



Tai Ping Carpets International Limited Interim Report 2008

(Incorporated in Bermuda with Limited Liability)

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Management Discussion & 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 2008. The consolidated results, cash flow statement and statement of changes in equity of the Group for the six months ended 30 June 2008, and the consolidated balance sheet as at 30 June 2008, all of which are unaudited and reviewed by the Audit Committee of the Company, along with selected explanatory notes, can be found on pages 9 to 28 of this report.

The Group’s consolidated turnover for the six months ended 30 June 2008 was HK\$620.2 million, a year-on-year increase of 26% or HK\$128.3 million. The increase in turnover was mainly driven by the sustained business growth of the carpet operations which accounted for 93% of total turnover. But the gross margin declined slightly during the period, from 44% to 42%, mainly attributable to significant increases in commodity prices and a weak U.S. dollar.

The Group recorded an operating profit of HK\$13.9 million, which was HK\$5.0 million or 27% lower than the corresponding period in 2007. The decrease was mainly due to lower gross profit margin.

Profit before income tax of the Group amounted to HK\$41.7 million, a HK\$8.5 million increase year-on-year, or 26%. The increase mainly resulted from an increase in share of profits of associate and jointly controlled entities during the period, partly offset by a decrease in operating profit caused by a decline in gross profit percentage. The significant increase in share of profits from the jointly controlled entities of HK\$11.9 million, or 78% year-on-year, was mainly attributable to the growth in sales and margin improvement driven by strong local market demand and the much bigger capacity at the new factory site operated since the second half of 2007.

Profit attributable to equity holders recorded a gain of HK\$8.9 million, or 41% year-on-year, to HK\$30.5 million accordingly.

Carpet Operations

Turnover of the carpet operations increased by 29%, or HK\$130.6 million, to HK\$578.7 million. The increase was mainly attributable to the sustained growth in both the commercial and residential businesses during the period and the acquisition of J.S.L. Carpet Corporation (“JSL”) in the U.S. in January 2008.

The U.S. market accounted for 45% of total carpet turnover in the first half year of 2008 while Asia and Europe/Others accounted for 31% and 24% respectively. In the corresponding period in 2007, the corresponding shares of total carpet turnover by the U.S., Asia and Europe/Others were 42%, 37% and 21% respectively.

The gross profit margin decreased from 44% to 43% during the period, due to significantly higher production costs resulting from global increases in commodity prices and a weak U.S. dollar, despite further improvement in production efficiencies and the continuing increase in sales mix of higher margin carpets.

As a result, despite higher sales, operating profit of the carpet operations earned during the period decreased slightly year on year to HK\$8.8 million.

The U.S. market continued to show significant growth and remained the largest market of the Group. Total carpet turnover in the U.S. during the period increased 38% year-on-year to HK\$257.8 million, despite a slowing economy. Although the significant increase was partly attributable to the acquisition of JSL in January 2008, which sales accounted for approximately 30% of the year-on-year increase in turnover, both the commercial and residential businesses also recorded strong sales during the period.

Turnover of the commercial business in the U.S. during the period amounted to HK\$155.1 million and achieved a year-on-year increase of 17% as demand from the hospitality and gaming sectors in the local, regional and international markets remained firm. Profit margins were tight in certain market sectors and the significant increases in production costs could not be fully passed on to the customers. As a result, overall gross profit margin during the period was slightly lower than the corresponding period in 2007.

Sales of the U.S. residential business showed 49% growth year-on-year to HK\$79.8 million. The significant increase was attributable to relative modest growth last year due to renovations of a number of showrooms, strong market demand for luxurious carpets and launch of Global Design Collections. Gross profit margin remained firm, and was not affected by the slow-down of the economy.

Turnover in Europe also showed a significant increase during the period, mainly driven by the residential business and partly helped by an appreciation of the Euro against the U.S. dollar. The London office, after opening in the second half year of 2007, was fully functional during the period. Our office in Germany was relocated to Hamburg and a new showroom was opened there in early 2008. Total sales of the residential business in Europe amounted to HK\$48.4 million, a year-on-year increase of 38%. Gross profit margin was comparable with last year.

In Thailand, both turnover and profit margin showed improvements during the period compared with 2007, as the Group remained market leader in the domestic market and benefited from the growth in certain domestic market segments. But the significant cost increases and a strong Thai Baht during the first half year of 2008 posed a great challenge in maintaining overall profitability.

