



# Tai Ping Carpets International Limited Interim Report 2009

(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 financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009. The condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the six months ended 30 June 2009, and the condensed consolidated statement of financial position as at 30 June 2009, along with selected explanatory notes, all of which are unaudited and reviewed by the Audit Committee of the Company, can be found on pages 8 to 26 of this report.

The Group’s consolidated turnover for the six months ended 30 June 2009 was HK\$540 million, a year-on-year decrease of 13%, or HK\$80 million. The reduction was due to the recessionary global economy, ongoing since the fourth quarter in 2008. Turnover of carpet operations showed a relatively smaller decline of 9% year-on-year, while the turnover of non-carpet operations diminished by 61%. Overall gross margin, however, increased slightly from 42% to 43%, mainly attributable to a drop in commodity prices and a relatively strong U.S. dollar as compared with the corresponding period in 2008.

The Group’s operating profit totalled HK\$9 million, 32% lower, or HK\$5 million, than the corresponding period in 2008. The decrease was mainly due to a HK\$4 million drop in profitability of the non-carpet operations.

The Group’s profit attributable to equity holders was HK\$12 million, a reduction of 60% from HK\$30 million the previous year. While the recessionary global economy had a relatively small impact on the performance of the Group’s core carpet operations in the first six months, the non-carpet operations and the jointly controlled entities’ businesses were more severely affected. Thus the decrease resulted mainly from a decline of HK\$17 million in the share of profits from jointly controlled entities and an associate, principally due to the slowdown in most sectors in China, particularly the hospitality sector.

### Carpet Operations

The carpet operations’ turnover diminished by 9% year-on-year, or HK\$55 million to HK\$524 million. The decrease was mainly attributable to the Commercial and Wholesale businesses, which are more sensitive to general economic cycles. Turnover of the Residential Boutique Contract (“RBC”) business was basically flat year-on-year.

Overall year-on-year gross margin improved slightly. The Group remains committed to compete with product quality, design, services and branding, not on price alone. To offset the adverse impact caused by smaller production volume and to control overhead more tightly, various operational directives are now in place and certain strategic initiatives to improve productivity and efficiencies continue.

Operating profit of carpet operations was HK\$8 million, HK\$1 million less than a year ago. In response to lower sales, the Group has implemented various initiatives to cut operating expenses, though the effect of these measures was only partly reflected in the results of the first half of 2009. Thus, total operating expenses of carpet operations in the first six months of 2009 were 5% lower year-on-year, but it is expected that additional savings in operating expenses will be achieved in the second half, thus further improving overall profitability.

Total sales of the Commercial business decreased by 12%, or HK\$50 million, year-on-year, mainly attributable to a reduction in these businesses in Thailand and Europe. Sales in the U.S. and other countries were similar to last year, and there was no decline in gross margin in general during the period.

While the RBC business was flat in both sales and operating profit during the period, the sales volume slightly increased as some customers now make more use of basic materials (such as wool) to replace expensive ones (such as silk). Although the Group kept its operating expenses in tight check, it made investments in selling tools and marketing materials to further increase the Group's market share in certain targeted market segments.

The Wholesale business comprises mainly the sales of the U.S.-based JSL Corp., acquired in early 2008. Its sales and gross margin have diminished slightly due to the poor market conditions in the U.S.. Amortisation of intangible assets of HK\$1 million was not taken into account in the first six months of 2008. Operating profit before such amortisation charges showed a much smaller decrease during the period.

The Group launched its new website in the first half of 2009. A critical success, it has already garnered several awards for Tai Ping. A new web-based marketing plan will leverage this new website by targeting potential new customers in high net worth communities through direct mail and internet-based communications.

### **Other Operations**

The importance of other businesses to overall Group turnover continues to decline, from 7% in the first half year of 2008 to 3% in 2009. The relatively large decrease in turnover was due to the disposal of the mattress operation in China and also far fewer orders being outsourced to the Group's U.S.-based yarn-dyeing subsidiary because of the prevailing economic conditions. The operating profit of such businesses was HK\$2 million, a reduction of HK\$4 million, mainly attributable to the yarn-dyeing business.

