



Tai Ping Carpets International Limited Interim Report 2006

(Incorporated in Bermuda with Limited Liability)

Stock Code : 0146

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Management Discussion and Analysis

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 2006. The consolidated results, cash flow statement and statement of changes in equity for the Group for the six months ended 30 June 2006, and the consolidated balance sheet as at 30 June 2006, all of which are unaudited and have been reviewed by the audit committee of the Company, along with selected explanatory notes, can be found on pages 12 to 36 of this report.

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

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

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

Carpet Operations

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

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

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

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

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

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

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

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

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

Turnover from Europe during the period was also relatively flat compared with 2005. Tai Ping used to be a niche player targeting the high-end residential market in Europe due to the fragmented markets and strong competition from small local suppliers. However, since 2005,

the Group has started building a commercial business in Europe and has been making good progress in developing new markets and securing orders with new customers during the period. It is expected that most of these orders will turn into sales in the second half of 2006.

Other Operations

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

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

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

Outlook

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

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

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

Dividends

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

Capital Expenditure

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

Liquidity and Financial Resources

The Group, which usually funds its business with internally generated cash flows and through banking facilities at various subsidiaries, coordinates its financing and cash management activities at the corporate level.

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

All bank loans to date were unsecured. Of those bank loans outstanding on 30 June 2006, 13% carried interest at floating rates; the remainder were at fixed interest rates throughout their terms.

The currency denomination of the loans and their maturity dates as at 30 June 2006 were as follows:

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

Foreign Exchange Risks and Related Hedges

The Group has overseas operations in the PRC, Thailand, Singapore, the USA and Europe. The Group treats its investments in these foreign operations as permanent equity, so exchange differences from translating the net investments in these foreign operations do not affect cash flows and are dealt with in the reserves.

As the European and Singaporean operations are not significant in term of the Group's results and the Chinese Renminbi has been relatively stable, the exchange differences arising from overseas operations relate mostly to Thailand. The effect of these exchange differences, however, is reduced as borrowings are in local currency.

The Group's export sales are denominated primarily in US dollars, and to a much lesser extent in Euros. The Group, therefore, considered its exposure to exchange rate movements in 2006 insignificant, but continues to monitor exchange rate movements closely to ascertain if any material exposure may arise.

Employee and Remuneration Policies

As at 30 June 2006, the Group employed 3,000 employees (as at 31 December 2005: 3,100 employees). Employees are remunerated according to the nature of the job and market trends, with built-in merit components incorporated as annual incentives to reward and motivate individual performance. Since 31 December 2005, there has been no material change to the Group's employment and remuneration policies.

Contingent Liabilities

As at 30 June 2006, the Group's total contingent liabilities (see Note 13 to the accounts for full disclosure) amounted to HK\$15.5 million (as at 31 December 2005: HK\$8.5 million).

James H. Kaplan

Chief Executive Officer

Hong Kong, 22 September 2006

Compliance with the Code on Corporate Governance Practices

During the six months ended 30 June 2006, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “Code”) as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”), with the following exception:

Code Provision A.4.1

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

The Company’s Non-executive Directors are not appointed for specific terms. However, in accordance with the Company’s Bye-laws, every Director other than any Executive Chairman or Managing Director retires by rotation at least once every 3 years. The Executive Chairman or Managing Director cannot be required to retire by rotation in the Bye-laws as pursuant to section 2(e) of the Tai Ping Carpets International Limited Company Act 1990 of Bermuda. Notwithstanding this, the Directors intend to comply with this code A.4.1 by asking any Executive Chairman or Managing Director to voluntarily retire by rotation at least once every 3 years.

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

The Company adopted a code of conduct regarding the Directors’ transactions in the securities of the Company on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”). Specific enquiry has been made of all the Directors of the Company and they have confirmed their compliance with the required standard set out in the Model Code and the Company’s code of conduct in this respect throughout the six-month period ended 30 June 2006 and up to the date of publication of this Interim Report.

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the six-month period ended 30 June 2006. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company’s shares during the period.

