



**TAI PING CARPETS INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**INTERIM REPORT  
FOR THE SIX MONTHS ENDED 30TH JUNE 2001**

## CONTENTS

	<i>Pages</i>
Management discussion and analysis	1-4
Condensed consolidated profit and loss account	5
Condensed consolidated balance sheet	6
Condensed consolidated cash flow statement	7
Condensed consolidated statement of recognised gains and losses	8
Notes to condensed interim accounts	9-17

# TAI PING CARPETS INTERNATIONAL LIMITED

*(Incorporated in Bermuda with limited liability)*

## INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH JUNE 2001

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 30th June 2001. The consolidated results, consolidated cash flow statement and consolidated statement of recognised gains and losses for the Group for the six months ended 30th June 2001, and the consolidated balance sheet as at 30th June 2001 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 5 to 17 of this report.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Consolidated results

The Group’s unaudited consolidated profit attributable to shareholders for the first half of 2001 was HK\$19.2 million, compared to HK\$15.0 million for the same period last year, representing an increase of 27.7%. The results were after exceptional profit of HK\$2.1 million arising from write back of provision of trade and other receivables, negative goodwill recognised as income of HK\$1.0 million, refund of unvested benefit under ex-ORSO scheme of HK\$1.0 million, and an exceptional loss of HK\$1.2 million representing the Group’s share of a provision for a joint venture as a result of a breach of contract litigation.

The Board does not recommend the payment of an interim dividend. (2000: nil)

#### Operations – Carpet manufacturing and trading

During the period under review, the Group’s turnover in carpet manufacturing and trading amounted to HK\$155.5 million, compared with HK\$143.3 million for the corresponding period in 2000.

#### THAILAND

Carpets International Thailand Public Co. Ltd. (“CIT”) – 99.1% owned

Based in Bangkok, Thailand. CIT continued to register strong growth into 2001 in both local sales and export sales. Market acceptance of its new carpet tile product range, launched early last year, has been encouraging, with sales of HK\$16.8 million recorded in the period under review. In local currency terms, domestic and export sales increased 29.0% and 24.1% respectively over the same period last year. However, on consolidation, the 5.6% devaluation of the Thai Baht over the period negated some of the benefits from the increased sales.

In light of the improved business prospects, CIT invested over HK\$17 million during the period to improve its manufacturing capabilities and facilities. Key additions include the acquisition of a high technology broadloom tufting machine, a nylon fibre extrusion line, improvements to its power distribution system, as well as modifications to modernize existing carpet manufacturing machinery and looms.

#### HONG KONG

Tai Ping Carpets Limited (“TPCL”) – 100% owned

The Hong Kong based operations of TPCL with its manufacturing facilities in Nanhai, Guangdong Province, PRC also enjoyed over 15% increase in sales, compared to a particularly slow first half year in 2000. Exports to the US market remained strong, while local sales improved modestly as a result of the hospitality industry showing some signs of revival. This led to better utilization of the manufacturing capability at Nanhai for carpet and yarn manufacturing.

In anticipation of increasing export volume especially to the US market, and to improve the flexibility of its carpet weaving looms, the Nanhai operation acquired additional electronic control equipment.

Tai Ping's two showrooms both saw sluggish sales in the face of the weak retail environment in Hong Kong. The showroom at Wing On Plaza in Tsimshatsui was closed in mid-July due to very poor shopping traffic in the area. The other showroom at Times Square continues to operate at a profit.

#### *USA*

Options Tai Ping Carpets, Inc. ("Options") – 66.7% owned

At the North American sales and marketing subsidiary Options Tai Ping Carpets, Inc., turnover for machine woven products in the hospitality market increased during the period. The company was proud to be nominated as a "preferred supplier" to the leading hospitality supply company in the country Avendra, LLC. This newly established company has backing from key hotel chains including the Marriott Hotel Group, the Hyatt Hotel Group, Bass Hotels and Fairmount Hotels. In the handmade carpet segment, there was no significant growth and efforts are being made to develop better channels for this product range in the high-end residential market in the US. Options continues to operate at a loss but management believes that this is a necessary investment in its marketing efforts to build the Tai Ping brand name and reputation for service, reliability and excellence in the important US market.