### **Outlook**

The operating environment and market conditions of the first six months of 2009 were difficult and highly volatile, as expected. Although it is anticipated that U.S. market conditions will remain extremely challenging in the second half year, especially for the Commercial business, there are signs that the economy in certain territories, including Thailand and Europe, might start to recover. While 2009 may not show a growth in turnover, the Group places significant emphasis on managing overall profitability of the core carpet operations through maintaining the gross margin and striking a delicate balance between continuing to invest in certain targeted market segments to expand market share and/or presence and maintaining tight expenditure controls to improve profitability.

Tai Ping is well prepared and positioned to face the ongoing market challenges of the recessionary economy. It is also poised to take advantage of the difficult time to explore opportunities for expediting its growth and strengthening its market positioning through both acquisition and organic growth.

## Dividend

The Board does not recommend the payment of an interim dividend for the period (2008: Nil).

## Capital Expenditure

Capital expenditure in the form of property, plant & equipment and construction in progress incurred by the Group totalled HK\$13 million during the six-month period ended 30 June 2009 (2008: HK\$31 million). As at 30 June 2009, the aggregate net book value of the Group's property, plant & equipment, investment properties, leasehold land & land use rights, construction in progress and intangible assets (other than goodwill) amounted to HK\$363 million (as at 31 December 2008: HK\$381 million).

It is expected that capital expenditure will decrease in 2009 as major initiatives to expand factory capacities and renovate showrooms have been substantially completed.

## 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 2009, the Group had total bank borrowings of HK\$1 million (as at 31 December 2008: Nil). Total cash and bank balances amounted to HK\$92 million (as at 31 December 2008: HK\$115 million). The net cash balance was HK\$91 million as at 30 June 2009 (as at 31 December 2008: HK\$115 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 2008: 0%).

As at 30 June 2009, the Group also held financial assets at fair value through profit or loss of HK\$81 million (as at 31 December 2008: HK\$59 million).

## 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 Thai Baht, Euro and Pound Sterling. The operations in Singapore, India and Argentina are not significant in terms of the Group's results.

The Group recorded net exchange gain of HK\$1 million, arising from overseas operations in 2009, which related mostly to Thailand and Europe. The effect of the exchange differences in Thailand, however, has been partly reduced by hedging against some of its foreign currency exposure (including accounts receivable from export sales), and an exchange loss of HK\$1 million was recorded. While the exchange rates of Euro/Pound Sterling against U.S. dollar were weak in the fourth quarter of 2008 and first quarter of 2009, there was a reversal of this trend in the second quarter in 2009. As a result, the European operations recorded net exchange gains of HK\$2 million in the first six months in 2009.

It is expected that the exchange market may continue to be highly volatile in 2009, and the Group will closely monitor the exchange rate movements and take appropriate action to manage any material exposure that may arise.

## **Employee & Remuneration Policies**

As at 30 June 2009, the Group employed 3,300 employees (as at 31 December 2008: 3,400 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.

## **Contingent Liabilities**

As at 30 June 2009, the Group's total contingent liabilities amounted to HK\$33 million (see Note 16 to the condensed consolidated financial statements for full disclosure) (as at 31 December 2008: HK\$24 million).

**James H. Kaplan**  
*Chief Executive Officer*

Hong Kong, 18 September 2009

## Corporate Governance & Other Information

### Compliance with the Code on Corporate Governance Practices

During the six months ended 30 June 2009, 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 of Hong Kong Limited (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 2009 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 2009, 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	Aggregate % of the share capital
Ian D. Boyce	831,371	–	0.392%
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>	–	2,000,000	0.943%
(Alternate Director to Lincoln K. K. Leong)			
John J. Ying <sup>2</sup>	–	32,605,583	15.366%
James H. Kaplan	522,000	–	0.246%

Notes:

- <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).

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.

## 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.

During the period between 1 January 2009 and the date of this report, there were no outstanding share options under the 2002 Share Options Scheme.