After two years of significant growth, turnover in Hong Kong, Macau and other Asian countries was HK\$54.2 million, a 11% year-on-year decrease.

Other Operations

The relative importance of other businesses, including yarn-dyeing in the U.S., the mattress operation in China and the holding of certain investment properties for rental income, to overall Group results continues to decline as the Group focuses on growing the core carpet operations. Turnover of such other businesses showed a 5% year-on-year decrease to HK\$41.6 million and accounted for less than 7% of the Group's total turnover. Total operating profit of the period decreased by HK\$3.6 million to HK\$6.3 million, mainly due to lower profits from the U.S. yarn-dyeing facilities.

Outlook

The first six months of 2008 have been a challenging period to the Group. Although sales growth remained strong during the period, the significant rises in commodity and fuel prices, together with a weak U.S. dollar, had a substantial impact on production costs and caused a decrease in overall gross profit margin. Various initiatives have been implemented to better manage factory cost increases and to improve profit margins.

Management considers that the sales momentum will continue in the second half year even though the global economy shows signs of slowing down. Order bookings to date remain strong, and the Group continues to benefit from the past investment and efforts in building a premium brand and its competitive edge in product quality, design and customer service. In addition, it is also expected that contributions from offices in certain new markets, including Latin America and India, will increase in the second half year.

Therefore, management believes that the Group is well positioned to cope with difficult market conditions.

Dividend

The Board does not recommend the payment of an interim dividend for the period (2007: Nil).

Capital Expenditure

Capital expenditure in the form of property, plant & equipment and construction in progress incurred by the Group totalled HK\$30.9 million during the six-month period ended 30 June 2008 (2007: HK\$25.1 million). As at 30 June 2008, the aggregate net book value of the Group's property, plant & equipment, investment properties, leasehold land & land use rights, and construction in progress amounted to HK\$405.3 million (as at 31 December 2007: HK\$397.9 million).

It is expected that total capital expenditure incurred in 2008 will be greater than that incurred in 2007, mainly for expanding and improving factory capacities, broadening product range and continuing the renovation programme for RBC showrooms in order to support business growth.

Liquidity & Financial Resources

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

As at 30 June 2008, the Group had total bank borrowings of HK\$2.3 million (as at 31 December 2007: HK\$1.1 million). Total cash and bank balances amounted to HK\$78.4 million (as at 31 December 2007: HK\$107.6 million). The net cash balance was HK\$76.1 million as at 30 June 2008 (as at 31 December 2007: HK\$106.5 million). The gearing ratio, calculated as net bank borrowings (total bank borrowings net of cash and bank balances) divided by total equity, was 0% (as at 31 December 2007: 0%).

As at 30 June 2008, the Group also held financial assets at fair value through profit or loss of HK\$41.0 million (as at 31 December 2007: HK\$31.0 million).

The bank loans outstanding on 30 June 2008 amounted to HK\$2.0 million, being trust receipts which were unsecured and interest free throughout their terms. The bank overdraft was also unsecured and charged with floating rate of interest. The currency denomination of the borrowings and their maturity dates as at 30 June 2008 and 31 December 2007 were as follows:

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Within 1 year		
Thai Baht	331	–
United States Dollar	1,982	1,062
	2,313	1,062

Exposure to Foreign Exchange Risks

The Group has overseas operations in the U.S., Europe, Thailand, the PRC, Singapore, India and Argentina. 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 Group's sales are denominated primarily in U.S. dollar, and to a lesser extent in Euro and Thai Baht.

The operations in Europe, Singapore, India and Argentina are not significant in terms of the Group's results. The major exchange differences arising from overseas operations relate mostly to Thailand and China. The effect of these exchange differences, however, has been partly reduced by hedging against some of the foreign currency exposure (including accounts receivable from export sales).

The Group will continue to monitor exchange rate movements closely to ascertain if any material exposure may arise.

Employee & Remuneration Policies

As at 30 June 2008, the Group employed 3,400 employees (as at 31 December 2007: 3,300 employees). Employees are remunerated according to the nature of the job and market trends, with built-in merit components incorporated as an annual incentive to reward and motivate individual performance.

The Company implemented a profit-sharing scheme for certain key management personnel (including the Chief Executive Officer). Pursuant to the scheme, based on the recommendation of the Remuneration Committee, the eligible participants would be entitled to a profit share in respect of the Company's consolidated results for the three years ending 31 December 2008 after certain adjustments.

