TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2003

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 2003. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30 June 2003, and the consolidated balance sheet as at 30 June 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 8 to 20 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the six months ended 30 June 2003, the Group's unaudited consolidated turnover increased by 13.1%, to HK$243.0 million, compared to HK$214.8 million for the same period last year. The Group's unaudited consolidated profit attributable to shareholders for the period was HK$9.8 million, compared with HK$5.5 million for the corresponding period in 2002, which has been restated as a result of the adoption of the revised Statement of Standard Accounting Practice No.12 "Income Taxes". The 30 June 2003 results were after a gain of HK$1.8 million arising from additional compensation for the resumption of a piece of land in Yuen Long, Hong Kong.

Carpet Operations

For the first half of 2003, the Group's turnover in carpet manufacturing and trading increased 23.1% to HK$182.8 million.

USA

Sales to the USA, our major market served by Tai Ping Carpets Americas, Inc. ("TPCA"), dropped marginally from HK$46.0 million to HK$45.6 million, representing 25.0% of the Group's carpet sales. Overshadowed by the lacklustre economy and the Iraq war, the USA hospitality market spending was cautious and TPCA faced continuing pricing pressures from its competitors. To offset the adverse effect of slow sales in the hospitality market, TPCA diversified sales efforts into other market sectors which proved to be successful as the company was awarded major contracts with the Washington D.C. Rapid Transit Authority and as an OEM supplier to a high end designer rug retailer.

Europe

Sales by our German office, Tai Ping Carpets Interieur GmbH ("TPCI"), increased by 17.1% to HK$7.3 million, wholly attributable to the appreciation of Euro during the period. In contrast, our Paris office, Tai Ping Carpets Europe S.A. ("TPCE") achieved good sales growth. The reorganization of the TPCE operations since 1998, adding sales and technical support staff and allocating resources to service the high end consumer and contract markets including the private yacht and aircraft market, has seen the company's sales increased by 114.7% to HK$9.9 million. However the TPCE showroom sales were disappointing even after the showroom refurbishment in 2002.

Hong Kong and China

The Hong Kong market continued to be very difficult. The outbreak of SARS in March affected the Group's business with many hospitality industry projects in Hong Kong being put on hold. Sales in Hong Kong dropped 23.2% to HK$10.6 million in the period, however with the dedication and hard work of the sales staff, and capitalizing on the Tai Ping brand name for good product quality, the Group was awarded a carpet replacement contract for the Hong Kong International Airport.

Sales in China started well at the beginning of the year but were also effected by the outbreak of SARS. They still increased to HK$4.7 million from HK$3.4 million a year ago. The China market continued to be a very challenging with intense price competition. We reviewed our position in China and closed our non-performing showroom in Shanghai in June this year.

Thailand

Our factory in Thailand, Carpets International Thailand Public Company Ltd. ("CIT"), benefited from the strong recovery in the domestic property market, solid growth in the automotive industry, and new CIT carpet product launches. Domestic sales increased by 20.9% to HK$64.0 million despite the onset of SARS which temporarily deferred several hotel projects.

In the face of keen competition across most of our markets, the overall gross profit margin of carpet operation fell to 40.0%, compared to 42.4% for the same period last year. However the increase in carpet turnover gave rise to an increase in the gross profit from the carpet operation of 16.1% to HK$73.0 million. Following our planned strategy of changing the Group into a more customer focused marketing and sales driven organization, we continued to add people and invest in marketing resources. After these additional costs, the segmental results of the carpet operations increased from HK$8.7 million to HK$10.6 million.

Joint Ventures and Associated Company

Weihai Huabao Carpet Co. Ltd., Weihai Premier Carpet Co. Ltd and Weihai Shanhua Floorcovering Products Co. Ltd. ("Weihai") continued to achieve good growth in sales and profit. Their combined sales increased to HK$138.9 million from HK$110.2 million though at the expense of lower gross margins due to keen competition in China. The Group's share of Weihai's profit before taxation was HK$6.2 million, representing 24.8% increase from the same period last year.

Philippine Carpet Manufacturing Corporation ("PCMC") was greatly affected by the Iraq War. Its exports to Middle East and the USA were significantly lower which adversely impacted its profit. The Group's share of its profits before taxation amounted to HK$0.2 million, compared to HK$1.0 million in 2002.

Other Operations

The Group has yarn manufacturing and dyeing operations at Nanhai in the PRC, CIT in Thailand and Premier Yarn Dyers, Inc. ("PYD") in Georgia, USA. The sales and segmental profit in the period decreased by 42.5% and 27.3% to HK$29.5 million and HK$6.0 million respectively. The decrease in the results arose from the fall in Nanhai's yarn sales due to the yarn price increase implemented at the beginning of the year and from PYD's major customers shifting their demands for commission dyeing services from skein dyeing to space dyeing. As a result, PYD had to turn down some space dyeing business due to lack of capacity whilst its skein dyeing facilities were under-utilized. This led to production inefficiencies and the overall reduced segment profit.