## Substantial Shareholders

As at 30 June 2009, 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.

Name	No. of ordinary shares held in the Company of HK\$0.10 each (long position)	Aggregate % of the share capital
Acorn Holdings Corporation <sup>1</sup>	40,014,178	18.858%
Bermuda Trust Company Limited <sup>1</sup>	40,014,178	18.858%
Harneys Trustees Limited <sup>1</sup>	77,674,581	36.607%
Lawrencium Holdings Limited <sup>1</sup>	77,674,581	36.607%
The Mikado Private Trust Company Limited <sup>1</sup>	77,674,581	36.607%
The Hon. Sir Michael Kadoorie <sup>1</sup>	77,674,581	36.607%
Peak Capital Partners I, L.P. <sup>2</sup>	32,605,583	15.366%

Notes:

- <sup>1</sup> Bermuda Trust Company Limited is deemed to be interested in the same 40,014,178 shares in which Acorn Holdings Corporation is interested. The Mikado Private Trust Company Limited and Harneys Trustees Limited are deemed to be interested in the same 77,674,581 shares in which Lawrencium Holdings Limited is interested. 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 77,674,581 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).

# Condensed Consolidated Income Statement

For the six months ended 30 Jun

	Note	Unaudited	
		2009 HK\$'000	2008 HK\$'000
Turnover	2	540,480	620,233
Cost of sales		(307,034)	(359,383)
Gross profit		233,446	260,850
Distribution costs		(41,996)	(49,238)
Administrative expenses		(182,977)	(197,114)
Other operating income/(expenses), net		975	(623)
Operating profit	3	9,448	13,875
Interest income from banks		86	108
Finance costs	4	(425)	(37)
Share of (losses)/profits of			
an associate		(2,099)	581
jointly controlled entities		13,454	27,136
Profit before income tax expenses		20,464	41,663
Income tax expenses	5	(8,016)	(10,621)
Profit for the period		12,448	31,042
Profit attributable to:			
Equity holders of the Company		12,267	30,486
Minority interests		181	556
		12,448	31,042
Dividend	6	-	-
Earnings per share for profit attributable to equity holders of the Company (expressed in HK cents)			
Basic & diluted	7	5.78	14.37

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 Jun

	Unaudited	
	2009	2008
	HK\$'000	HK\$'000
Profit for the period	12,448	31,042
Other comprehensive income for the period:		
Exchange differences on translating foreign operations	2,072	27,682
Total comprehensive income for the period	14,520	58,724
Total comprehensive income for the period attributable to:		
Equity holders of the Company	13,428	56,354
Minority interests	1,092	2,370
	14,520	58,724

## Condensed Consolidated Statement of Financial Position

	Note	Unaudited 30 Jun 2009 HK\$'000	Audited 31 Dec 2008 HK\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	8	22,669	23,843
Leasehold land & land use rights	9	19,098	20,223
Property, plant & equipment	9	318,752	332,040
Investment properties	9	6,800	6,800
Construction in progress	9	9,623	12,386
Interest in an associate		18,742	22,302
Interests in jointly controlled entities		290,168	273,709
Deferred tax assets		7,456	7,583
		693,308	698,886
<b>Current assets</b>			
Inventories		180,855	196,489
Trade & other receivables	10	201,997	215,241
Derivative financial instruments		718	169
Financial assets at fair value through profit or loss		80,508	59,170
Cash & cash equivalents	11	92,096	114,900
		556,174	585,969
Assets held for sale	12	–	5,695
		556,174	591,664
<b>Total assets</b>		<b>1,249,482</b>	<b>1,290,550</b>