#### **Operations – Yarn manufacturing and trading**

Premier Yarn Dyers, Inc. – 100% owned

Premier Yarn Dyers, Inc. ("PYD") in Georgia, USA, reported a slowdown in the commission dyeing business due to a generally sluggish carpet industry in the country. The company reported a reduction of 12.6% in its turnover and 27.8% in its profitability to HK\$4.1 million. The closed loop water treatment facility has been completed at a cost of about HK\$20 million and is in its final commissioning stage. This should eliminate discharge of waste dye materials and minimize water use in future.

#### **Operations – Furniture & interior furnishings**

Banyan Tree Limited – 100% owned

Banyan Tree has been quite resilient to the soft retail market in Hong Kong and recorded profits continuously in the past few years, but in the first half of 2001, it began to feel the impact of the persistently weak retail market. To complement its existing showroom based operations, the company has successfully developed a furniture rental business.

#### **Associated company and joint ventures**

##### *CHINA*

Weihai Huabao Carpet Company Limited ("WHC") and Weihai Premier Carpet Company Limited ("PPC") – 49.0% owned

WHC and PPC, in Shandong Province, PRC continued to report growth in sales and profits. They have also successfully introduced a new carpet tile product range to the domestic market.

##### *PHILIPPINES*

Philippine Carpet Manufacturing Corporation ("PCMC") – 32.8% owned

PCMC reported growth in sales and profits from its successful marketing of its high-end hand tufted products into the US retail market.

#### **Corporate Transactions**

On 14th March 2001, the Group reported a connected transaction for the acquisition of 10% of Treasure Looms (China) Limited, a 90% subsidiary of the Group, together with its shareholder's loan at a total cash consideration of US\$560,000 (approximately HK\$4.4million). The acquisition has increased the Group's holding in the joint ventures, WHC and PPC to 49% and gave rise to negative goodwill of HK\$3.7 million.

## Liquidity and Capital Structure

The Group completed a 1 for 2 Rights Issue at HK\$1.50 per Rights Share in June 2001, raising HK\$101.5 million before expenses of HK\$3.9 million. HK\$40.0 million was placed on bank deposit pending investment opportunities and the balance of HK\$57.6 million was used to repay bank loans and overdrafts and as working capital of the Group companies in Hong Kong. As a result, the Group had net cash (net of overdrafts and bank borrowings) of HK\$49.9 million, compared with net borrowings (net of cash deposits and bank balances) of HK\$60.3 million at 31st December 2000. The banking facilities at 30th June 2001 were HK\$179.9 million, of which HK\$55.3 million was utilized.

## Outlook

The Group has completed its plan to consolidate its manufacturing operations and to implement common standards of quality and service. Investments will continue to be made to improve manufacturing capabilities to meet market demands and interests. But more importantly, the primary focus of the Group will be to continue to strengthen its sales and distribution network, and to market its brand names of Tai Ping, Carpets International Thailand and Options worldwide. Although the world markets appear to be weakening, Tai Ping Group is gaining market share and aims to raise its worldwide market recognition as a premier supplier of a full range of high quality and innovative carpets products. The impact of the weakening world markets has not significantly affected the Group as yet and management believes that the Group repositioning as a recognised premier supplier will enable it to work more efficiently in a possible continued market downturn.

## Dividend

The Board does not recommend the payment of an interim dividend for the period (2000: nil).

## Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

## Directors' interests in equity or debt securities

At 30th June 2001, the interests of the directors in the shares and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

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

Name	No. of ordinary shares held			
	Personal Interests	Family Interests	Corporate interests	Other Interests
J. S. Dickson Leach	2,982,400	–	–	–
Anthony Y. C. Yeh	8,750,680	7,300,000	–	–
Kent M. C. Yeh	1,068,000	–	–	–
Ian D. Boyce	200,000	–	–	–
Lincoln C. K. Yung	30,000	–	–	–
Lincoln K.K. Leong	–	–	2,000,000*	–
Alison S. Bailey	114,000	–	–	–
David C. L. Tong	291,000	–	–	–
John J. Ying	–	–	11,015,000#	–
Nelson K.F. Leong	–	–	2,000,000*	–

(alternate director to Lincoln K.K. Leong)

\* 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 a company of which Mr. John J. Ying is interested in more than one-third of the voting shares.

(b) *Share options*

<b>Name</b>	<b>Subscription Period</b>	<b>Subscription price per share (HK\$)</b>	<b>Number of options</b>
Kent M. C. Yeh	15/9/1999 – 14/9/2002	0.79	469,500
	15/9/2000 – 14/9/2003	1.17	352,500
	15/9/2001 – 14/9/2004	1.67	352,500
Alison S. Bailey	15/9/1999 – 14/9/2002	0.79	337,500
	15/9/2000 – 14/9/2003	1.17	253,500
	15/9/2001 – 14/9/2004	1.67	253,500

The options were granted under a share option scheme approved by the shareholders at a Special General Meeting on 24th November 1997. Each option entitles the holder to subscribe for one share of HK\$0.10 each in the Company at a predetermined subscription price as above.

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

<b>Name</b>	<b>No. of ordinary shares held in associated corporations of the Company</b>			
	<b>Personal Interests</b>	<b>Family Interests</b>	<b>Corporate interests</b>	<b>Other interests</b>
China Industrial Investments Ltd. of US\$1 each Anthony Y. C. Yeh	420	400	1,380*	–

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

**Substantial shareholders**

As at 30th June 2001, the register of substantial shareholders required to be kept under Section 16(1) of the SDI Ordinance shows that the Company had been notified of the following interests, being 10% 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.

<b>Name</b>	<b>No. of ordinary shares held in the Company of HK\$0.10 each</b>
Bermuda Trust Company Limited	104,976,743*
Hesko Limited	104,976,743*
Esko Limited	104,976,743*
Holmium Holding Corporation	101,589,443*

\* *Bermuda Trust Company Limited has an interest in Esko Limited and Hesko Limited. Of the 104,976,743 shares, 101,589,443 shares are owned by Holmium Holding Corporation with the balance of the shares being held through other companies held by Esko Limited and Hesko Limited. Esko Limited and Hesko Limited together own 100% Holmium Holding Corporation.*

**Compliance with the Code of Best Practice of the Listing Rules**

Throughout the period, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited save that the independent non-executive directors who have not been appointed for a specific term are subject to retirement by rotation and re-election pursuant to the Company's bye-laws 100 and 109(A).

**Audit Committee**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30th June 2001 with the directors.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**For the six months ended 30th June 2001**

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30th June</b>	
	<i>Note</i>	<b>2001</b>	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	<b>219,330</b>	214,593
Cost of sales		<b>(132,309)</b>	(123,630)
Gross profit		<b>87,021</b>	90,963
Other revenues		<b>1,432</b>	1,552
Other operating income		<b>5,571</b>	3,135
Distribution costs		<b>(26,185)</b>	(22,241)
Administrative expenses		<b>(42,682)</b>	(51,191)
Other operating expenses		<b>(322)</b>	(627)
Operating profit	3	<b>24,835</b>	21,591
Finance costs		<b>(3,346)</b>	(4,877)
Share of profits of			
Associated company		<b>2,066</b>	1,307
Joint ventures		<b>5,213</b>	5,144
Profit before taxation		<b>28,768</b>	23,165
Taxation	4	<b>(8,001)</b>	(6,539)
Profit after taxation		<b>20,767</b>	16,626
Minority interests		<b>(1,592)</b>	(1,612)
Profit attributable to shareholders		<b>19,175</b>	15,014
Dividends	5	<b>2,707</b>	–
Earnings per share	6	<b>13.3 cents</b>	10.9 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**  
**As at 30th June 2001**