The interior furnishings operations in the period reported sales of HK$27.3 million, compared to HK$11.7 million for the same period last year. The significant increase was due to the establishment of the furniture rental business by Options Home Furnishings Ltd. ("Options"), a newly formed company in mid 2002 to complement the furniture retail business of Banyan Tree Limited ("BYT"). In the face of the persistently weak retail market, aggravated by the SARS outbreak, BYT brought forward its annual sale to May in 2003 and maintained sales at the same level as the same period last year with gross margin percentage minimally affected. Options made a good start in the year though the furniture rental business is not as buoyant as initial expectations. The furniture rental for show flats and serviced apartments for developers contributed substantially to the results. The combined result of the operations was HK$1.1 million, compared to a small loss in the corresponding period of the last year.

Capital Expenditure

During the six-month period ended 30 June 2003, the Group invested HK$16.0 million (2002: HK$31.2 million) in capital expenditure in the form of fixed assets and construction in progress ("CIP"). As at 30 June 2003, the aggregate net book value of the Group's fixed assets and CIP amounted to HK$353.6 million (HK$353.9 million as at 31 December 2002).

Employees and Remuneration Policy

As at 30 June 2003, the Group had approximately 2,900 employees (as at 31 December 2002: approximately 2,800) in Hong Kong, Thailand, Singapore, Mainland China, USA, Germany and France. Since 31 December 2002, there has been no material change to the Group's employment and remuneration policies.

Liquidity and Financial Resources

The Group generally finances its business with internally generated cash flows and banking facilities at its different geographical locations while financing and cash management activities of the Group are coordinated at the corporate level.

The Group's balance sheet remains in a strong position with cash deposits and bank balances amounting to HK$111.2 million at 30 June 2003 which exceeded all the outstanding bank loans and overdrafts of a total of HK$79.0 million (representing 12.3% of the shareholders' funds) at the same date. Therefore no gearing ratio has been calculated. The Management believes that the Group has sufficient financial resources to finance its operation and capital expenditure.

The debt maturity profiles of the Group at 30 June 2003 and 31 December 2002 were as follows:

	30 June 2003	31 December 2002
	HK$'000	*HK$'000*
Repayable within one year (including bank overdrafts)	**79,012**	84,972
Repayable after 1 year, but within 2 years	**–**	3,636
Total	**79,012**	88,608

Total borrowings decreased by 10.8% reflecting the repayment of bank loans during the period.

The currency denomination of the borrowings was as follows:

	30 June 2003		31 December 2002	
	Borrowings (including overdraft)	**Carrying value of assets pledged**	Borrowings (including overdraft)	Carrying value of assets pledged
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Thai Baht				
– Secured	**40,697**	**39,205**	55,122	39,234
– Unsecured	**18,700**	**–**	19,361	–
United States Dollars				
– Unsecured	**16,633**	**–**	11,538	–
Euro				
– Unsecured	**2,394**	**–**	2,587	–
British Pound Sterling				
– Unsecured	**344**	**–**	–	–
Hong Kong Dollars				
– Unsecured	**244**	**–**	–	–
	79,012	**39,205**	88,608	39,234

At 30 June 2003, 17.1% of the borrowings are on floating interest rates, and 82.9% on fixed interest rates.

Exposure to Foreign Exchange Risks and Related Hedges

The Group has overseas operations in the PRC, Thailand, Singapore, USA and Europe. Given the Group's European and Singaporean operations are not significant in terms of the Group's results and the Chinese Renminbi has been quite stable, the exchange differences arising from translation of the overseas operations relate mostly to our CIT Thailand operation. However, the effect of these exchange differences is further reduced by CIT borrowings in local Thai Baht currency. The Group's investments in these foreign operations are treated as permanent equity, and the 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 export sales are mostly denominated in US Dollars, and to a much lesser extent in Euros. Therefore, the Group's exposure to exchange rate movements is not significant and it is not considered necessary to effect any hedges against it.

Contingent Liabilities

As at 30 June 2003, the total contingent liabilities of the Group amounted to HK$6.2 million (at 31 December 2002: HK$7.0 million) excluding litigation. Full disclosure of contingent liabilities as at 30 June 2003 has been made in note 15 to the Accounts.

Outlook

Over the past few years the Group has recognized that the market sectors in which it operates are becoming increasingly competitive. After careful consideration the Directors and I have decided that in order to grow and create shareholder value and long term prospects for all its stakeholders the Company must move from its previous factory oriented direction and become a customer driven business. To achieve this, it is necessary to make some fundamental changes to the way we do our business. In the second half of this year, agreement was reached with the previous Managing Director for him to step down from his executive role, but remain a non-executive member of the Board. A search is underway for an international CEO with strong branding and sales experience.