Condensed Consolidated Statement of Financial Position

	Note	Unaudited 30 Jun 2009 HK\$'000	Audited 31 Dec 2008 HK\$'000
<b>Equity</b>			
<b>Capital &amp; reserves attributable to equity holders of the Company</b>			
Share capital	13	21,219	21,219
Reserves	14	939,495	926,067
Proposed dividend	14	–	19,097
		960,714	966,383
<b>Minority interests</b>		39,916	39,020
<b>Total equity</b>		1,000,630	1,005,403
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities		6,013	4,823
Other long-term liabilities		2,698	3,655
		8,711	8,478
<b>Current liabilities</b>			
Bank borrowings – unsecured		1,220	–
Trade & other payables	15	205,256	253,824
Other long-term liabilities – current portion		1,231	4,199
Taxation		13,337	18,646
Dividend payable		19,097	–
		240,141	276,669
<b>Total liabilities</b>		248,852	285,147
<b>Total equity &amp; liabilities</b>		1,249,482	1,290,550
<b>Net current assets</b>		316,033	314,995
<b>Total assets less current liabilities</b>		1,009,341	1,013,881

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 Jun

	Capital & reserves attributable to equity holders of the Company HK\$'000	Unaudited	
		Minority interests HK\$'000	Total equity HK\$'000
Balance at 1 Jan 2009	966,383	39,020	1,005,403
Currency translation differences	1,161	911	2,072
Net income recognised directly in equity	1,161	911	2,072
Profit for the period	12,267	181	12,448
Total comprehensive income for the period	13,428	1,092	14,520
Payment of final dividend	(19,097)	–	(19,097)
Dividend paid to minority interests	–	(196)	(196)
	(19,097)	(196)	(19,293)
Balance at 30 Jun 2009	960,714	39,916	1,000,630
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
Total comprehensive income 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

## Condensed Consolidated Statement of Cash Flows

For the six months ended 30 Jun

	Note	Unaudited	
		2009 HK\$'000	2008 HK\$'000
Net cash generated from operating activities		6,063	25,198
Net cash used in investing activities		(29,265)	(56,788)
Net cash (used in)/generated from financing activities		(3,326)	308
Decrease in cash & cash equivalents		(26,528)	(31,282)
Cash & cash equivalents at the beginning of the period		117,406	107,644
Effect of foreign exchange rates changes		1,218	1,691
Cash & cash equivalents at 30 Jun		92,096	78,053
Analysis of the balances of cash & cash equivalents			
Cash at bank & on hand	11	92,096	72,859
Bank deposits		–	5,525
Bank overdraft		–	(331)
		92,096	78,053

# Notes to the Condensed Consolidated Financial Statements

## 1. Basis of Preparation & Accounting Policies

The unaudited condensed consolidated financial statements 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 financial statements 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 financial statements are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2008.

The Group has adopted, for the first time, the following new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA that have material impact on the results and the financial position of the Group in the current accounting period:

- a. HKAS 1 (revised 2007) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. The Group selected a two-statement approach to separately present (i) items of income and expense recognised as profit and loss in the Income Statement and (ii) profit and items of income and expense not recognised as profit and loss in the Statement of Comprehensive Income. The transactions with equity holders are presented in the Statement of Changes in Equity. The Group also adopted the revised title “Statement of Financial Position” for “Balance Sheet”.
- b. HKFRS 8, as detailed in Note 2, has resulted in certain changes in the presentation of the Group’s segment information. Comparative figures have been restated in order to achieve a consistent presentation.

The following new HKFRSs are effective for the current accounting period, but there is no material impact on the results and the financial position of the Group. Accordingly, no prior period adjustment has been recognised.

## Notes to the Condensed Consolidated Financial Statements

### 1. Basis of Preparation & Accounting Policies

Amendments to HKAS 32 and HKAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to HKFRS 1 and HKAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to HKFRS 2	Share-based Payment – Vesting Condition and Cancellations
Amendments to HKFRS 7	Improving Disclosures about Financial Instruments
Amendments to HK(IFRIC) – Interpretation 9 and HKAS 39	Embedded Derivatives
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to amendment to paragraph 80 of HKAS 39
HKAS 23 (Revised)	Borrowing Costs
HK(IFRIC) – Interpretation 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Interpretation 16	Hedges of a Net Investment in a Foreign Operation

