



# Tai Ping Carpets International Limited Interim Report 2007

(Incorporated in Bermuda with Limited Liability)

---

	<i>Pages</i>
Management Discussion and Analysis	2
Corporate Governance	7
Condensed Consolidated Profit and Loss Account	11
Condensed Consolidated Balance Sheet	12
Condensed Consolidated Statement of Changes in Equity	13
Condensed Consolidated Cash Flow Statement	14
Notes to the Condensed Consolidated Accounts	15

---

---

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 2007. The consolidated results, cash flow statement and statement of changes in equity for the Group for the six months ended 30 June 2007, and the consolidated balance sheet as at 30 June 2007, all of which are unaudited and reviewed by the audit committee of the Company, along with selected explanatory notes, can be found on pages 11 to 30 of this report.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The Group’s consolidated turnover for the six months ended 30 June 2007 was HK\$491.9 million, a year-on-year increase of 29% or HK\$112.0 million. The gross margin for the period also increased to 44%, compared with 43% in the same period in 2006. The increase in turnover and gross margin percentage was mainly driven by the sustained business growth and improved profitability of the carpet operations.

Profit after tax of the Group in the first six months of 2007 increased to HK\$23.2 million, compared with HK\$5.1 million in the corresponding period in 2006 (which included a loss of HK\$3.7 million from “discontinued operation” attributable to the disposal of Indigo, the home and interior furnishing business in Hong Kong). The Group mainly benefited from the economies of scale resulting from higher sales and better gross profit margin.

### **Carpet Operations**

During the first six months in 2007, turnover of the carpet operations increased by HK\$110.8 million, or 33%, to HK\$448.1 million. This growth was driven by both the commercial and residential businesses. The U.S. market remained the biggest market to the Group but the growth rate in Europe during the period was also high. Turnover in the U.S. accounted for 42% of total carpet turnover in the first half year of 2007. Asia and Europe/Others accounted for 37% and 21% respectively. In the corresponding period in 2006, the respective shares of total carpet turnover by the U.S., Asia and Europe/Others were 44%, 42% and 14%.

Gross margin of carpet operations during this period also grew to 44% from 43% in the corresponding period in 2006, despite increases in material costs and labour rates. This improvement was mainly attributable to the rising sales mix of higher margin carpets and improved factory efficiencies.

As a result, the carpet operations made an operating profit of HK\$9.8 million during the period, compared with an operating loss of HK\$8.2 million in the corresponding period in 2006.

The U.S. market showed sustained business growth and remained to be the biggest market to the Group. Total carpet turnover in the U.S. during the period increased 25% year-on-year to HK\$187.1 million, mainly attributable to the substantial growth in the commercial business.

---

Turnover of the commercial business during the period amounted to HK\$133.0 million and achieved a year-on-year increase of 44%. The significant increase in sales was mainly fuelled by the strength of the hospitality and gaming sectors in the local, regional and international markets. While profit margins were tight in certain market sectors, the overall gross profit margin during the period was comparable with that in the corresponding period in 2006.

As Tai Ping operates on a global scale, there is an increasing number of commercial orders and leads referred to sales offices in other countries for projects specified in the U.S.

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. After the Group acquired the Edward Fields operations in 2005, a renovation programme was put in place to upgrade and refresh its brand image. Some of the former Edward Fields showrooms will be moved in phases to better locations and converted into Tai Ping showrooms with Edward Fields studios, and renovation of three major showrooms in the U.S. has been planned for this year. As a result, turnover of the residential business in the U.S. was flat in the first half year of 2007, but the gross margin further increased. The renovation of the Chicago showroom was completed and well-received by customers and industry leaders in the second quarter, and two additional showrooms have been relocated and will be operational in the third quarter. Therefore, management is confident that the residential business will resume its growth momentum in the second half year.

Turnover from Europe and the Middle East also showed significant growth during the period. Total turnover doubled to HK\$85.0 million during the period, which was mainly driven by growth in both commercial and residential businesses and was partly attributable to the appreciation of the Euro against the U.S. dollar.

While the commercial business in Europe and the Middle East remained highly competitive and price-sensitive in general, the Group achieved significant growth in sales during the period and margins were comparable to 2006. Turnover more than doubled year-on-year to HK\$50.0 million.