Directors' Interests in Equity Securities

As at 30 June 2006, the interests of the Directors in the shares 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 were as follows:

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

No. of ordinary shares held (long position)

Name	Personal interests	Corporate interests	Aggregate % to the share capital
Ian D. Boyce	214,371	–	0.101%
David C. L. Tong	431,910	–	0.204%
Lincoln C. K. Yung	30,000	–	0.014%
Lincoln K. K. Leong	–	2,000,000*	0.943%
Nelson K. F. Leong (Alternate Director to Lincoln K. K. Leong)	–	2,000,000*	0.943%
John J. Ying	–	32,575,875#	15.352%
James H. Kaplan	522,000	–	0.246%

* 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 Mr. Lincoln K. K. Leong and Mr. Nelson K. F. Leong.

The shares are held through Peak Capital Partners I, L.P. of which Mr. John J. Ying is interested in more than one-third of the voting shares.

(b) Share Options

The existing share options scheme ("2002 Share Options Scheme" or the "Scheme") was approved by the shareholders of the Company at an Annual General Meeting held on 23 May 2002. The Scheme fully complies with Chapter 17 of the Listing Rules.

In 2005 a total of 2,000,000 share options were granted to Mr. James H. Kaplan, Chief Executive Officer of the Company. As at 30 June 2006 an aggregate of 1,000,000 share options granted under the 2002 Share Options Scheme remained outstanding, representing approximately 0.47% of the issued share capital of the Company.

Details of the share options outstanding as at 30 June 2006 were as follows:

Name	Balance as at 1 January 2006	Date of grant	Changes during the year			Balance as at 30 June 2006	Exercise price (HK\$) (Note a)	Exercisable period
			Granted	Lapsed	Exercised			
James H. Kaplan	500,000	10 January 2005	–	246,000	254,000	–	1.21	31 December 2005 – 31 January 2006
	500,000	10 January 2005	–	–	–	500,000	1.21	31 December 2006 – 31 January 2007
	500,000	10 January 2005	–	–	–	500,000	1.21	31 December 2007 – 31 January 2008

Note a: The exercise price of the share options granted to Mr. 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 sheets for the five business days before the date of grant. The closing price of the shares at the date on which the options were granted 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.

The Company uses the Black Scholes option pricing model (the "Model") to value share options granted. 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 such variables so adopted may materially affect the estimation of the fair value of an option.

The aggregate fair value of the options determined at the date of grant using the Model was HK\$341,000. Such value is expensed through the Group's profit and loss account over the respective vesting periods of each batch of options. Accumulated share options expenses of HK\$176,000 were recognised in the previous years, while in 2006 a further HK\$88,000 was expensed during the period, with a corresponding adjustment recognised in the Group's capital reserve.

The fair value of the share options are determined based on the following significant variables and assumptions:

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

Notes:

- i. 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.
- ii. Expected volatility: being the approximate volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.
- iii. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

Save for the Directors' interests as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to hold any interests in the shares in, or debentures of, the Company or any other body corporate.

Substantial shareholders

As at 30 June 2006, the register of substantial shareholders required to be kept under Section 336 of Part XV 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. These interests are in addition to those disclosed above in respect of the Directors.

Name	No. of ordinary shares held in the Company of HK\$0.10 each (long position)	Aggregate % to the share capital
Bermuda Trust Company Limited	117,688,759*	55.465%
Harneys Trustees Limited (formerly known as HWR Trustees Limited)	117,688,759*	55.465%
Esko Limited	117,688,759*	55.465%
Hesko Limited	117,688,759*	55.465%
Lawrencium Corporation	117,688,759*	55.465%
Acorn Holdings Corporation	117,688,759*	55.465%
New Holmium Holding Corporation	117,688,759*	55.465%
Peak Capital Partners I, L.P.	32,575,875#	15.352%

* Bermuda Trust Company Limited and Harneys 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 same 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 an 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).