The Group has not early adopted the following new HKFRSs 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 HKFRSs to the Group's results of operations and financial position in the period of initial application.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 <sup>2</sup>
Amendments to HKAS 39	Eligible hedged items <sup>1</sup>
Amendments to HKFRS 1 (Revised)	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters <sup>3</sup>
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions <sup>3</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKFRS 1 (Revised)	First-time Adoption of HKFRSs <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HK(IFRIC) – Interpretation 17	Distribution of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC) – Interpretation 18	Transfers of Assets from Customers <sup>4</sup>

#### Notes:

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010 as appropriate

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>4</sup> Effective for transfers of assets from customers received on or after 1 July 2009

## 2. Segment Information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to assess performance and allocate resources. The Board of Directors considers the businesses primarily based on the nature of operations and customers. The Group is currently organised into four major business segments: Commercial, Residential Boutique Contract, Wholesale and Others (including manufacturing and trading of yarn and property holding).

The segment information provided to the Board of Directors for the reportable segments for the six months ended 30 June 2009 and 2008 is as follows:

For the six months ended 30 June 2009

	Commercial HK\$'000	Residential Boutique Contract HK\$'000	Wholesale HK\$'000	Total Carpet HK\$'000	Others HK\$'000	Group HK\$'000
Revenues from external customers	372,803	132,265	19,120	524,188	16,292	540,480
Segment results	36,028	(2,378)	524	34,174	2,050	36,224
Unallocated expenses <sup>1</sup>				(25,717)	-	(25,717)
Operating profit				8,457	2,050	10,507
Interest income from banks						86
Finance costs						(425)
Share of (losses)/profits of						
an associate						(2,099)
jointly controlled entities <sup>2</sup>						12,395
Profit before income tax expenses						20,464
Income tax expenses						(8,016)
Profit for the period						12,448
Depreciation	16,531	9,929	1,135	27,595	1,407	29,002
Amortisation of leasehold land & land use rights	980	-	-	980	145	1,125
Amortisation of intangible assets	-	-	1,174	1,174	-	1,174

## Notes to the Condensed Consolidated Financial Statements

### 2. Segment Information

For the six months ended 30 June 2008

	Commercial HK\$'000	Residential Boutique Contract HK\$'000	Wholesale HK\$'000	Total Carpet HK\$'000	Others HK\$'000	Group HK\$'000
Revenues from external customers	422,601	135,197	20,874	578,672	41,561	620,233
Segment results	39,488	(2,212)	3,179	40,455	6,011	46,466
Unallocated expenses <sup>1</sup>				(31,285)	–	(31,285)
Operating profit				9,170	6,011	15,181
Interest income from banks						108
Finance costs						(37)
Share of profits of						
an associate						581
jointly controlled entities <sup>2</sup>						25,830
Profit before income tax expenses						41,663
Income tax expenses						(10,621)
Profit for the period						31,042
Depreciation	14,732	8,549	632	23,913	1,587	25,500
Amortisation of leasehold land & land use rights	137	–	–	137	145	282

Notes:

<sup>1</sup> Included shared expenses for global operation, information technology, marketing, internal audit, etc.

<sup>2</sup> Excluded the share of profit of one jointly controlled entity which is included in the Wholesale segment.

### 3. Operating Profit

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Operating profit is stated after crediting & charging the following:		
<b>Crediting:</b>		
Gain on disposal of property, plant & equipment	826	27
<b>Charging:</b>		
Depreciation of property, plant & equipment (Note 9)	29,002	25,500
Amortisation of leasehold land & land use rights (Note 9)	1,125	282
Amortisation of intangible assets (Note 8)	1,174	–
(Reversal of impairment)/impairment of inventories	(1,518)	780
Impairment of trade & other receivables	5,318	2,087
Loss on disposal of an investment property	–	42

### 4. Finance Costs

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Interest on bank loans & overdrafts wholly repayable within five years	8	37
Amortised interest costs	417	–
	425	37

## 5. Income Tax Expenses

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits for the period. Income tax expenses on the People's Republic of China (the "PRC") and overseas profits has been calculated on the estimated assessable profits for the period at the tax rates prevailing in the respective countries.