The management structure is also being changed and I am encouraged by the general enthusiasm and recognition that these changes were necessary. Inevitably there will be costs associated with these changes and these will be reflected in the results for the year.

Business continues as normal and our order book remains satisfactory.

Purchase, Sale or Redemption of Shares

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

Directors' Interests in Equity or Debt Securities

At 30 June 2003, the interests of the Directors in the shares and options 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 under Part XV of SFO, were as follows:

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

	No. of ordinary shares held (long position)		
Name	**Personal Interests**	**Corporate interests**	**Aggregate % to the issued share capital**
J. S. Dickson Leach	3,231,263	–	1.556%
Anthony Y. C. Yeh	5,036,230	–	2.426%
Kent M. C. Yeh	1,237,500	–	0.596%
Ian D. Boyce	203,947	–	0.098%
Lincoln C. K. Yung	30,000	–	0.014%
Lincoln K. K. Leong	–	2,000,000*	0.963%
Alison S. Bailey	458,000	–	0.221%
David C. L. Tong	296,743	–	0.143%
John J. Ying	–	11,232,401#	5.410%
Nelson K. F. Leong *(alternate director to Lincoln K. K. Leong)*	–	2,000,000*	0.963%

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

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

(b) Share options

Name	**Options held at 1 January 2003 and 30 June 2003**	**Exercise price (HK$)**	**Date of grant**	**Exercisable from**	**Exercisable until**
Kent M. C. Yeh	352,500	1.17	15/9/1999	15/9/2000	14/9/2003
	352,500	1.67	15/9/1999	15/9/2001	14/9/2004
Alison S. Bailey	253,500	1.17	15/9/1999	15/9/2000	14/9/2003
	253,500	1.67	15/9/1999	15/9/2001	14/9/2004

The existing share options were granted to Directors and employees of the Group under an employee share option scheme adopted and approved by the shareholders of the Company on 25 November 1997 (the "1997 Share Option Scheme").

At the annual general meeting held on 23 May 2002, ordinary resolutions relating to the adoption of a new share option scheme (the "2002 Share Option Scheme") and the termination of the 1997 Share Option Scheme, were duly approved by the shareholders.

Despite the fact that no further options may be granted under the 1997 Share Option Scheme after the date of its termination, all other provisions of the 1997 Share Option Scheme will remain in force to govern the exercise of all the options previously granted.

Each option entitles the holder to subscribe for one share of HK$0.10 each in the Company at a predetermined subscription price as above.

No share options has been granted under the 2002 Share Option Scheme since its adoption.

(c) Interest in associated corporations of the Company

	No. of ordinary shares held in associated corporations of the Company			
Name	**Personal Interests**	**Family Interests**	**Corporate interests**	**Aggregate % to total issued share capital of the associated corporation**
China Industrial Investments Limited of US$1 each				
Anthony Y. C. Yeh	420	400	1,380*	22.000%

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

Substantial Shareholders

As at 30 June 2003, the register of substantial shareholders required to be kept under Section 336 of the SFO showed that the Company had been notified of the following interests, being 5% or more in the issued ordinary share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors.

Name	No. of ordinary shares held in the Company of HK$0.10 each (long position)	Aggregate % to the share capital
Bermuda Trust Company Limited	107,048,649*	51.560%
Hesko Limited	107,048,649*	51.560%
Esko Limited	107,048,649*	51.560%
Holmium Holding Corporation	103,594,495*	49.896%
iVentures I, L. P.	11,232,401**	5.410%

* *Bermuda Trust Company Limited has an interest in Esko Limited and Hesko Limited. Of the 107,048,649 shares, 103,594,495 shares are owned by Holmium Holding Corporation with the balance of the shares being held through other companies held by Esko Limited and Hesko Limited. Esko Limited and Hesko Limited together own 100% Holmium Holding Corporation.*

** *Mr. John J. Ying (a Director of the Company) is the sole shareholder of the general partner of iVentures I, L.P. and is deemed to have interest in the shares held by iVentures 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).*

Compliance with the Code of Best Practice of the Listing Rules

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

Audit Committee

The authority and duties of the Audit Committee operate within the suggested guidelines as published by the Hong Kong Society of Accountants, namely "A Guide for the Formation of An Audit Committee" issued in 1997 and superseded by "A Guide for Effective Audit Committees" in 2002.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises two Independent Non-executive Directors, namely Messrs. Francis B. Y. Sim, one Non-executive Director (Mr. John J. Ying), and one Alternate Director (Mr. Nelson K. F. Leong).

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30 June 2003 with the Directors.