Contingent Liabilities

As at 30 June 2008, the Group's total contingent liabilities (see Note 15 to the condensed accounts for full disclosure) amounted to HK\$21.4 million (as at 31 December 2007: HK\$ 21.5 million).

James H. Kaplan
Chief Executive Officer

Hong Kong, 19 September 2008

Corporate Governance & Other Information

Compliance with the Code on Corporate Governance Practices

During the six months ended 30 June 2008, 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

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 2008 and up to the date of publication of this Interim Report.

Audit Committee

Written terms of reference of the Audit Committee in line with code provision C.3.3 of the Code were adopted at the Board meeting on 23 September 2005.

Under these terms of reference, the responsibilities of the Audit Committee include overseeing the relationship with the Company's external auditors (including making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the audit fee and reviewing the audit scope), review of financial information of the Group, oversight of the Group's financial reporting system and internal controls.

During the period up to the date of this Interim Report, the Audit Committee held 2 meetings with the management and the external auditors for reviewing the interim and annual reports before submission to the Board for consideration and approval, reviewing the annual audit plan and scope of work of both external auditors and internal auditors, and discussing issues arising from the audits including internal controls and financial reporting.

Directors' Interests in Equity Securities

As at 30 June 2008, 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:

Ordinary shares of HK\$0.10 each in the Company

Number of ordinary shares held (long position)

Name	Beneficial owner	Interests of controlled corporation	Trustee	Aggregate % of the share capital
Ian D. Boyce	831,371	–	–	0.392%
David C. L. Tong ¹	431,910	–	3,919,770	2.051%
Lincoln C. K. Yung	30,000	–	–	0.014%
Lincoln K. K. Leong ²	–	2,000,000	–	0.943%
Nelson K. F. Leong ²	–	2,000,000	–	0.943%
(Alternate Director to Lincoln K. K. Leong)				
John J. Ying ³	–	32,605,583	–	15.366%
James H. Kaplan	522,000	–	–	0.246%

Notes:

- ¹ Mr. David C. L. Tong is deemed to be interested in 4,351,680 shares of which 431,910 shares are held by him in his personal capacity and 3,919,770 shares are held by him in his capacity as a trustee of a discretionary trust. The 3,919,770 shares are attributed to him pursuant to the SFO for disclosure purposes. Nevertheless, he does not have any beneficial interest in these 3,919,770 shares.
- ² 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.
- ³ 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.

Details of the share options outstanding as at 30 June 2008 were as follows:

Name	Balance as	Date of grant	Changes during the period			Balance as	Exercise price (HK\$) (Note)	Exercisable period
	at 1 Jan 2008		Granted	Lapsed	Exercised	at 30 Jun 2008		
James H. Kaplan	500,000	10 Jan 2005	-	500,000	-	-	1.21	31 Dec 2007– 31 Jan 2008

Note: 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 has not granted any share options under the 2002 Share Options Scheme to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

During the period between 1 January 2008 and the date of this report, no share options were exercised by Mr. James H. Kaplan and the 500,000 share options lapsed. As at the date of this report, there were no outstanding share options under the 2002 Share Option Scheme.

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 2008, the register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO showed that the following persons, other than Directors and chief executive of the Company, had the following interests in the shares of the Company.

Name	No. of ordinary shares held in the Company of HK\$0.10 each (long position)	Aggregate % of the share capital
Acorn Holdings Corporation ¹	117,688,759	55.465%
Bermuda Trust Company Limited ¹	117,688,759	55.465%
Harneys Trustees Limited ¹	117,688,759	55.465%
Lawrencium Holdings Limited ¹	117,688,759	55.465%
New Holmium Holding Corporation ¹	117,688,759	55.465%
The Mikado Private Trust Company Limited ¹	117,688,759	55.465%
The Hon. Sir Michael Kadoorie ¹	117,688,759	55.465%
Peak Capital Partners I, L.P. ²	32,605,583	15.366%

Notes:

¹ Bermuda Trust Company Limited was deemed to be interested in the same 117,688,759 shares in which Acorn Holdings Corporation was deemed to be interested. The Mikado Private Trust Company Limited was deemed to be interested in the same 117,688,759 shares in which Lawrencium Holdings Limited was deemed to be interested. Lawrencium Holdings Limited, Acorn Holdings Corporation and Harneys Trustees Limited were deemed to be interested in the same 117,688,759 shares in which New Holmium Holding Corporation was interested. These 117,688,759 shares were held by New Holmium Holding Corporation in its capacity as a trustee. For the purpose of the SFO, the spouse of the Hon. Sir Michael Kadoorie had 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 was that of the Hon. Sir Michael Kadoorie attributed to her under the SFO. Except the above, she had no interest, legal or beneficial in those shares.