The amount of income tax expenses charged/(credited) to the condensed consolidated income statement represents:

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Current income tax expenses		
Hong Kong	1,971	1,420
The PRC & overseas	7,680	9,328
Overprovision in prior years	(1,145)	(935)
Deferred taxation relating to:		
tax rate adjustment	–	(3)
the origination & reversal of temporary differences	(490)	811
Income tax expenses	8,016	10,621

## 6. Dividend

The Board does not recommend the payment of an interim dividend for the period (2008: Nil). The 2008 final dividend was paid on 6 July 2009.

## 7. Earnings Per Share

### 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	
	2009	2008
Profit attributable to equity holders of the Company (HK\$'000)	12,267	30,486
Weighted average number of ordinary shares in issue (thousands)	212,187	212,187
Basic earnings per share (HK cents)	5.78	14.37

The Company had no dilutive potential ordinary shares outstanding as at 30 June 2009 and 2008.

## 8. Intangible Assets

	Goodwill HK\$'000	Vendor relationships HK\$'000	Other intangible assets HK\$'000	Total HK\$'000
<b>Cost</b>				
As at 1 Jan 2009 & 30 Jun 2009	13,957	7,215	4,751	25,923
<b>Accumulated amortisation</b>				
As at 1 Jan 2009	–	1,443	637	2,080
Amortisation	–	722	452	1,174
As at 30 Jun 2009	–	2,165	1,089	3,254
<b>Net book value</b>				
As at 30 Jun 2009	13,957	5,050	3,662	22,669
As at 31 Dec 2008	13,957	5,772	4,114	23,843

Other intangible assets include customer relationships, non-competition agreements and design library.

## 9. Capital Expenditure

	Leasehold land & land use rights HK\$'000	Investment properties HK\$'000	Property, plant & equipment				Total HK\$'000
			Buildings HK\$'000	Other assets HK\$'000	Sub-total HK\$'000	Construction in progress HK\$'000	
Net book value as at 1 Jan 2009	20,223	6,800	105,889	226,151	332,040	12,386	371,449
Exchange adjustments	–	–	2,076	3,332	5,408	248	5,656
Additions	–	–	–	5,248	5,248	7,305	12,553
Transfer from construction in progress to property, plant & equipment	–	–	–	10,316	10,316	(10,316)	–
Disposals	–	–	(5,207)	(51)	(5,258)	–	(5,258)
Depreciation & amortisation	(1,125)	–	(5,136)	(23,866)	(29,002)	–	(30,127)
Net book value as at 30 Jun 2009	19,098	6,800	97,622	221,130	318,752	9,623	354,273

**10. Trade & Other Receivables**

	30 Jun 2009 HK\$'000	31 Dec 2008 HK\$'000
Trade receivables	186,271	206,320
Less: Impairment loss of receivables	(31,678)	(26,360)
Trade receivables, net	154,593	179,960
Other receivables	47,404	35,281
	201,997	215,241

The amounts approximated to the respective fair values as at 30 June 2009 and 31 December 2008. 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 end of the reporting period, the ageing analyses of the trade receivables were as follows:

	30 Jun 2009 HK\$'000	31 Dec 2008 HK\$'000
Current	57,892	96,121
Amount past due at the end of the reporting period but not impaired:		
Less than 30 days past due	40,002	33,154
31 to 60 days past due	16,517	17,975
61 to 90 days past due	10,897	8,502
More than 90 days past due	29,285	24,208
	96,701	83,839
	154,593	179,960

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 & Cash Equivalents

	30 Jun 2009 HK\$'000	31 Dec 2008 HK\$'000
Cash at bank & on hand	92,096	110,647
Short-term bank deposits	–	4,253
	92,096	114,900
Assets held for sale	–	2,506
	92,096	117,406

## 12. Assets Held for Sale

On 27 February 2009, the Group entered into a Share Transfer Agreement to sell the entire capital of Suzhou Shuilian Mattress Co. Ltd., one of the then subsidiaries of the Company, at a consideration of RMB5,500,000. The transaction was completed on 12 June 2009.