The residential business has also achieved significant sales growth during the period with better margins. Turnover almost doubled year-on-year, partly attributable to postponed shipment of certain orders from 2006 to 2007. A number of initiatives are being implemented for long-term growth in the region, including the set-up of new offices and further strengthening of management resources and service support. It is expected that such initiatives will start to bear fruit from late 2007.

In Thailand, despite the slowdown of the domestic economy in general due to political uncertainty, both turnover and gross margin during the first half year of 2007 showed improvements compared with 2006, and the re-branded "Carpets Inter" was well received.

---

Turnover in other Asian countries tripled on a year-on-year basis to HK\$27.8 million as a result of the general economic growth in the region and better management of agents and distributors in such countries. The Group also continues to benefit from the buoyant hospitality and gaming sectors in Hong Kong and Macau, and the overall profit margin improved slightly during the period.

**Other Operations**

Both the sales and profitability of the Group's yarn operations, Premier Yarn Dyers, Inc. ("PYD"), showed significant improvements in the first half year of 2007 due to the strong demand for the new yarns developed and launched by PYD during the period. PYD achieved year-on-year increases in sales and operating profit of 21% and 49% respectively.

The relative importance of other businesses, including the mattress manufacturing business in China and the holding of certain investment properties for rental income, to overall Group results continues to decline as the Group's main focus is to grow the carpet operations. Turnover of such other businesses for the first six months in 2007 decreased by 31%, year-on-year, to HK\$10.5 million. Similarly, total operating profits attributable to such other businesses decreased by HK\$2.4 million to HK\$1.9 million.

**Outlook**

Management is optimistic that sales momentum will continue in the second half of 2007 and overall operating results of the Group will grow, despite the recent volatility in global economic and financial markets.

While Tai Ping will continue to capitalise on the strong demand and leverage its competitive edge on product quality, design and customer service to grow sales and market share in the various target market sectors, the Group is also actively identifying and building new growth drivers for the carpet operations by exploring new markets and developing new products and designs.

In addition, as most of the renovation work on existing and new residential showrooms and sales offices in the U.S. and Europe planned for 2007 will be completed in the third quarter, management is confident that sales of the residential business in the second half year in 2007 will grow at a faster pace than the first six months.

The Group will also continue to improve its working capital management and factory efficiencies, manage increases in production costs and maintain tight controls on operating costs.

**Dividends**

The Board resolves not to pay an interim dividend for the period (2006: Nil).

### Capital Expenditure

During the six-month period ended 30 June 2007, the Group invested HK\$25.1 million (2006: HK\$13.3 million) in capital expenditure in the form of property, plant and equipment, and construction in progress. As at 30 June 2007, the aggregate net book value of the Group's property, plant and equipment, investment properties, leasehold land and land use rights and construction in progress (excluding those classified under "Properties held for sale") amounted to HK\$401.4 million (as at 31 December 2006: HK\$383.5 million).

It is expected that capital expenditure to be incurred during the second half of 2007 will be greater than that incurred in the first half year, mainly to cover renovation of residential showrooms, improvements in production facilities and expansion of production capacities to support business growth and improve efficiency.

### Liquidity and Financial Resources

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

As at 30 June 2007, the Group had total bank borrowings of HK\$9.6 million (as at 31 December 2006: HK\$11.0 million), and a net cash balance of HK\$55.7 million (as at 31 December 2006: HK\$48.0 million). The gearing ratio, calculated as net bank borrowings (total bank borrowings net of cash and bank balances) divided by total equity, was zero (gearing ratio as at 31 December 2006: zero).

The bank loans outstanding on 30 June 2007 were unsecured and carried at fixed interest rates throughout their terms.

The currency denomination of the loans and their maturity dates as at 30 June 2007 and 31 December 2006 were as follows:

	As at 30 June 2007 HK\$'000	As at 31 December 2006 HK\$'000
Within 1 year		
Thai Baht	3,557	11,000
Hong Kong Dollar	6,000	–
Total borrowings	9,557	11,000

---

**Exposure to Foreign Exchange Risks**

The Group has overseas operations in the PRC, Thailand, Singapore, the U.S. 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.

The European and Singaporean operations are not significant in terms of the Group's results. The Chinese Renminbi gradually appreciated against the Hong Kong Dollar during the first six months in 2007. The major exchange differences arising from overseas operations relate mostly to Thailand. The effect of these exchange differences, however, has been partly reduced as borrowings are in local currency and by hedging against some of its foreign currency exposure (including accounts receivable from export sales).