		<b>Unaudited</b>	
		<b>30th June 2001</b>	31st December 2000
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed assets	7	276,798	276,034
Construction work in progress	8	31,303	22,875
Intangible assets	9	(2,606)	–
Associated company		19,290	19,424
Joint ventures		84,119	84,073
Other investments		33,228	32,122
Current assets			
Inventories		113,533	103,463
Trade and other receivables	10	82,749	99,484
Bank deposits		54,322	15,453
Cash and bank balances		50,862	50,330
		<b>301,466</b>	268,730
Current liabilities			
Short term bank loans			
– Secured		18,363	28,840
– Unsecured		11,854	56,200
Bank overdrafts			
– Secured		468	3,036
– Unsecured		2,287	10,429
Current portion of long term bank loans	12	7,548	7,992
Trade and other payables	11	82,656	72,839
Taxation		3,984	4,784
		<b>127,160</b>	184,120
Net current assets		<b>174,306</b>	84,610
		<b>616,438</b>	519,138
Financed by:			
Share capital	13	20,301	13,534
Reserves	14	566,026	469,140
Shareholders' funds		586,327	482,674
Minority interests		15,355	16,844
Long term bank loans – Secured	12	14,756	19,620
		<b>616,438</b>	519,138



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**For the six months ended 30th June 2001**

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th June</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>OPERATING ACTIVITIES</b>		
Net cash inflow from operating activities	<b>48,408</b>	30,049
<b>RETURNS OF INVESTMENTS AND SERVICING OF FINANCE</b>		
Interest received	829	1,358
Interest paid	(3,346)	(4,877)
Dividend received from associated company	432	–
Dividend received from a joint venture	4,608	2,761
Dividend paid	(2,707)	–
<b>NET CASH OUTFLOW FROM RETURNS OF INVESTMENTS AND SERVICING OF FINANCE</b>	<b>(184)</b>	(758)
<b>TAXATION</b>		
Overseas tax paid	(7,266)	(2,610)
<b>INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(7,833)	(13,356)
Construction work in progress	(23,684)	(11,860)
Sale of fixed assets	624	177
Sale of investments	–	2,222
Further acquisition of subsidiaries	(4,442)	(21,351)
Purchase of investments	(1,106)	–
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	<b>(36,441)</b>	(44,168)
<b>NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING</b>	<b>4,517</b>	(17,487)
<b>FINANCING</b>		
Issue of capital	101,504	–
Share issue expenses	(3,908)	–
New bank loans	5,054	4,971
Repayment of bank loans	(62,121)	(5,606)
Repayment of loan due from a minority shareholder	5,115	–
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING</b>	<b>45,644</b>	(635)
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>50,161</b>	(18,122)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>52,318</b>	70,318
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGE</b>	<b>(50)</b>	73
<b>CASH AND CASH EQUIVALENTS AT 30TH JUNE</b>	<b>102,429</b>	52,269
<b>ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS:</b>		
Bank balances, deposits and cash	105,184	63,000
Bank overdrafts	(2,755)	(10,731)
	<b>102,429</b>	52,269

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES**  
**For the six months ended 30th June 2001**

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30th June</b>	
	<i>Note</i>	<b>2001</b>	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange loss arising on translation of financial statements of overseas subsidiaries	<i>14</i>	<b>(10,409)</b>	(5,425)
Profit for the period		<u><b>19,175</b></u>	<u>15,014</u>
Total recognised gains		<u><b>8,766</b></u>	<u>9,589</u>
Negative goodwill arising on further acquisition of a subsidiary moved to capital reserve		<u><b>–</b></u>	<u>20,699</u>

## NOTES TO CONDENSED INTERIM ACCOUNTS

### 1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2000 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2000 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAP's) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 14 (revised):	Leases
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

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

#### (a) SSAP 9 (revised) Events after balance sheet date

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 14, opening retained earnings at 1st January 2001 have increased by HK\$2,707,000 which is the reversal of the provision for the 2000 proposed final dividend previously recorded as a liability as at 31st December 2000 although not declared until after balance sheet date.