Condensed Consolidated Profit and Loss Account

		Unaudited	
		Six months ended 30 June	
			As restated
		2006	2005
	Notes	HK\$'000	HK\$'000
Continuing operations			
Turnover	2	379,921	302,863
Cost of sales		(218,330)	(186,111)
Gross profit		161,591	116,752
Interest income from bank deposits, finance leases and third parties		915	253
Gain on liquidation of an available-for-sale financial asset		–	21,346
Surplus on revaluation of investment properties		3,140	14,743
Other operating income, net		3,223	3,048
Distribution costs		(72,114)	(55,450)
Administrative expenses		(92,117)	(72,574)
Operating profit	2, 3	4,638	28,118
Finance costs	4	(3,081)	(1,344)
Share of (loss)/profits of			
— An associate		(11)	(608)
— Joint ventures		10,908	9,200
Profit before taxation		12,454	35,366
Taxation	5	(3,639)	(7,692)
Profit after taxation from continuing operations		8,815	27,674
Discontinued operation			
Profit/(loss) for the period from discontinued operation	6	2,378	(352)
Loss recognised on measurement to fair value less costs to sell	6	(6,045)	–
Loss after taxation from discontinued operation		(3,667)	(352)
Profit after taxation		5,148	27,322
Attributable to:			
Equity holders of the Company		3,555	24,106
Minority interests		1,593	3,216
		5,148	27,322
Dividends		–	–
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the period (expressed in HK cents per share)	7		
From continuing and discontinued operations			
— Basic		1.67	11.37
— Diluted		1.67	11.37
From continuing operations			
— Basic		3.40	11.54
— Diluted		3.40	11.54
From discontinued operation			
— Basic		(1.73)	(0.17)
— Diluted		(1.73)	(0.17)

Condensed Consolidated Balance Sheet

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		Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
	Notes		
ASSETS			
Non-current assets			
Leasehold land and land use rights	8	21,473	21,739
Property, plant and equipment	8	301,224	303,440
Investment properties	8	34,750	73,130
Construction in progress	8	8,717	12,282
Interests in an associate		22,955	21,166
Interests in joint ventures		141,261	133,318
Available-for-sale financial asset		59	134
Net investment in finance leases		–	210
Deferred tax assets	11	710	1,983
		531,149	567,402
Current assets			
Inventories		210,820	173,847
Trade and other receivables	9	142,109	161,658
Current portion of net investment in finance leases		–	735
Derivative financial instruments		295	–
Investment properties held for sale		43,540	–
Cash and cash equivalents		52,869	87,079
		449,633	423,319
Assets of a disposal group held for sale	6	26,043	–
		475,676	423,319
Total assets		1,006,825	990,721

		Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
	Notes		
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	10	21,218	21,193
Reserves		319,561	301,871
Retained earnings		364,098	360,543
		704,877	683,607
Minority interests		29,378	27,864
Total equity		734,255	711,471
LIABILITIES			
Non-current liabilities			
Bank borrowings — unsecured		10,000	9,500
Deferred tax liabilities	11	4,668	5,632
Other long-term liabilities		1,601	1,991
		16,269	17,123
Current liabilities			
Bank borrowings — unsecured		67,153	99,836
Trade and other payables	12	178,127	153,016
Other long-term liabilities — current portion		390	390
Taxation		3,788	8,885
		249,458	262,127
Liabilities directly associated with assets of disposal group held for sale	6	6,843	—
		256,301	262,127
Total liabilities		272,570	279,250
Total equity and liabilities		1,006,825	990,721
Net current assets		219,375	161,192
Total assets less current liabilities		750,524	728,594

Condensed Consolidated Statement of Changes in Equity

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For the six months ended 30 June 2006

	Attributable to equity holders of the Company							Minority interests	Total
	Share capital	Share premium	Capital reserves	Other properties revaluation reserves	General reserves	Exchange reserves	Retained earnings	Sub-total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2006	21,193	189,417	88,725	4,821	16,000	2,908	360,543	683,607	711,471
Currency translation differences	-	-	1,108	447	-	15,765	-	17,320	17,447
Net income recognised directly in equity	-	-	1,108	447	-	15,765	-	17,320	17,447
Profit for the period	-	-	-	-	-	-	3,555	3,555	5,148
Total recognised income for the period	-	-	1,108	447	-	15,765	3,555	20,875	22,595
Repayment of amounts to minority interests	-	-	-	-	-	-	-	-	(29)
Dividend paid to minority interests	-	-	-	-	-	-	-	-	(177)
Employee share options scheme:									
— value of employee services	-	-	88	-	-	-	-	88	88
— proceeds from shares issued	25	282	-	-	-	-	-	307	307
	25	282	88	-	-	-	-	395	189
Balance at 30 June 2006	21,218	189,699	89,921	5,268	16,000	18,673	364,098	704,877	734,255