The Group's export sales are denominated primarily in U.S. Dollar, and to a much lesser extent in Euro.

The Group therefore considers its exposure to exchange rate movements in 2007 manageable and will continue to monitor exchange rate movements closely to ascertain if any significant exposure may arise.

**Employee and Remuneration Policies**

As at 30 June 2007, the Group employed 3,200 employees (as at 31 December 2006: 3,200 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.

**Contingent Liabilities**

As at 30 June 2007, the Group's total contingent liabilities (see Note 13 to the condensed consolidated accounts for full disclosure) amounted to HK\$13.8 million (as at 31 December 2006: HK\$12.9 million).

**James H. Kaplan**

*Chief Executive Officer*

Hong Kong, 19 September 2007

---

## **Compliance with the Code on Corporate Governance Practices**

During the six months ended 30 June 2007, the Company complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

## **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 2007 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 2007. 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 2007, 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:

Name	Ordinary shares of HK\$0.10 each in the Company Number of shares held (long position)		
	Personal interests	Corporate interests	Aggregate % of 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 <sup>1</sup>	–	2,000,000	0.943%
Nelson K. F. Leong <sup>1</sup> (Alternate Director to Lincoln K. K. Leong)	–	2,000,000	0.943%
John J. Ying <sup>2</sup>	–	32,605,583	15.366%
James H. Kaplan	522,000	–	0.246%

<sup>1</sup> 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.

<sup>2</sup> The shares are held through Peak Capital Partners I, L.P. of which Mr. John J. Ying 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).

## 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, the Chief Executive Officer of the Company. As at 30 June 2007, an aggregate of 500,000 share options granted under the 2002 Share Options Scheme remained outstanding, which represented approximately 0.24% of the issued share capital of the Company.

Details of the share options outstanding as at 30 June 2007 were as follows:

Name	Balance as at 1 January 2007	Date of grant	Changes during the period			Balance as at 30 June 2007	Exercise price <sup>1</sup> (HK\$)	Exercisable period
			Granted	Lapsed	Exercised			
James H. Kaplan	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

<sup>1</sup> 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 on 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 depends on 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 significant variables and assumptions used for calculating the fair value of the share options are set out in Note 11 to the accounts.

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. Share option expenses of HK\$90,000 were recognised for the six months ended 30 June 2007, with a corresponding adjustment recognised in the Group's capital reserve.

Save for the Directors' interests as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive 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 2007, 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	Number of ordinary shares held in the Company of HK\$0.10 each (long position)	Aggregate % of the share capital
Bermuda Trust Company Limited <sup>1</sup>	117,688,759	55.465%
Harneys Trustees Limited <sup>1</sup>	117,688,759	55.465%
Lawrencium Holdings Limited <sup>1</sup>	117,688,759	55.465%
Acorn Holdings Corporation <sup>1</sup>	117,688,759	55.465%
New Holmium Holding Corporation <sup>1</sup>	117,688,759	55.465%
The Hon. Sir Michael Kadoorie <sup>1</sup>	117,688,759	55.465%
Peak Capital Partners I, L.P. <sup>2</sup>	32,605,583	15.366%

<sup>1</sup> Bermuda Trust Company Limited are deemed to be interested in the same 117,688,759 shares in which Lawrencium Holdings Limited and Acorn Holdings Corporation are deemed to be interested. Lawrencium Holdings Limited, Acorn Holdings Corporation and Harneys Trustees Limited are deemed to be interested in the same 117,688,759 shares in which New Holmium Holding Corporation is interested. These shares are held by New Holmium Holding Corporation. For the purpose of the SFO, the spouse of the Hon. Sir Michael Kadoorie has a duty of disclosure in Hong Kong in relation to the 117,688,759 shares. The interest disclosed by the spouse of the Hon. Sir Michael Kadoorie is that of the Hon. Sir Michael Kadoorie attributed to her under the SFO. Except the above, she has no interest, legal or beneficial in those shares.

<sup>2</sup> Mr. John J. Ying (a Non-executive 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).