A corresponding decrease in current liabilities by HK\$2,707,000 has been reflected in the comparative 31st December 2000 balance sheet.

Changes to headings used in the previously reported 31st December 2000 balance sheet and profit and loss account relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP 9 (revised).

#### (b) SSAP 26: Segment Reporting

In Note 2 to these condensed interim accounts the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Comparative information is adjusted to conform with the requirements of SSAP 26.

#### (c) SSAP 30 Business Combinations

##### Goodwill/ Negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company /joint venture at the date of acquisition. Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill has not been retroactively capitalised and amortised. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of Assets".

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the profit and loss account immediately. For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill will not be restated.



(b) *Geographical location of operations*

An analysis of the Group's turnover and contribution to operating profit for the period by geographical segment is as follows:

	Turnover		Operating Profit	
	Six months ended 30th June		Six months ended 30th June	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	31,504	36,630	(5,253)	(6,294)
Mainland China	13,055	7,675	1,947	279
South East Asia	61,206	54,031	5,798	(2,338)
East Asia (except China)	6,066	5,099	2,079	1,986
Middle East	1,996	4,131	860	1,019
Europe	13,006	15,440	2,140	4,281
North America	91,703	90,311	16,774	20,199
Others	794	1,276	490	2,459
	<u>219,330</u>	<u>214,593</u>	<u>24,835</u>	<u>21,591</u>

3. **Operating profit**

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2001	2000
	HK\$'000	HK\$'000
Crediting:–		
Profit on disposal of fixed assets	167	86
Profit on disposal of overseas investments	–	2,222
Negative goodwill recognised as income	1,044	–
Net write back of provision of trade and other receivables	2,123	–
Refund of unvested benefit under occupational retirement scheme (offset against contribution to Group's Mandatory Provident Fund)	<u>1,011</u>	<u>–</u>
Charging:–		
Depreciation	12,613	15,718
Group's share of provision of loss by a joint venture in a breach of contract litigation ( <i>note 16</i> )	<u>1,248</u>	<u>–</u>

4. **Taxation**

Hong Kong profits tax has been provided at the rate of 16.0% (2000: 16.0%) 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 30th June	
	2001	2000
	HK\$'000	HK\$'000
Company and subsidiaries		
Hong Kong profits tax	(274)	123
Overseas taxation	<u>7,004</u>	<u>5,496</u>
	6,730	5,619
Share of taxation attributable to		
Associated company	685	438
Joint ventures	<u>586</u>	<u>482</u>
	<u>8,001</u>	<u>6,539</u>

## 5. Dividends

	Six months ended 30th June	
	2001 HK\$'000	2000 HK\$'000
2000 Final dividend, paid, of HK\$0.02 per share (1999 final paid: nil)	<u>2,707</u>	<u>–</u>

The Board does not recommend the payment of an interim dividend for the period (2000: Nil).

## 6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$19,175,000 (2000: HK\$15,014,000) and weighted average of 144,408,870 shares (2000: 137,937,713 shares after adjusting the effect of Rights Issue in June 2001.)

There is no diluted earnings per share presented as the dilution from the outstanding share options granted by the Company is immaterial.