² 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).

Condensed Consolidated Profit & Loss Account

For the six months ended 30 Jun

	Note	Unaudited	
		2008 HK\$'000	2007 HK\$'000
Turnover	2	620,233	491,876
Cost of sales		(359,383)	(277,085)
Gross profit		260,850	214,791
Distribution costs		(49,238)	(35,318)
Administrative expenses		(197,114)	(160,481)
Other operating expenses		(623)	(97)
Operating profit	2,3	13,875	18,895
Interest income from banks		108	643
Finance costs	4	(37)	(784)
Share of profits/(losses) of			
an associate		581	(845)
jointly controlled entities		27,136	15,233
Profit before income tax expenses		41,663	33,142
Income tax expenses	5	(10,621)	(9,982)
Profit after income tax expenses		31,042	23,160
Attributable to:			
Equity holders of the Company		30,486	21,593
Minority interests		556	1,567
		31,042	23,160
Dividend	6	–	–
Earnings per share for profit attributable to equity holders of the Company (expressed in HK cents)			
Basic	7	14.37	10.18
Diluted	7	14.37	10.17

Condensed Consolidated Balance Sheet

	Note	Unaudited 30 Jun 2008 HK\$'000	Audited 31 Dec 2007 HK\$'000
Assets			
Non-current assets			
Goodwill	8	25,596	–
Leasehold land & land use rights	9	22,072	21,726
Property, plant & equipment	9	344,332	337,896
Investment properties	9	25,210	27,510
Construction in progress	9	13,714	10,723
Interest in an associate		24,393	25,431
Interests in jointly controlled entities		254,610	213,548
Deferred tax assets		6,480	7,046
		716,407	643,880
Current assets			
Inventories		210,005	194,230
Trade & other receivables	10	236,506	227,993
Derivative financial instruments		–	554
Financial assets at fair value through profit or loss		40,950	31,004
Cash & bank balances	11	78,384	107,644
		565,845	561,425
Total assets		1,282,252	1,205,305

Condensed Consolidated Balance Sheet

	Note	Unaudited 30 Jun 2008 HK\$'000	Audited 31 Dec 2007 HK\$'000
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	12	21,219	21,219
Reserves	13	913,351	856,997
Proposed final dividend	13	–	19,097
		934,570	897,313
Minority interests		39,004	36,846
Total equity		973,574	934,159
Liabilities			
Non-current liabilities			
Deferred tax liabilities		932	757
Other long-term liabilities		5,512	1,211
		6,444	1,968
Current liabilities			
Bank overdraft – unsecured		331	–
Bank borrowings – unsecured		1,982	1,062
Trade & other payables	14	265,285	255,644
Derivative financial instruments		848	–
Other long-term liabilities – current portion		4,491	390
Taxation		10,200	12,082
Final dividend payable		19,097	–
		302,234	269,178
Total liabilities		308,678	271,146
Total equity and liabilities		1,282,252	1,205,305
Net current assets		263,611	292,247
Total assets less current liabilities		980,018	936,127

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 Jun

	Capital and reserves attributable to equity holders of the Company HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
Balance at 1 Jan 2008	897,313	36,846	934,159
Currency translation differences	25,868	1,814	27,682
Net income recognised directly in equity	25,868	1,814	27,682
Profit for the period	30,486	556	31,042
Net income recognised for the period	56,354	2,370	58,724
Payment of final dividend	(19,097)	–	(19,097)
Dividend paid to minority interests	–	(212)	(212)
	(19,097)	(212)	(19,309)
Balance at 30 Jun 2008	934,570	39,004	973,574
Balance at 1 Jan 2007	773,861	33,204	807,065
Currency translation differences	34,807	778	35,585
Net income recognised directly in equity	34,807	778	35,585
Profit for the period	21,593	1,567	23,160
Net income recognised for the period	56,400	2,345	58,745
Payment of final dividend	(6,366)	–	(6,366)
Dividend paid to minority interests	–	(798)	(798)
Employee share option scheme:			
Value of employee services	90	–	90
	(6,276)	(798)	(7,074)
Balance at 30 Jun 2007	823,985	34,751	858,736