	Note	Unaudited Six months ended 30 June	
		2007 HK\$'000	As restated 2006 HK\$'000
<b>Continuing operations</b>			
Turnover	2	491,876	379,921
Cost of sales		(277,085)	(218,330)
Gross profit		214,791	161,591
Distribution costs		(35,318)	(31,225)
Administrative expenses		(160,481)	(133,006)
Other operating (expenses)/income, net		(97)	3,223
Operating profit	2, 3	18,895	583
Interest income from banks		643	915
Finance costs	4	(784)	(3,081)
Surplus on revaluation of investment properties		-	3,140
Share of (losses)/profits of			
an associate		(845)	(11)
jointly controlled entities		15,233	10,908
Profit before income tax expenses		33,142	12,454
Income tax expenses	5	(9,982)	(3,639)
Profit after income tax expenses from continuing operations		23,160	8,815
<b>Discontinued operation</b>			
Profit for the period from discontinued operation		-	2,378
Loss recognised on measurement to fair value less costs to sell		-	(6,045)
		-	(3,667)
Profit after income tax expenses		23,160	5,148
Attributable to:			
Equity holders of the Company		21,593	3,555
Minority interests		1,567	1,593
Profit after income tax expenses		23,160	5,148
Dividends	6	6,366	-
Earnings per share for profit attributable to the equity holders of the Company (expressed in HK cents per share)			
From continuing and discontinued operations			
Basic	7	10.18	1.67
Diluted	7	10.17	1.67
From continuing operations			
Basic	7	10.18	3.40
Diluted	7	10.17	3.40
From discontinued operation			
Basic	7	-	(1.73)
Diluted	7	-	(1.73)

## Condensed Consolidated Balance Sheet

		Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
	Note		
<b>Assets</b>			
<b>Non-current assets</b>			
Leasehold land and land use rights	8	21,527	21,588
Property, plant and equipment	8	324,991	317,092
Investment properties	8	36,800	36,800
Construction in progress	8	18,124	7,993
Interest in an associate		22,059	21,682
Interests in jointly controlled entities		173,018	157,705
Deferred tax assets		6,546	6,631
		603,065	569,491
<b>Current assets</b>			
Inventories		224,182	211,858
Trade and other receivables	9	199,385	178,404
Derivative financial instruments		606	681
Properties held for sale		–	4,436
Financial assets at fair value through profit & loss		2,582	23,809
Cash and cash equivalents	10	65,259	58,976
		492,014	478,164
<b>Total assets</b>		<b>1,095,079</b>	<b>1,047,655</b>
<b>Equity</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	11	21,219	21,219
Reserves		802,766	746,276
Proposed final dividend		–	6,366
		823,985	773,861
<b>Minority interests</b>		<b>34,751</b>	<b>33,204</b>
<b>Total equity</b>		<b>858,736</b>	<b>807,065</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities		2,324	2,602
Other long-term liabilities		1,211	1,601
		3,535	4,203
<b>Current liabilities</b>			
Bank borrowings – unsecured		9,557	11,000
Trade and other payables	12	205,012	201,520
Other long-term liabilities – current portion		390	390
Taxation		11,483	23,477
Final dividend payable	6	6,366	–
		232,808	236,387
<b>Total liabilities</b>		<b>236,343</b>	<b>240,590</b>
<b>Total equity and liabilities</b>		<b>1,095,079</b>	<b>1,047,655</b>
<b>Net current assets</b>		<b>259,206</b>	<b>241,777</b>
<b>Total assets less current liabilities</b>		<b>862,271</b>	<b>811,268</b>