## 7. Fixed Assets

	Six months ended 30th June 2001			
	Investment properties HK\$'000	Other properties HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Opening net book value	68,157	106,773	101,104	276,034
Exchange adjustments	(2,100)	(3,479)	(2,859)	(8,438)
Additions	–	–	7,833	7,833
Transfer from construction in progress	–	2,166	12,273	14,439
Disposals	–	–	(457)	(457)
Depreciation, impairment and other movements	–	(2,185)	(10,428)	(12,613)
Closing net book value	<u>66,057</u>	<u>103,275</u>	<u>107,466</u>	<u>276,798</u>

## 8. Construction in progress

	Six months ended 30th June 2001 HK\$'000
Opening balance	22,875
Exchange adjustments	(815)
Additions	23,684
Transfer to fixed assets	(14,439)
Write off	(2)
Closing balance	<u>31,303</u>

## 9. Intangible assets

	Negative goodwill HK\$'000
<b>6 months ended 30th June 2001</b>	
Opening net amount	–
Further acquisition of a subsidiary (note 15)	3,650
Recognised as income	(1,044)
	<u>          </u>
Closing net amount	<u><b>2,606</b></u>
At 30th June 2001	
Gross amount	<b>3,650</b>
Accumulated amount recognised as income	(1,044)
	<u>          </u>
Net amount	<u><b>2,606</b></u>
At 31st December 2000	
Gross amount	–
Accumulated amount recognised as income	–
	<u>          </u>
Net amount	<u>–</u>

## 10. Trade and other receivables

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Trade receivables (note)	49,168	67,866
Other receivables	33,581	31,618
	<u>          </u>	<u>          </u>
	<u><b>82,749</b></u>	<u><b>99,484</b></u>

Note: The credit terms of the Group depend on the creditability and repayment history of customers and range from 0 to 90 days. At 30th June, 2001, the ageing analysis of the trade receivables was as follows:

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Current – 30 days	36,136	45,473
31 days – 60 days	5,460	11,297
61 days – 90 days	2,680	3,955
Over 90 days	4,892	7,141
	<u>          </u>	<u>          </u>
	<u><b>49,168</b></u>	<u><b>67,866</b></u>

## 11. Trade and other payables

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Trade payables (note)	21,073	20,355
Other payables	61,583	52,484
	<u>          </u>	<u>          </u>
	<u><b>82,656</b></u>	<u><b>72,839</b></u>

Note: At 30th June, 2001, the ageing analysis of the trade payables was as follows:

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Current – 30 days	19,011	18,529
31 days - 60 days	909	910
61 days - 90 days	62	36
Over 90 days	1,091	880
	<u>          </u>	<u>          </u>
	<u><b>21,073</b></u>	<u><b>20,355</b></u>

## 12. Long-term bank loans

The maturity profile of the secured long term bank loans is as follows:

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Within one year	7,548	7,992
In the second year	7,548	7,992
In the third to fifth year inclusive	<u>7,208</u>	<u>11,628</u>
	22,304	27,612
<i>Less: Amount due within one year included under current liabilities</i>	<u>(7,548)</u>	<u>(7,992)</u>
	<u><u>14,756</u></u>	<u><u>19,620</u></u>

## 13. Share capital

	No. of shares	Ordinary shares of HK\$0.10 each HK\$'000
<i>Authorised:</i>		
At 1st January 2001	200,000,000	20,000
Increase in authorised share capital	<u>200,000,000</u>	<u>20,000</u>
At 30th June 2001	<u><u>400,000,000</u></u>	<u><u>40,000</u></u>
<i>Issued and fully paid:</i>		
At 1st January 2001	135,339,200	13,534
Shares issued under rights issue	<u>67,669,600</u>	<u>6,767</u>
At 30th June 2001	<u><u>203,008,800</u></u>	<u><u>20,301</u></u>

By a special resolution passed on 25th May 2001 the authorised ordinary share capital of the Company was increased from HK\$20,000,000 to HK\$40,000,000 by the creation of 200,000,000 shares of HK\$0.10 each.

On 18th June 2001, a total of 67,669,600 new ordinary shares of HK\$0.10 each were allotted and issued, for cash of HK\$1.50 per share pursuant to a rights issue made to existing shareholders on the basis of one rights share for every two existing shares held. Net proceeds of approximately HK\$97,596,000 were raised.