## 13. Share Capital

	No. of shares	HK\$'000
Authorised – HK\$0.10 per share:		
At 1 Jan 2009 & 30 Jun 2009	400,000,000	40,000
Issued & fully paid:		
At 1 Jan 2009 & 30 Jun 2009	212,187,488	21,219

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

Name	Balance as	Date of grant	Changes during the period			Balance as	Exercise price (HK\$)	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	

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 of Hong Kong Limited'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.

## Notes to the Condensed Consolidated Financial Statements

### 13. Share Capital

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 income statement over the respective vesting periods of each batch of options. As all share options issued have either lapsed or been exercised by 31 January 2008 and thus, no share options expense was recognised for the six months ended 30 June 2009 (2008: Nil).

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 <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

Notes:

- <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.

### 14. 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 2009	189,699	71,625	4,161	16,000	106,006	538,576	19,097	945,164
Currency translation differences	-	-	-	-	1,161	-	-	1,161
Profit for the period	-	-	-	-	-	12,267	-	12,267
2008 final dividend declared	-	-	-	-	-	-	(19,097)	(19,097)
Balance at 30 Jun 2009	189,699	71,625	4,161	16,000	107,167	550,843	-	939,495

	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 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

**15. Trade & Other Payables**

	30 Jun 2009 HK\$'000	31 Dec 2008 HK\$'000
Trade payables	38,463	43,449
Other payables	166,793	210,375
	<b>205,256</b>	<b>253,824</b>

As at the end of the reporting period, the ageing analyses of the trade payables were as follows:

	30 Jun 2009 HK\$'000	31 Dec 2008 HK\$'000
Current – 30 days	32,517	36,997
31 days – 60 days	3,837	3,378
61 days – 90 days	588	573
Over 90 days	1,521	2,501
	<b>38,463</b>	<b>43,449</b>

**16. Contingent Liabilities**

	30 Jun 2009 HK\$'000	31 Dec 2008 HK\$'000
Corporate guarantee in respect of performance bonds issued by the subsidiaries to customers	4,911	8,145
Counter-indemnity in respect of performance bonds issued by banks	15,616	8,562
Guarantees in lieu of rental & utility deposits	9,364	1,218
Counter-indemnity in respect of advance payment bonds issued by banks	2,756	5,748
	<b>32,647</b>	<b>23,673</b>

## 17. Capital Commitments

	30 Jun 2009 HK\$'000	31 Dec 2008 HK\$'000
Contracted but not provided for in respect of property, plant & equipment	1,104	619
Authorised but not contracted for in respect of property, plant & equipment	66	71
	<b>1,170</b>	<b>690</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 & equipment	14,970	9,654
Authorised but not contracted for in respect of property, plant & equipment	19,661	12,510
	<b>34,631</b>	<b>22,164</b>

## 18. Related Party Transactions

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

### 18.1 Sale of goods & services

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Sale of carpets:		
an associate <sup>1</sup>	3,632	2,155
The Hongkong & Shanghai Hotels, Limited ("HSH") <sup>2</sup>	136	3,410
	<b>3,768</b>	<b>5,565</b>

Notes:

<sup>1</sup> Sale 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.

Notes to the Condensed Consolidated Financial Statements

18. Related Party Transactions

18.2 Purchase of goods & services

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Purchase of goods from:		
an associate <sup>1</sup>	–	209
jointly controlled entities <sup>1</sup>	27,246	16,297
	27,246	16,506

Note:

<sup>1</sup> Purchase from an associate and jointly controlled entities were conducted in the normal course of business and at mutually agreed prices between the parties.

18.3 Key management compensation

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Salaries & other short-term employee benefits	17,878	22,626

18.4 Period/Year end balances arising from sale/purchase of goods/services

	30 Jun	31 Dec
	2009 HK\$'000	2008 HK\$'000
Trade receivables from related parties:		
an associate	347	1,808
HSH	122	176
	469	1,984
Trade payables to related parties:		
jointly controlled entities	7,347	10,352