# Condensed Consolidated Statement of Changes in Equity

	Attributable to the equity holders of the Company										
	Share capital HK'000	Share premium HK'000	Capital reserves HK'000	Other properties revaluation reserve HK'000	General reserves HK'000	Exchange reserves HK'000	Retained earnings HK'000	Proposed final dividend HK'000	Sub-total HK'000	Minority interests HK'000	Total HK'000
<b>Balance at 1 January 2007</b>	21,219	189,699	71,852	4,161	16,000	60,769	403,795	6,366	773,861	33,204	807,065
Currency translation differences	-	-	-	-	-	34,807	-	-	34,807	778	35,585
Net income recognised directly											
in equity	-	-	-	-	-	34,807	-	-	34,807	778	35,585
Profit for the period	-	-	-	-	-	-	21,593	-	21,593	1,567	23,160
Net income recognised for the period	-	-	-	-	-	34,807	21,593	-	56,400	2,345	58,745
Dividend paid to minority interests	-	-	-	-	-	-	-	-	-	(798)	(798)
Employee share options scheme:											
Value of employee services	-	-	90	-	-	-	-	-	90	-	90
2006 final dividend	-	-	-	-	-	-	-	(6,366)	(6,366)	-	(6,366)
	-	-	90	-	-	-	-	(6,366)	(6,276)	(798)	(7,074)
<b>Balance at 30 June 2007</b>	21,219	189,699	71,942	4,161	16,000	95,576	425,388	-	823,985	34,751	858,736
<b>Balance at 1 January 2006</b>	21,193	189,417	88,725	4,821	16,000	2,908	360,543	-	683,607	27,864	711,471
Currency translation differences	-	-	1,108	447	-	15,765	-	-	17,320	127	17,447
Net income recognised directly in equity	-	-	1,108	447	-	15,765	-	-	17,320	127	17,447
Profit for the period	-	-	-	-	-	-	3,555	-	3,555	1,593	5,148
Net income recognised for the period	-	-	1,108	447	-	15,765	3,555	-	20,875	1,720	22,595
Repayment to minority interests	-	-	-	-	-	-	-	-	-	(29)	(29)
Dividend paid to minority interests	-	-	-	-	-	-	-	-	-	(177)	(177)
Employee share option scheme:											
Value of employee services	-	-	88	-	-	-	-	-	88	-	88
Proceeds from shares issued	25	282	-	-	-	-	-	-	307	-	307
	25	282	88	-	-	-	-	-	395	(206)	189
<b>Balance at 30 June 2006</b>	21,218	189,699	89,921	5,268	16,000	18,673	364,098	-	704,877	29,378	734,255

## Condensed Consolidated Cash Flow Statement

	Unaudited	
	Six months ended	
	30 June	
	2007	2006
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	(438)	19,845
Net cash generated from/(used in) investing activities	9,974	(10,096)
Net cash used in financing activities	(3,829)	(39,887)
Increase/(decrease) in cash and cash equivalents	5,707	(30,138)
Cash and cash equivalents at the beginning of the year	58,976	87,079
Effect of foreign exchange rates changes	576	740
	65,259	57,681
Less: Cash and cash equivalents of a disposal group classified as held for sale	–	(4,812)
Cash and cash equivalents at 30 June	65,259	52,869
Analysis of the balances of cash and cash equivalents:		
Cash at bank and on hand	65,259	49,124
Short-term bank deposits	–	3,903
Bank overdrafts	–	(158)
	65,259	52,869

---

## 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 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) financial assets at fair value through profit or loss 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 2006.

In the current period, the Group has also adopted, for the first time, the following new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the “new HKFRSs”) that are mandatory for the accounting periods beginning on or after 1 January 2007.

### **Amendment to HKAS 1**

Capital disclosures

---

### **HKFRS 7**

Financial instruments: disclosures

---

### **HK(IFRIC)-Interpretation 7**

Applying the restatement approach under HKAS 29,  
financial reporting in hyperinflationary economies

---

### **HKAS 39 Amendment**

The fair value option

---

### **HK(IFRIC)-Interpretation 8**

Scope of HKFRS 2

---

### **HK(IFRIC)-Interpretation 9**

Reassessment of embedded derivatives

---

### **HK(IFRIC)-Interpretation 10**

Interim financial reporting and impairment

---



## 1. Basis of Preparation and Accounting Policies (continued)

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

The Group has not yet adopted 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
<hr/>	
<b>HKAS 23 (Revised)</b>	
Borrowing costs	1 January 2009
<b>HKFRS 8</b>	
Operating segments	1 January 2009
<b>HK(IFRIC)-Interpretation 11</b>	
HKFRS 2 – Group and treasury share transactions	1 March 2007
<b>HK(IFRIC)-Interpretation 12</b>	
Service concession arrangements	1 January 2008

The Group has previously included the surplus on revaluation of investment properties in operating profit. Management decided to exclude such revaluation surplus from the operating profit since property investment is not part of the Group's core business and the inclusion of such surplus (or deficit) on revaluation of investment properties may distort the operating results of the Group.

The Group has also excluded interest income from operating profit. Management believes that such reclassification provides a better presentation of the Group's results.

The comparative figures have been reclassified to conform to the current period's presentation.

## 2. Segment Information

The principal activities of the Group consist of manufacture, import, export and sale of carpets, and manufacture and sale of yarns. Other businesses include manufacture and sale of mattresses and property holding. The discontinued operation in 2006 comprised sale and leasing of interior furnishings in Hong Kong.