On 24th November 1997, the Company adopted a share option scheme pursuant to which the Company may grant options to directors and employees of the Group to subscribe for shares in the Company, up to a maximum of 10% of issued share capital of the Company from time to time. Each share option entitles the holder to subscribe for one share of HK\$0.10 each in the Company at a predetermined price. During the period, no options have been granted.

The movement of outstanding share options during the interim period up to 17th June 2001 (the date immediately before allotment of rights shares) were as follows:

Subscription period	Subscription price per share	Number of outstanding share options granted as at 31st December 2000	Number of share options forfeited during the period	Number of outstanding share options granted as at 17th June 2001 (immediately before allotment of rights shares)
15th September 1999 to 14th September 2002	HK\$1.18	1,429,000	(44,000)	1,385,000
15th September 2000 to 14th September 2003	HK\$1.75	1,072,000	(33,000)	1,039,000
15th September 2001 to 14th September 2004	HK\$2.50	<u>1,072,000</u>	<u>(33,000)</u>	<u>1,039,000</u>
		<u><u>3,573,000</u></u>	<u><u>(110,000)</u></u>	<u><u>3,463,000</u></u>



The issuance of the aforesaid rights shares on 18th June 2001 had caused an adjustment to the number and exercise price of the outstanding share options. No share options are granted, forfeited and exercised during the period from 18th June 2001 to 30th June 2001. Details of outstanding share options as at 30th June 2001 were as follows:

Subscription period	Subscription price per share before adjustment	Number of outstanding share options before adjustment	Subscription price per share after adjustment	Number of outstanding share options granted after adjustment and as at 30th June 2001
15th September 1999 to 14th September 2002	HK\$1.18	1,385,000	HK\$0.79	2,077,500
15th September 2000 to 14th September 2003	HK\$1.75	1,039,000	HK\$1.17	1,558,500
15th September 2001 to 14th September 2004	HK\$2.50	1,039,000	HK\$1.67	1,558,500
		<u>3,463,000</u>		<u>5,194,500</u>

#### 14. Reserves

	Revaluation reserves				General reserve	Retained profit	Total
	Share premium	Capital reserve	Investment properties	Other properties			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2001							
as previously reported	88,948	81,954	6,558	5,040	16,000	267,933	466,433
Effect of adopting SSAP9	–	–	–	–	–	2,707	2,707
At 1st January 2001 as restated	88,948	81,954	6,558	5,040	16,000	270,640	469,140
Exchange differences	–	(1,124)	–	(450)	–	(8,835)	(10,409)
2000 final dividend paid	–	–	–	–	–	(2,707)	(2,707)
Premium on rights issue of shares	94,737	–	–	–	–	–	94,737
Share issuing expenses	(3,908)	–	–	–	–	–	(3,908)
Disposal of shares in a subsidiary	–	(2)	–	–	–	–	(2)
Profit for the period	–	–	–	–	–	19,175	19,175
At 30th June 2001	<u>179,777</u>	<u>80,828</u>	<u>6,558</u>	<u>4,590</u>	<u>16,000</u>	<u>278,273</u>	<u>566,026</u>
Company and subsidiaries	179,777	69,227	6,558	18	16,000	267,137	538,717
Joint ventures	–	7,610	–	–	–	3,954	11,564
Associated company	–	3,991	–	4,572	–	7,182	15,745
At 30th June 2001	<u>179,777</u>	<u>80,828</u>	<u>6,558</u>	<u>4,590</u>	<u>16,000</u>	<u>278,273</u>	<u>566,026</u>

#### 15. Acquisition

On 13th March 2001, the Group acquired the remaining 10% of share capital of Treasure Looms (China) Limited (“TLC”), a 90% subsidiary of the Group, together with its shareholders’ loan of HK\$5,173,000 at a cash consideration of HK\$4,442,000. The share of fair value of the net identifiable assets of TLC at the date of acquisition was HK\$2,919,000. The resulting negative goodwill was HK\$3,650,000, of which HK\$806,000 was related to shareholders’ loan and recognised as income immediately. This acquisition contributed to the Group’s profit attributable to shareholders of HK\$178,000 for the period from 13th March 2001 to 30th June 2001.

