 June 2005 HK$'000	31 December 2004 HK$'000
Contracted but not provided for in respect of fixed assets	**5,516**	2,011
Authorised but not contracted for in respect of fixed assets	**100**	15,298
	5,616	17,309
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	**20,154**	14,987
– authorised but not contracted for in respect of fixed assets	**27,856**	49,221
	48,010	64,208

16. Related party transactions

The Group entered into sales and purchases of goods transactions with an associated company in the Philippines and certain joint ventures in China. Such transactions were conducted in the normal course of the Group's business and on terms mutually agreed between the parties.

The following is a summary of such transactions with such related parties in the first half of 2005:

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Sales to an associated company	**1,152**	851
Sales to joint ventures	**140**	234

The period-end balances with such joint ventures and associated company (excluding dividend receivables) are as follows:

	30 June 2005	31 December 2004
	HK$'000	HK$'000
Amount due from the associated company	**967**	751
Amounts due from joint ventures	**–**	–

The Group also entered into sales transactions with and paid rentals to The Hong Kong and Shanghai Hotels, Limited ("HSH") and its subsidiaries. HSH is a related party to the Company 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 HSH.

The Company entered into a supply of product and services agreement with HSH on 22 March 2005 for the supply of carpets, floorcoverings and provision of related ancilliary services ("Products and Services"). The agreement provides that the Company is not obliged to supply HSH any Products and Services ordered if the fulfillment of such order would result in the annual consideration of such Products and Services either equaling or exceeding HK$8,500,000.

16. Related party transactions (Continued)

The following is a summary of the transactions with HSH in the first half of 2005:

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Sales of Products and Services to HSH	**3,494**	65
Sales and leasing of furnitures to HSH	**234**	216
Rental expenses payable to HSH	**272**	239

The balances due from HSH as at 30 June 2005 amounted to HK$838,000 (as at 31 December 2004: HK$436,000.)

17. 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 Property held for sale" under current assets in accordance with 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 revaluation 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.