The following tables present turnover and profit information of the Group's business segments for the six-month periods ended 30 June 2007 and 2006.

For the six months ended 30 June 2007

	Carpet HK'\$000	Yarn HK'\$000	Others HK'\$000	Elimination HK'\$000	Unallocated HK'\$000	Continuing operations HK'\$000	Discontinued operation (interior furnishings) HK'\$000	Group HK'\$000
<b>Revenues</b>								
External revenue	448,105	33,282	10,489	-	-	491,876	-	491,876
Inter-segment revenue <sup>1</sup>	-	-	1,293	(1,293)	-	-	-	-
	448,105	33,282	11,782	(1,293)	-	491,876	-	491,876
Segment results	9,757	7,961	1,916	-	(739)	18,895	-	18,895
Interest income from banks						643	-	643
Finance costs						(784)	-	(784)
Share of (losses)/profits of								
an associate	(845)	-	-	-	-	(845)	-	(845)
jointly controlled entities	15,233	-	-	-	-	15,233	-	15,233
Profit before income tax								
expenses						33,142	-	33,142
Income tax expenses						(9,982)	-	(9,982)
Profit after income tax								
expenses						23,160	-	23,160

<sup>1</sup> Inter-segment transactions were entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

## 2. Segment Information (continued)

For the six months ended 30 June 2006 (as restated)

	Carpet HK'\$000	Yarn HK'\$000	Interior furnishings HK'\$000	Property holding HK'\$000	Elimination HK'\$000	Unallocated HK'\$000	Continuing operations HK'\$000	Discontinued operation (interior furnishings) HK'\$000	Group HK'\$000
<b>Revenues</b>									
External revenue	337,257	27,436	12,308	2,920	-	-	379,921	23,738	403,659
Inter-segment revenue <sup>1</sup>	254	-	-	1,045	(1,299)	-	-	-	-
	337,511	27,436	12,308	3,965	(1,299)	-	379,921	23,738	403,659
Segment results	(8,238)	5,340	774	3,533	-	(826)	583	(4,212)	(3,629)
Interest income from banks							915	43	958
Finance costs							(3,081)	-	(3,081)
Surplus on revaluation of investment properties							3,140	-	3,140
Share of (losses)/profits of									
an associate	(11)	-	-	-	-	-	(11)	-	(11)
jointly controlled entities	10,908	-	-	-	-	-	10,908	-	10,908
Profit/(loss) before income tax expenses							12,454	(4,169)	8,285
Income tax (expenses)/credit							(3,639)	502	(3,137)
Profit/(loss) after income tax expenses							8,815	(3,667)	5,148

<sup>1</sup> Inter-segment transactions were entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

### 3. Operating Profit

Operating profit is stated after crediting and charging the following:

	Six months ended	
	30 June	
	2007	2006
	HK\$'000	HK\$'000
<b>Crediting:</b>		
Gain on disposal of property, plant and equipment	166	–
<b>Charging:</b>		
Depreciation of property, plant and equipment (Note 8)	22,447	22,198
Amortisation of leasehold land and land use rights (Note 8)	271	266
Loss on disposal of property, plant and equipment	–	196

### 4. Finance Costs

	Six months ended	
	30 June	
	2007	2006
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	784	3,081

### 5. Income Tax Expenses

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

## 5. Income Tax Expenses (continued)

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

	Six months ended	
	30 June	
	2007	2006
	HK\$'000	HK\$'000
<b>Income tax relating to continuing operations</b>		
Current income tax expenses		
Hong Kong	2,704	2,168
PRC and overseas	7,027	2,404
Deferred taxation relating to the origination and reversal		
of temporary differences	251	(933)
	9,982	3,639
<b>Income tax relating to discontinued operation</b>		
Current income tax expenses		
Hong Kong	-	35
Deferred taxation relating to the origination and		
reversal of temporary differences	-	(537)
	-	(502)
Total income tax expenses	9,982	3,137

## 6. Dividends

The Board does not recommend the payment of an interim dividend for the period (2006: Nil).

	30 June	31 December
	2007	2006
	HK\$'000	HK\$'000
2006 final dividend of HK\$0.03 per share (2005 final dividend: nil)	6,366	-

The 2006 final dividend was paid on 3 July 2007.