The assets and liabilities arising from the acquisition are as follows:

	HK\$000
Share of net assets acquired	2,919
Shareholders’ loan assigned	5,173
	<u>8,092</u>
Purchase consideration	(4,442)
Negative Goodwill (note 9)	<u>3,650</u>

## 16. Contingent liabilities

### (a) Guarantee and counter-indemnity

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Corporate guarantee in respect of performance bonds issued by subsidiaries to customers	–	1,075
Counter-indemnity in respect of performance bonds issued by banks	1,557	276
Guarantee in lieu of utility deposit	784	1,892
Guarantee in respect of import duty	1,047	662
	<u>3,388</u>	<u>3,905</u>

### (b) Litigation

- (i) The former Director and Administrator of Tai Ping Carpets Europe S.A. (“TPCE”) issued proceedings and a claim for French Francs 1,200,000 (HK\$1,212,000) against TPCE for wrongful dismissal. As disclosed in the Group’s 2000 Annual Report, TPCE’s lawyers were confident that the outcome of the proceedings against the TPCE in the French Labour Court would not be successful. There was no significant change of situation during the interim period and no provision has been made by TPCE in respect of such claim (except the gross cost of holiday pay due to him provided in 2000).
- (ii) As disclosed in the Group’s 2000 Annual Report, Weihai Huabao Carpet Company Limited (“WHC”), a joint venture of the Group, is being sued for breach of contract after terminating a long-term supply contract from a glue supplier. WHC lost the ruling in a case held by the Higher People’s Court of Shangdong Province and the company is now appealing the judgement to the Supreme People’s Court of China. If the judgement of the Higher People’s Court is upheld, WHC will have to pay Rmb3,300,000 (including legal costs). Even if the Higher People’s Court’s decision is overruled, WHC will still have to pay Rmb2,700,000 which mainly represents legal costs arising from this litigation. The Group has made provision for its share of legal costs, which amounted to HK\$1,248,000. No further provision has been made for the remaining compensation (the Group’s share of which amounts to HK\$277,000) as the directors of the Company are of opinion that even if such compensation does materialise there will be no material adverse effect on the financial position of the Group.

## 17. Capital commitments

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Contracted but not provided for in respect of – fixed assets	6,278	11,878
Authorised but not contracted for in respect of – fixed assets	16,095	2,184
– further acquisition of a subsidiary	–	4,368
	<u>22,373</u>	<u>18,430</u>
The Group’s share of capital commitments of the joint ventures themselves not included in the above were as follows: – fixed assets	<u>1,795</u>	<u>9,594</u>

## 18. Related party transactions

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

	Six months ended 30th June	
	2001	2000
	HK\$'000	HK\$'000
Sales to an associated company ( <i>note a</i> )	601	909
Purchases from a joint venture ( <i>note a</i> )	51	–
Interest from a related company ( <i>note b</i> )	<u>126</u>	<u>304</u>

- (a) Sales to an associated company and purchases from a joint venture were conducted in the normal course of business and at terms mutually agreed between the parties.
- (b) Interest from a related company was derived from a loan due from a minority shareholder, Shangen Industrial Development Company which amounted to HK\$5,115,000. The loan was unsecured, bearing interest at 9.5% (2000: 8.375%) and fully repaid during the period.

## 19. Subsequent events

In July and August 2001, the Group disposed of its entire 5% interest in Thailand Carpet Manufacturing Corporation ("TCMC") for a cash consideration of HK\$2,910,000. As the investment in TCMC has been written down to nominal value, the disposal resulted a profit of same amount which will be included in the Group's second half year results in 2001.

By Order of the Board  
**Kent M. C. Yeh**  
*Managing Director*

Hong Kong, 13th September, 2001