For the year ended 31 December 2005

	Attributable to equity holders of the Company									Minority interests	Total
	Share capital HK\$'000	Share premium HK\$'000	Capital reserves HK\$'000	Other properties revaluation reserves HK\$'000	Available- for-sale revaluation reserves HK\$'000	General reserves HK\$'000	Exchange reserves HK\$'000	Retained earnings HK\$'000	Sub-total HK\$'000		HK\$'000
Balance at											
1 January 2005	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	-	-	(398)	(307)	-	-	(12,210)	-	(12,915)	262	(12,653)
Changes in fair value of available-for-sale financial assets	-	-	-	-	6,420	-	-	-	6,420	-	6,420
Release of reserve upon liquidation of an available-for-sale financial asset	-	-	-	-	(12,925)	-	-	-	(12,925)	-	(12,925)
Appropriation to the reserves	-	-	86	-	-	-	-	(86)	-	-	-
Net (expenses)/income recognised directly in equity	-	-	(312)	(307)	(6,505)	-	(12,210)	(86)	(19,420)	262	(19,158)
Profit for the year	-	-	-	-	-	-	-	27,646	27,646	6,808	34,454
Total recognised (expenses)/income for 2005	-	-	(312)	(307)	(6,505)	-	(12,210)	27,560	8,226	7,070	15,296
Employee share options scheme:											
— value of employee services	-	-	176	-	-	-	-	-	176	-	176
— proceeds from shares issued	23	255	-	-	-	-	-	-	278	-	278
	23	255	176	-	-	-	-	-	454	-	454
Balance at 31 December 2005	21,193	189,417	88,725	4,821	-	16,000	2,908	360,543	683,607	27,864	711,471

Condensed Consolidated Cash Flow Statement

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	Unaudited Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Net cash generated from/(used in) operating activities	19,845	(4,608)
Net cash used in investing activities	(10,096)	(30,905)
Net cash (used in)/generated from financing activities	(39,887)	28,736
Decrease in cash and cash equivalents	(30,138)	(6,777)
Cash and cash equivalents at the beginning of the year	87,079	76,965
Effect of foreign exchange rates changes	740	(555)
	57,681	69,633
<i>Less:</i> Cash and cash equivalents of a disposal group classified as held for sale (Note 6)	(4,812)	–
Cash and cash equivalents at 30 June	52,869	69,633
Analysis of the balances of cash and cash equivalents:		
Cash at bank and on hand	49,124	68,473
Short-term bank deposits	3,903	3,297
Bank overdrafts	(158)	(2,137)
	52,869	69,633

1. Basis of Preparation and Accounting Policies

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

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

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

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

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

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

1. Basis of Preparation and Accounting Policies (Continued)

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

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

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

2. Segment Information

(a) Business segments

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

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

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

2. Segment Information (Continued)

(a) Business segments (Continued)

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

(b) Geographical segments

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

	Turnover Six months ended 30 June					
	Continuing operations		Discontinued operation		Total	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong and Macau	28,923	15,139	23,489	19,454	52,412	34,593
Mainland China	16,385	18,251	-	287	16,385	18,538
South East Asia	102,602	103,574	96	-	102,698	103,574
Middle East	10,101	11,353	-	-	10,101	11,353
Other Asian countries	8,101	8,393	-	-	8,101	8,393
Europe	31,889	31,643	-	-	31,889	31,643
North America	177,360	111,100	153	-	177,513	111,100
Others	4,560	3,410	-	-	4,560	3,410
	379,921	302,863	23,738	19,741	403,659	322,604

2. Segment Information (Continued)

(b) Geographical segments (Continued)

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

3. Operating Profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Crediting:		
Profit on disposal of property, plant and equipment	–	369
Charging:		
Depreciation of property, plant and equipment (Note 8)	22,198	19,163
Amortisation of leasehold land and land use rights (Note 8)	266	118
Loss on disposal of property, plant and equipment	196	–