## 7. Earnings/(Loss) Per Share

### (1) 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	
	2007 HK\$'000	2006 HK\$'000
Profit attributable to equity holders of the Company	21,593	3,555
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	212,187	212,187
Basic earnings per share (HK cents)	10.18	1.67

#### 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	
	2007 HK\$'000	2006 HK\$'000
Profit attributable to equity holders of the Company	21,593	3,555
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	212,187	212,187
Adjustments for share options (thousands)	37	–
Weighted average number of ordinary shares in issue for diluted earnings per share (thousands)	212,224	212,187
Diluted earnings per share (HK cents)	10.17	1.67

## 7. Earnings/(Loss) Per Share (continued)

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

## (2) 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:

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Profit attributable to equity holders of the Company	21,593	3,555
Add: Loss attributable to equity holders from discontinued operation	-	3,667
Profit attributable to equity holders of the Company from continuing operations	21,593	7,222
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	212,187	212,187
Basic earnings per share (HK cents)	10.18	3.40

**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\$21,593,000 (2006: HK\$7,222,000). The denominators used are the same as those detailed above for diluted earnings per share from continuing and discontinued operations.

## 7. Earnings/(Loss) Per Share (continued)

**(3) 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	
	2007	2006
	HK\$'000	HK\$'000
Loss attributable to equity holders from discontinued operation	–	3,667
	No. of ordinary shares	
Weighted average number of ordinary shares in issue (thousands)	212,187	212,187
Basic loss per share (HK cents)	–	1.73

**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\$nil (2006: HK\$3,667,000). The denominators used are the same as those detailed above for diluted earnings per share from continuing and discontinued operations.



## 8. Capital Expenditure

For the six months ended 30 June 2007

	Leasehold	Investment properties	Property, plant and equipment			Construction	Total
	land and		Buildings	Other assets	Sub-total	in progress	
	land use rights						
Net book value as at 1 January 2007	21,588	36,800	112,347	204,745	317,092	7,993	383,473
Exchange adjustments	210	-	4,903	10,115	15,018	431	15,659
Additions	-	-	254	6,385	6,639	18,506	25,145
Transfer from construction in progress to property, plant and equipment	-	-	608	8,198	8,806	(8,806)	-
Disposals	-	-	-	(117)	(117)	-	(117)
Depreciation and amortisation	(271)	-	(9,701)	(12,746)	(22,447)	-	(22,718)
Net book value as at 30 June 2007	21,527	36,800	108,411	216,580	324,991	18,124	401,442

## 9. Trade and Other Receivables

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Trade receivables	182,977	176,182
Less: Impairment loss of receivables	(15,343)	(20,337)
Trade receivables, net	167,634	155,845
Other receivables	31,751	22,559
	199,385	178,404

## 9. Trade and Other Receivables (continued)

The amount approximated to the respective fair values as at 30 June 2007 and 31 December 2006. The credit terms of the Group range from 0 to 90 days, depending on the credit status and repayment history of customers. As at the balance sheet dates the ageing analyses of the trade receivables were as follows:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Current – 30 days	95,191	85,432
31 days – 60 days	17,020	23,634
61 days – 90 days	16,233	14,078
Over 90 days	54,533	53,038
	<b>182,977</b>	<b>176,182</b>

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

## 10. Cash and Cash Equivalents

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Cash at bank and on hand	65,259	55,013
Short-term bank deposits	–	3,963
	<b>65,259</b>	<b>58,976</b>

## 11. Share Capital

	No. of shares	HK\$'000
Authorised – HK\$0.10 per share:		
At 1 January 2007 and 30 June 2007	400,000,000	40,000
Issued and fully paid:		
At 1 January 2007 and 30 June 2007	212,187,488	21,219

## 11. Share Capital (continued)

The movements of the share options during the six-month periods ended 30 June 2007 and 2006 were as follows:

Name	Balance	Date of grant	Changes during the period			Balance	Exercise price	Exercisable period
	as at 1 January 2007		Granted	Lapsed	Exercised	as at 30 June 2007		
James H. Kaplan	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

Name	Balance	Date of grant	Changes during the period			Balance	Exercise price	Exercisable period
	as at 1 January 2006		Granted	Lapsed	Exercised	as at 30 June 2006		
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

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 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 significant variables and assumptions used for calculating the fair value of the share options are set out below.

## 11. Share Capital (continued)

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. Share options expense of HK\$90,000 was recognised in the six-month period ended 30 June 2007 (2006: HK\$88,000), with a corresponding adjustment recognised in Group's capital reserves.