Condensed Consolidated Cash Flow Statement

For the six months ended 30 Jun

	Note	Unaudited	
		2008 HK\$'000	2007 HK\$'000
Net cash generated from operating activities		25,198	2,470
Net cash (used in)/generated from investing activities		(56,788)	7,066
Net cash generated from/(used in) financing activities		308	(3,829)
(Decrease)/increase in cash & cash equivalents		(31,282)	5,707
Cash & cash equivalents at the beginning of the year		107,644	58,976
Effect of foreign exchange rates changes		1,691	576
Cash & cash equivalents at 30 Jun		78,053	65,259
Analysis of the balances of cash & cash equivalents			
Cash at bank and on hand	11	72,859	65,259
Bank deposits	11	5,525	–
Bank overdraft		(331)	–
		78,053	65,259

Notes to the Condensed Consolidated Accounts

1. Basis of Preparation & 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; and (ii) financial assets at fair value through profit or loss and (iii) 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 2007.

The Group has adopted, for the first time, the following new interpretations issued by the HKICPA that are mandatory for the Group’s current accounting period.

HK(IFRIC) – Interpretation 11

Group and Treasury Share Transactions

HK(IFRIC) – Interpretation 12

Service Concession Arrangements

HK(IFRIC) – Interpretation 14

HKAS 19 – The Limit on a Defined Benefit Asset,
Minimum Fund Requirements and their Interaction

The adoption of these interpretations 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 early 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.

Notes to the Condensed Consolidated Accounts

1. Basis of Preparation & Accounting Policies

	Effective for accounting periods beginning on or after
Amendments to HKAS 32 and HKAS 1	1 Jan 2009
Puttable Financial Instruments and Obligations Arising on Liquidation	
HKAS 1 (Revised)	1 Jan 2009
Presentation of Financial Statements	
HKAS 23 (Revised)	1 Jan 2009
Borrowing Costs	
HKAS 27 (Revised)	1 Jul 2009
Consolidated and Separate Financial Statements	
HKFRS 2 Amendment	1 Jan 2009
Share-based Payment – Vesting Conditions and Cancellations	
HKFRS 3 (Revised)	1 Jul 2009
Business Combinations	
HKFRS 8	1 Jan 2009
Operating Segments	
HK(IFRIC) – Interpretation 13	1 Jul 2008
Customer Loyalty Programmes	
HK(IFRIC) – Interpretation 15	1 Jan 2009
Agreements for the Construction of Real Estate	
HK(IFRIC) – Interpretation 16	1 Oct 2008
Hedges of a Net Investment in a Foreign Operation	

2. Segment Information

The principal activities of the Group consist of the manufacture, import, export and sale of carpets, and manufacture and sale of yarns.

The following tables present turnover and profit information of the Group's business segments for the six months ended 30 June 2008 and 2007.

Notes to the Condensed Consolidated Accounts

2. Segment Information

For the six months ended 30 Jun 2008

	Carpet HK\$'000	Yarn HK\$'000	Others HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenues						
External revenues	578,672	33,247	8,314	-	-	620,233
Inter-segment revenue ¹	-	-	1,025	(1,025)	-	-
	578,672	33,247	9,339	(1,025)	-	620,233
Segment results	8,817	5,731	588	-	(1,261)	13,875
Interest income from banks						108
Finance costs						(37)
Share of profits of						
an associate	581	-	-	-	-	581
jointly controlled entities	27,136	-	-	-	-	27,136
Profit before income tax expenses						41,663
Income tax expenses						(10,621)
Profit after income tax expenses						31,042

For the six months ended 30 Jun 2007

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

Note:

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

3. Operating Profit

	Six months ended 30 Jun	
	2008 HK\$'000	2007 HK\$'000
Operating profit is stated after crediting and charging the following:		
Crediting:		
Gain on disposal of property, plant & equipment	27	166
Charging:		
Depreciation of property, plant & equipment (Note 9)	25,500	22,447
Amortisation of leasehold land & land use rights (Note 9)	282	271
Loss on disposal of an investment property	42	–

4. Finance Costs

	Six months ended 30 Jun	
	2008 HK\$'000	2007 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	37	784

5. Income Tax Expenses

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the period. Income tax expenses on overseas profits have been calculated on the estimated assessable profits for the period at the applicable rates of taxation prevailing in the respective countries.