4. Finance Costs

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	3,081	1,344

5. Taxation

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

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

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

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

6. Discontinued Operation/Disposal Group Held for Sale

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

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

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

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

6. Discontinued Operation/Disposal Group Held for Sale (Continued)

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

	30 June 2006 HK\$'000
Property, plant and equipment (Note 8)	5,148
Deferred tax assets (Note 11)	1,663
Inventories	6,693
Net investment in finance leases	1,312
Trade and other receivables (Note 9)	12,460
Cash and cash equivalents	4,812
	32,088
Less: Loss recognised on measurement to fair value less costs to sell	(6,045)
Assets of the disposal group held for sale	26,043
Trade and other payables, and total for liabilities associated with assets classified as held for sale (Note 12)	(6,843)

7. Earnings/(Loss) per Share

(a) From continuing and discontinued operations

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the period.

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Profit attributable to equity holders of the Company	3,555	24,106
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	212,187	211,933
Basic earnings per share (HK cents)	1.67	11.37

7. Earnings/(Loss) per Share (Continued)

(a) From continuing and discontinued operations (Continued)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, namely share options. For these share options a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated below is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Profit attributable to equity holders of the Company	3,555	24,106
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	212,187	211,933
Adjustments for share options (thousands)	–	6
Weighted average number of ordinary shares in issue for diluted earnings per share (thousands)	212,187	211,939
Diluted earnings per share (HK cents)	1.67	11.37

No adjustment for share options is made as all share options outstanding as at 30 June 2006 had an anti-dilutive effect on the earnings per share of the Company.

(b) From continuing operations

Basic

The calculation of the basic earnings per share from continuing operations attributable to the equity holders of the Company is based on the following information:

	2006 HK\$'000	2005 HK\$'000
Profit attributable to equity holders of the Company	3,555	24,106
Add: Loss attributable to equity holders from discontinued operation	3,667	352
Profit attributable to equity holders of the Company from continuing operations	7,222	24,458
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	212,187	211,933
Basic earnings per share (HK cents)	3.40	11.54

7. Earnings/(Loss) per Share (Continued)

(b) From continuing operations (Continued)***Diluted***

The calculation of the diluted earnings per share from continuing operations attributable to the equity holders of the Company is based on the profit attributable to equity holders from continuing operations of HK\$7,222,000 (2005: HK\$24,458,000). The denominators used are the same as those detailed above for diluted earnings per share from continuing and discontinued operations.

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

The calculation of the basic loss per share from discontinued operation attributable to the equity holders of the Company is based on the following information:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Loss attributable to equity holders from discontinued operation	3,667	352
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	212,187	211,933
Basic loss per share (HK cents)	1.73	0.17

Diluted

The calculation of the diluted loss per share from discontinued operation attributable to the equity holders of the Company is based on the loss attributable to equity holders from discontinued operation of HK\$3,667,000 (2005: HK\$352,000). The denominators used are the same as those detailed above for diluted earnings per share from continuing and discontinued operations.

8. Capital Expenditure

	Six months ended 30 June 2006						
	Leasehold	Investment properties	Property, plant and equipment			Construction in progress	Total
	land and land use rights		Buildings	Other assets	Sub-total		
	HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening net book value as at 1 January 2006	21,739	73,130	107,984	195,456	303,440	12,282	410,591
Exchange adjustments	-	2,020	3,356	5,971	9,327	561	11,908
Additions	-	-	-	6,882	6,882	6,428	13,310
Transfer from construction in progress to property, plant and equipment	-	-	-	10,223	10,223	(10,223)	-
Fair values changes	-	3,140	-	-	-	-	3,140
Disposals	-	-	-	(1,302)	(1,302)	(331)	(1,633)
Depreciation	(266)	-	(2,841)	(19,357)	(22,198)	-	(22,464)
Reclassified to investment properties held for sale	-	(43,540)	-	-	-	-	(43,540)
Reclassified to assets of a disposal group held for sale (Note 6)	-	-	-	(5,148)	(5,148)	-	(5,148)
Closing net book value at 30 June 2006	21,473	34,750	108,499	192,725	301,224	8,717	366,164

9. Trade and Other Receivables

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Trade receivables	139,302	151,745
Less: Impairment loss of receivables	(14,917)	(15,493)
Trade receivables — net	124,385	136,252
Other receivables	30,184	25,406
Less: Reclassified to assets of a disposal group held for sale (Note 6)	(12,460)	-
	142,109	161,658

Note:

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

9. Trade and Other Receivables (Continued)

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

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers, internationally dispersed.