The fair value of the share options is 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 <sup>1</sup>	0.58% – 1.63%
Expected life of options	1 – 3 years
Expected volatility <sup>2</sup>	38.65%
Expected dividend per annum <sup>3</sup>	HK\$0.0218

<sup>1</sup> 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.

<sup>2</sup> 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.

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

## 12. Trade and Other Payables

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Trade payables	33,346	42,391
Other payables	171,666	159,129
	205,012	201,520

## 12. Trade and Other Payables (continued)

As at the balance sheet dates, the ageing analyses of the trade payables were as follows:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Current – 30 days	27,567	33,380
31 days – 60 days	4,353	4,806
61 days – 90 days	743	2,183
Over 90 days	683	2,022
	<b>33,346</b>	<b>42,391</b>

## 13. Contingent Liabilities

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Corporate guarantee in respect of performance bonds issued by the subsidiaries to customers	2,692	3,793
Counter-indemnity in respect of performance bonds issued by banks	5,934	4,347
Guarantees in lieu of utility deposits	2,246	1,897
Guarantees in lieu of accessory security for a sales order	–	524
Counter-indemnity in respect of advance performance bonds issued by banks	2,976	2,348
	<b>13,848</b>	<b>12,909</b>

## 14. Capital Commitments

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Contracted but not provided for in respect of property, plant and equipment	2,547	4,191
Authorised but not contracted for in respect of property, plant and equipment	53	418
	<b>2,600</b>	<b>4,609</b>

The Group's share of capital commitments of the jointly controlled entities themselves not included in the above are as follows:

Contracted but not provided for in respect of property, plant and equipment	39,389	23,946
Authorised but not contracted for in respect of property, plant and equipment	14,497	13,477
	<b>53,886</b>	<b>37,423</b>

## 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	
	2007 HK\$'000	2006 HK\$'000
Sales of carpets:		
An associate <sup>1</sup>	1,796	3,914
The Hongkong and Shanghai Hotels, Limited ("HSH") <sup>2</sup>	975	1,559
Furniture sales and leasing:		
HSH	-	285
	2,771	5,758

<sup>1</sup> Sales to an associate were conducted in the normal course of the business and at mutually agreed prices between the parties.

<sup>2</sup> By virtue of the fact that HSH is under common control with the Company, the Company's transactions with HSH and its subsidiaries are related party transactions. These transactions also fall under the definition of continuing connected transactions under the Listing Rules.

### (2) Purchase of goods and services

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Purchase of goods from:		
An associate <sup>3</sup>	911	2,306
Jointly controlled entities <sup>3</sup>	17,887	3,108
Feltech Manufacturing Company Limited ("FMCL") <sup>4</sup>	1,506	449
Purchase of services from:		
Rental paid to HSH	-	235
	20,304	6,098

<sup>3</sup> Purchases from an associate and jointly controlled entities were conducted in the normal course of business and at mutually agreed prices between the parties.

<sup>4</sup> FMCL is 61.75% owned by Mr. Wan Tabtiang, a former director of Carpets International Thailand Public Company Limited ("CIT", a 99% owned subsidiary of the Company) and has been selling carpet underlay to CIT on normal commercial terms. These transactions are also continuing connected transactions under the Listing Rules.

## 15. Related Party Transactions (continued)

**(3) Key management compensation**

	Six months ended	
	30 June	
	2007	2006
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	18,417	16,681
Share-based payments	90	88
	18,507	16,769

**(4) Period/Year ended balances arising from sales/purchases of goods/services**

	30 June	31 December
	2007	2006
	HK\$'000	HK\$'000
Receivables from related parties		
An associate	215	1,525
HSH	648	53
	863	1,578
Payables to related parties		
Jointly controlled entities	1,966	5,378
FMCL	786	217
	2,752	5,595

**16. Event after Balance Sheet Date**

On 5 September 2007, Everfit Textile Limited, an 85% owned subsidiary of the Company, entered into provisional sale and purchase agreements to sell its rights, title and interest in the 10/F and two car parks on the ground floor of Mai Gar Industrial Centre in Hong Kong to independent third parties for an aggregate consideration of HK\$20,060,000. The net gain arising from the disposal, after deducting commission and legal and other expenses, would amount to approximately HK\$8,160,000. The disposal would be completed on or before 20 December 2007.