The amount of income tax expenses charged/(credited) to the condensed consolidated profit & loss account represents:

	Six months ended 30 Jun	
	2008 HK\$'000	2007 HK\$'000
Current income tax expenses		
Hong Kong	1,420	2,704
The People's Republic of China and overseas	9,328	7,027
Overprovision in prior years	(935)	–
Deferred taxation relating to:		
tax rate adjustment	(3)	–
the origination and reversal of temporary differences	811	251
Total income tax expenses	10,621	9,982

6. Dividend

The Board does not recommend the payment of an interim dividend for the period (2007: Nil). The 2007 final dividend was paid on 4 July 2008.

7. Earnings Per Share

7.1 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 Jun	
	2008	2007
Profit attributable to equity holders of the Company (HK\$'000)	30,486	21,593
Weighted average number of ordinary shares in issue (thousands)	212,187	212,187
Basic earnings per share (HK cents)	14.37	10.18

7.2 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 Jun	
	2008	2007
Profit attributable to equity holders of the Company (HK\$'000)	30,486	21,593
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)	212,187	212,224
Diluted earnings per share (HK cents)	14.37	10.17

No adjustment for share options is made in 2008 as the Company had no outstanding share options as at 30 June 2008.

8. Goodwill & Acquisition of a Subsidiary

8.1 Movement of goodwill

	2008 HK\$'000	2007 HK\$'000
Cost		
As at 1 Jan	–	–
Goodwill recognised on acquisition of a subsidiary during the period	25,596	–
As at 30 Jun	25,596	–
Accumulated impairment losses		
As at 1 Jan and 30 Jun	–	–
Carrying amount		
As at 1 Jan	–	–
As at 30 Jun	25,596	–

8.2 Acquisition of a subsidiary

During the period, the Group acquired one subsidiary (incorporated in the United States of America) under a stock purchase agreement dated as of 1 January 2008 as follows:

Name of company acquired	Principal activities	Proportion of shares acquired
J.S.L. Carpet Corporation ("JSL")	Carpet trading	100%

JSL has 50% interest in Weavers Guild LLC ("WG"), which is also incorporated in the United States of America. WG is classified by the Group as a jointly controlled entity upon acquisition of JSL.

Up to 30 June 2008, the aggregate consideration for the acquisition of JSL amounted to HK\$28,026,000 of which HK\$19,234,000 had been paid in cash. The remaining amount of HK\$8,792,000 will be payable in cash as follows:

	HK\$'000
Not later than one year	3,992
Later than one year and not later than five years	4,800
	8,792

In addition, the Group will also be required to make additional payments to the sellers of JSL based on the net profits of JSL (as defined in the Company's circular dated 20 February 2008) for the period from 1 January 2008 to 31 December 2011. The amounts of such additional payments are set out below provided that the aggregate additional amount payable to the sellers shall not exceed US\$6,000,000 (equivalent to HK\$46,800,000):

Notes to the Condensed Consolidated Accounts

8. Goodwill & Acquisition of a Subsidiary

	Additional amounts payable to the sellers
1 Jan 2008 to 31 Dec 2008	35% of the net profits
1 Jan 2009 to 31 Dec 2009	20% of the net profits
1 Jan 2010 to 31 Dec 2010	13% of the net profits
1 Jan 2011 to 31 Dec 2011	6% of the net profits

The cost of the acquisition has not reflected the above additional payments as they could not be measured reliably up to the date of this Interim Report.

Below is an analysis of assets and liabilities of JSL acquired at their book values:

	HK\$'000
Property, plant & equipment	384
Inventories	6,091
Trade & other receivables	3,559
Trade & other payables	(8,000)
Interest in a jointly controlled entity	598
	2,632
Goodwill	25,596
	28,228
Satisfied by:	
Consideration paid in cash	19,234
Consideration payable	8,792
Cash & bank balances acquired	(41)
Bank overdraft acquired	243
	28,228

The Group has engaged an independent valuer to assess the fair value of the assets and liabilities but the assessment was still in progress at the date of this Interim Report because of some problems in ascertaining the fair values of certain assets and liabilities. In accordance with the stock purchase agreement, the Group is entitled to adjust the consideration under the following circumstances:

- (a) when there is a shortfall of inventory value as compared to its fair value as at 31 December 2007, which gives the right to the Group to offset against the consideration payable an amount calculated in proportion to such shortfall (subject to certain restrictions on the maximum amount of such shortfall); or
- (b) the Group is indemnified for any losses resulting from or relating to any (i) breach of representation or warranty, or nonfulfillment of or failure to perform any covenant or agreement on the part of the sellers and (ii) any liability arising with respect to any sellers' retained tax liabilities.