10. Share Capital

	No. of shares	HK\$'000
Authorised — HK\$0.10 per share:		
At 1 January 2006 and 30 June 2006	400,000,000	40,000
Issued and fully paid:		
As 1 January 2006	211,933,488	21,193
Exercise of share options (note)	254,000	25
At 30 June 2006	212,187,488	21,218

Note: The existing share options scheme ("2002 Share Options Scheme" or the "Scheme") was approved by the shareholders of the Company at an Annual General Meeting held on 23 May 2002. The Scheme fully complies with Chapter 17 of the Listing Rules.

In 2005 a total of 2,000,000 share options were granted to Mr. James H. Kaplan, Chief Executive Officer of the Company. As at 30 June 2006 an aggregate of 1,000,000 share options granted under the 2002 Share Options Scheme remained outstanding, representing approximately 0.47% of the issued share capital of the Company.

10. Share Capital (Continued)

Details of the share options outstanding as at 30 June 2006 are as follows:

Name	Balance as at 1 January 2006	Date of grant	Changes during the year			Balance as at 30 June 2006	Exercise price (HK\$) (Note a)	Exercisable period
			Granted	Lapsed	Exercised			
James H. Kaplan	500,000	10 January 2005	–	246,000	254,000	–	1.21	31 December 2005 – 31 January 2006
	500,000	10 January 2005	–	–	–	500,000	1.21	31 December 2006 – 31 January 2007
	500,000	10 January 2005	–	–	–	500,000	1.21	31 December 2007 – 31 January 2008

Note a: The exercise price of the share options granted to Mr. 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 sheets for the five business days before the date of grant. The closing price of the shares at the date on which the options were granted 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.

The Company uses the Black Scholes option pricing model (the "Model") to value share options granted. 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 such variables so adopted may materially affect the estimation of the fair value of an option.

The aggregate fair value of the options determined at the date of grant using the Model was HK\$341,000. Such value is expensed through the Group's profit and loss account over the respective vesting periods of each batch of options. Accumulated share options expenses of HK\$176,000 were recognised in the previous years, while in 2006 a further HK\$88,000 was expensed during the period, with a corresponding adjustment recognised in the Group's capital reserve.

10. Share Capital (Continued)

The fair value of the share options are determined based on the following significant variables and assumptions:

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

Notes:

- i. 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.
- ii. Expected volatility: being the approximate volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.
- iii. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

11. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

	Six months ended 30 June 2006 HK\$'000	Year ended 31 December 2005 HK\$'000
At 1 January	3,649	7,223
Exchange differences	116	(100)
Deferred taxation relating to the origination and reversal of temporary differences credited to profit and loss account	(1,470)	(3,474)
	2,295	3,649
Amount classified as disposal group held for sale (Note 6)	1,663	-
At the end of the period/year	3,958	3,649

11. Deferred Taxation (Continued)

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable.

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

Deferred tax liabilities

	Accelerated tax depreciation allowance		Revaluation of properties		Others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	3,964	5,035	8,955	10,378	–	–	12,919	15,413
(Credited)/charged to profit and loss account	(3,229)	(1,071)	1,047	(971)	88	–	(2,094)	(2,042)
Exchange differences	–	–	456	(452)	–	–	456	(452)
	735	3,964	10,458	8,955	88	–	11,281	12,919
Amount classified as disposal group held for sale	(111)	–	–	–	–	–	(111)	–
At 30 June 2006/ 31 December 2005	624	3,964	10,458	8,955	88	–	11,170	12,919

Deferred tax assets

	Impairment of assets		Tax losses		Others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	8,203	7,180	953	841	114	169	9,270	8,190
(Charged)/credited to profit and loss account	(779)	1,372	213	112	(58)	(52)	(624)	1,432
Exchange differences	340	(349)	–	–	–	(3)	340	(352)
	7,764	8,203	1,166	953	56	114	8,986	9,270
Amount classified as disposal group held for sale	(902)	–	(872)	–	–	–	(1,774)	–
At 30 June 2006/ 31 December 2005	6,862	8,203	294	953	56	114	7,212	9,270