Therefore the consideration of the acquisition (hence the goodwill) may be subject to further adjustment.

8.3 Nature of goodwill

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire JSL. The Group also acquired the customer and supplier networks of JSL as part of the acquisition. In addition, the consideration paid for the acquisition effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of JSL. However such networks and benefits have not yet been recognised separately from goodwill as the valuation of such benefits is currently in progress up to the date of this Interim Report.

8.4 Impact of the acquisition on the results of the Group

Included in the profit for the period is HK\$1,594,000 attributable to the additional business generated by JSL and HK\$1,306,000 to the Group's share of interest in WG from 1 January 2008 to 30 June 2008. Turnover attributable to the additional business generated by JSL for the period is HK\$20,873,000.

9. Capital Expenditure

	Leasehold land & land use rights HK\$'000	Investment properties HK\$'000	Property, plant & equipment			Construction in progress HK\$'000	Total HK\$'000
			Buildings HK\$'000	Other assets HK\$'000	Sub-total HK\$'000		
Net book value as at 1 Jan 2008	21,726	27,510	112,400	225,496	337,896	10,723	397,855
Exchange adjustments	628	-	1,501	2,524	4,025	(99)	4,554
Additions	-	-	657	17,717	18,374	12,511	30,885
Transfer from construction in progress to property, plant & equipment	-	-	744	8,677	9,421	(9,421)	-
Acquisition of a subsidiary	-	-	-	384	384	-	384
Disposals	-	(2,300)	-	(268)	(268)	-	(2,568)
Depreciation and amortisation	(282)	-	(3,353)	(22,147)	(25,500)	-	(25,782)
Net book value as at 30 Jun 2008	22,072	25,210	111,949	232,383	344,332	13,714	405,328

10. Trade & Other Receivables

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Trade receivables	222,939	212,167
Less: Impairment loss of receivables	(21,174)	(19,087)
Trade receivables, net	201,765	193,080
Other receivables	34,741	34,913
	236,506	227,993

The amounts approximated the respective fair values as at 30 June 2008 and 31 December 2007. 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 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Current	63,735	53,387
Amount past due at balance sheet date but not impaired:		
Less than 30 days past due	57,098	66,197
31 to 60 days past due	22,720	26,433
61 to 90 days past due	15,169	20,915
More than 90 days past due	43,043	26,148
	138,030	139,693
	201,765	193,080

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

11. Cash & Bank Balances

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Cash at bank and on hand	72,859	107,644
Bank deposits	5,525	–
	78,384	107,644

12. Share Capital

	No. of shares	HK\$'000
Authorised – HK\$0.10 per share:		
At 1 Jan 2008 and 30 Jun 2008	400,000,000	40,000
Issued and fully paid:		
At 1 Jan 2008 and 30 Jun 2008	212,187,488	21,219

The movements of the share options during the six months ended 30 June 2008 and 2007 were as follows:

Name	Balance as at 1 Jan 2008	Date of grant	Changes during the period			Balance as at 30 Jun 2008	Exercise price (HK\$)	Exercisable period
			Granted	Lapsed	Exercised			
James H. Kaplan	500,000	10 Jan 2005	–	500,000	–	1.21	31 Dec 2007– 31 Jan 2008	

Name	Balance as at 1 Jan 2007	Date of grant	Changes during the period			Balance as at 30 Jun 2007	Exercise price (HK\$)	Exercisable period
			Granted	Lapsed	Exercised			
James H. Kaplan	500,000	10 Jan 2005	–	500,000	–	1.21	31 Dec 2006– 31 Jan 2007	
	500,000	10 Jan 2005	–	–	–	1.21	31 Dec 2007– 31 Jan 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.

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 & loss account over the respective vesting periods of each batch of options. As all share options issued have either lapsed or been exercised by January 2008, no share options expense was recognised in the six months ended 30 June 2008 (2007: HK\$90,000).

Notes to the Condensed Consolidated Accounts

12. Share Capital

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

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

Notes:

- ¹ Risk free rate: being the approximate yields of Exchange Fund Notes and Bills traded on the date of grant, matching the expected life of each batch of options.
- ² Expected volatility: being the approximate volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.
- ³ Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

13. Reserves

	Share premium HK\$'000	Capital revaluation reserves HK\$'000	Other properties reserves HK\$'000	General reserves HK\$'000	Exchange reserves HK\$'000	Retained earnings HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
Balance at 1 Jan 2008	189,699	71,966	4,161	16,000	101,304	473,867	19,097	876,094
Currency translation differences	–	–	–	–	25,868	–	–	25,868
Profit for the period	–	–	–	–	–	30,486	–	30,486
2007 final dividend declared	–	–	–	–	–	–	(19,097)	(19,097)
Balance at 30 Jun 2008	189,699	71,966	4,161	16,000	127,172	504,353	–	913,351

Notes to the Condensed Consolidated Accounts

13. Reserves

	Share premium HK\$'000	Capital reserves HK\$'000	Other properties revaluation reserves HK\$'000	General reserves HK\$'000	Exchange reserves HK\$'000	Retained earnings HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
Balance at 1 Jan 2007	189,699	71,852	4,161	16,000	60,769	403,795	6,366	752,642
Currency translation differences	-	-	-	-	34,807	-	-	34,807
Profit for the period	-	-	-	-	-	21,593	-	21,593
Employee share options scheme:								
Value of employee services	-	90	-	-	-	-	-	90
2006 final dividend declared	-	-	-	-	-	-	(6,366)	(6,366)
Balance at 30 Jun 2007	189,699	71,942	4,161	16,000	95,576	425,388	-	802,766

14. Trade & Other Payables

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Trade payables	52,210	51,356
Other payables	213,075	204,288
	265,285	255,644

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

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Current – 30 days	41,720	40,174
31 days – 60 days	6,766	7,844
61 days – 90 days	2,185	1,154
Over 90 days	1,539	2,184
	52,210	51,356

15. Contingent Liabilities

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Corporate guarantee in respect of performance bonds issued by the subsidiaries to customers	6,428	6,199
Counter-indemnity in respect of performance bonds issued by banks	7,840	7,247
Guarantees in lieu of utility deposits	1,362	2,292
Counter-indemnity in respect of advance performance bonds issued by banks	5,748	5,748
	21,378	21,486

16. Capital Commitments

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Contracted but not provided for in respect of property, plant & equipment	2,828	7,620
Authorised but not contracted for in respect of property, plant & equipment	58	169
	2,886	7,789

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 & equipment	49,046	31,090
Authorised but not contracted for in respect of property, plant & equipment	3,610	17,551
	52,656	48,641

17. Related Party Transactions

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

17.1 Sales of goods and services

	Six months ended 30 Jun	
	2008 HK\$'000	2007 HK\$'000
Sales of carpets:		
An associate ¹	2,155	1,796
The Hongkong and Shanghai Hotels, Limited ("HSH") ²	3,410	975
	5,565	2,771

Notes:

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

² 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.

17.2 Purchase of goods and services

	Six months ended 30 Jun	
	2008 HK\$'000	2007 HK\$'000
Purchase of goods from:		
An associate ¹	209	911
Jointly controlled entities ¹	16,297	17,887
Feltech Manufacturing Company Limited ("FMCL") ²	–	1,506
	16,506	20,304

Notes:

¹ Purchases from an associate and jointly controlled entities were conducted in the normal course of business and at mutually agreed prices between the parties.

² 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. Mr. Tabtiang is no longer a related party in 2008 as he resigned as director of CIT on 30 April 2007. In accordance with the Listing Rules, Mr. Tabtiang was still treated as a connected person until 30 April 2008 (within one year after his resignation) and these transactions for the four months up to 30 April 2008 (which were continuing connected transactions under the Listing Rules) amounted to HK\$2,780,000.

Notes to the Condensed Consolidated Accounts

17. Related Party Transactions

17.3 Key management compensation

	Six months ended	
	30 Jun	
	2008	2007
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	22,626	18,417
Share-based payments	–	90
	22,626	18,507

17.4 Period/Year end balances arising from sales/purchases of goods/services

	30 June	31 Dec
	2008	2007
	HK\$'000	HK\$'000
Trade receivables from related parties:		
An associate	150	498
HSH	1,417	24
	1,567	522
Trade payables to related parties:		
Jointly controlled entities	5,989	3,739
HSH	–	82
	5,989	3,821