11. 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 consolidated balance sheet:

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Deferred tax assets	710	1,983
Deferred tax liabilities	(4,668)	(5,632)
	(3,958)	(3,649)

12. Trade and Other Payables

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

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

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

13. Contingent Liabilities

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Corporate guarantee in respect of performance bonds issued by the subsidiaries to customers	8,762	4,892
Counter-indemnity in respect of performance bonds issued by banks	2,558	1,856
Guarantees in lieu of utility deposits	4,198	1,088
Guarantees in lieu of accessory security for a sales order	–	653
	15,518	8,489

14. Capital Commitments

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Contracted but not provided for in respect of property, plant and equipment	1,712	1,208
Authorised but not contracted for in respect of property, plant and equipment	538	3,076
	2,250	4,284

The Group's share of capital commitments of the joint ventures themselves not included in the above are as follows:

Contracted but not provided for in respect of property, plant and equipment	25,175	24,996
Authorised but not contracted for in respect of property, plant and equipment	27,713	31,157
	52,888	56,153

15. Related Party Transactions

The following transactions were carried out in the normal course of the Group's business:

(1) Sales of goods and services

	Six months ended 30 June 2006 HK\$'000	2005 HK\$'000
Sales of carpets:		
An associate (Note a)	3,914	1,152
Joint ventures (Note a)	–	140
The Hongkong and Shanghai Hotels, Limited ("HKS Hotels") (Note b)	1,559	3,494
Furniture sales and leasing:		
HKS Hotels	285	234
	5,758	5,020

15. Related Party Transactions (Continued)

(1) Sales of goods and services (Continued)

- (a) Sales to an associate and joint ventures were conducted in the normal course of the business and at mutually agreed prices between the parties.
- (b) By virtue of the fact that HKS Hotels is under common control with the Company, the Company's transactions with HKS Hotels and its subsidiaries are related party transactions.

(2) Purchase of goods and services

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Purchase of goods from:		
An associate (Note c)	2,306	–
Joint ventures (Note c)	3,180	–
Purchase of services from:		
Rental paid to HKS Hotels (Note d)	235	272
	5,721	272

- (c) Purchases from an associate and joint ventures were conducted in the normal course of business and at mutually agreed prices between the parties.
- (d) Rental paid to HKS Hotels was based on fixed monthly amounts mutually agreed by parties involved.

(3) Year-end balances arising from sales/purchases of goods/services

	30 June 2006	31 December 2005
	HK\$'000	HK\$'000
Receivables from related parties:		
An associate	1,070	1,403
HKS Hotels	33	286
	1,103	1,689
Payables to related parties:		
Joint ventures	1,058	901

16. Events after Balance Sheet Date

- (a) On 7 July 2006, Dong Fung Lim Mei Company Limited and Hong Kong Carpet (Holdings) Limited (both wholly-owned subsidiaries of the Company) entered into sale and purchase agreements on normal commercial terms pursuant to which they sold, the entire issued share capital of Indigo and Banyan Tree respectively, at a consideration of HK\$19,200,000. The operations of Indigo and Banyan Tree have been classified as discontinued operation under HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” (please refer to Note 6 for details). Following the disposals, Indigo and Banyan Tree ceased to be subsidiaries of the Company.
- (b) On 23 August 2006, Carpets International Thailand Public Company Limited, a subsidiary of the Company, sold on normal commercial terms all its rights, title and interest in a piece of land located in the Pathumthani Province, Thailand and the buildings, structures, fixtures, landscaping, roads, electrical and mechanical items, water facilities and general infrastructure on the land to an independent third party. The consideration amounted to Baht 217,700,000 (approximately HK\$43,540,000). The land and building was previously included under “Investment properties” and was classified as “Investment properties held for sale” under current assets in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. The difference between the consideration and the carrying value as at 31 December 2005 of HK\$3,140,000 has been included in the results for the half year ended 30 June 2006 as revaluation surplus of the property.