

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

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

These condensed interim accounts should be read in conjunction with the 2002 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2002 except that the Group has changed its accounting policy following its adoption of the revised SSAP 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

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

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In the prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Condensed Consolidated Statement of Changes in Equity, opening retained earnings at 1 January 2002 and 2003 have been increased by HK\$7,454,000 and HK\$4,719,000, respectively, which represent the unprovided net deferred tax assets. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 December 2002 by HK\$9,959,000 and HK\$5,125,000, respectively.

2. Segment information

(a) Business segments

The principal activities of the Group consist of manufacture, import, export and sale of carpets, manufacture and sale of yarn, trading of interior furnishings, investment and property holding.

An analysis of the Group's revenue and results for the period by business segments is as follows:

	Six months ended 30 June 2003							
	Carpet <i>HK\$'000</i>	Yarn <i>HK\$'000</i>	Interior furnishings <i>HK\$'000</i>	Property holding <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Group <i>HK\$'000</i>
Revenues								
– External revenues	182,801	29,467	27,292	3,408	80	–	–	243,048
– Inter-segment revenues	–	8,428	737	25	–	(9,190)	–	–
	<u>182,801</u>	<u>37,895</u>	<u>28,029</u>	<u>3,433</u>	<u>80</u>	<u>(9,190)</u>	<u>–</u>	<u>243,048</u>
Segment results	<u>10,617</u>	<u>5,984</u>	<u>1,088</u>	<u>3,226</u>	<u>80</u>	<u>(2,076)</u>	(9,365)	9,554
Finance costs								(1,325)
Share of profits of Associated company	211	–	–	–	–	–	–	211
Joint ventures	6,236	–	–	–	–	–	–	6,236
Profit before taxation								14,676
Taxation								(4,050)
Minority interests								(851)
Profit attributable to shareholders								9,775

	Six months ended 30 June 2002 (restated)							
	Carpet <i>HK\$'000</i>	Yarn <i>HK\$'000</i>	Interior furnishings <i>HK\$'000</i>	Property holding <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Group <i>HK\$'000</i>
Revenues								
– External revenues	148,556	51,242	11,660	3,288	70	–	–	214,816
– Inter-segment revenues	–	5,610	–	17	–	(5,627)	–	–
	<u>148,556</u>	<u>56,852</u>	<u>11,660</u>	<u>3,305</u>	<u>70</u>	<u>(5,627)</u>	<u>–</u>	<u>214,816</u>
Segment results	<u>8,709</u>	<u>8,229</u>	<u>(61)</u>	<u>3,105</u>	<u>70</u>	<u>(927)</u>	(9,945)	9,180
Finance costs								(1,364)
Share of profits of Associated company	1,019	–	–	–	–	–	–	1,019
Joint ventures	4,997	–	–	–	–	–	–	<u>4,997</u>
Profit before taxation								13,832
Taxation								(7,797)
Minority interests								<u>(552)</u>
Profit attributable to shareholders								<u>5,483</u>

2. Segment information (continued)

(b) Geographical segments

An analysis of the Group's turnover and segment results for the period by geographical segments is as follows:

	Turnover		Segment results	
	Six months ended 30 June 2003	2002	Six months ended 30 June 2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	38,720	25,888	(4,118)	(5,358)
Mainland China	6,354	7,926	(2,584)	685
South East Asia	82,663	61,228	10,833	6,704
Middle East	8,394	5,751	227	11
Other Asian countries	8,647	7,822	948	227
Europe	21,818	14,003	1,768	346
North America	74,073	91,388	1,884	6,339
Others	2,379	810	596	226
	<u>243,048</u>	<u>214,816</u>	<u>9,554</u>	<u>9,180</u>

3. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Crediting:		
Profit on disposal of fixed assets	36	113
Negative goodwill recognised as income (note 7)	575	583
Additional gain on compensation of resumption of land	1,821	–
Release of unvested benefit of the previous retirement scheme	<u>459</u>	<u>270</u>
Charging:		
Depreciation (note 8)	16,585	14,720
Amortisation of positive goodwill (note 7)	<u>1,114</u>	<u>1,113</u>

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16.0%) on the estimated assessable profits for the period. Overseas tax has been calculated at the applicable rates of the respective jurisdictions.

The amount of taxation charge/(credit) to the consolidated profit and loss account represents:

	Six months ended 30 June	
	2003	Restated 2002
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	–	45
Overseas taxation	2,665	6,169
Deferred taxation relating to the origination and reversal of temporary differences	992	748
Deferred taxation resulting from an increase in tax rate	<u>(150)</u>	<u>–</u>
	3,507	6,962
Share of taxation attributable to		
Associated company	66	320
Joint ventures	<u>477</u>	<u>515</u>
Taxation charge	<u>4,050</u>	<u>7,797</u>

5. Dividends

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
2002 final dividend, payable, of HK\$0.03 per share (<i>note</i>)		
(2001 final dividend paid: HK\$0.03 per share)	<u>6,229</u>	<u>6,121</u>

Note: The 2002 final dividend was paid on 15 August 2003.

The Board does not recommend the payment of an interim dividend for the period (2002: Nil).

6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$9,775,000 (2002: restated profit of HK\$5,483,000 after prior year adjustment in relation to deferred taxation) and the weighted average of 207,619,483 shares (2002: 206,717,516 shares) during the period.

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

7. Intangible assets

	Six months ended 30 June 2003		
	Positive goodwill	Negative goodwill	Total
	HK\$'000	HK\$'000	HK\$'000
Opening net amount	3,907	(1,446)	2,461
Amortisation charges (<i>note 3</i>)	<u>(1,114)</u>	<u>575</u>	<u>(539)</u>
Closing net amount	<u>2,793</u>	<u>(871)</u>	<u>1,922</u>
At 30 June 2003			
Gross amount	6,682	(3,450)	3,232
Accumulated amortisation	<u>(3,889)</u>	<u>2,579</u>	<u>(1,310)</u>
Net amount	<u>2,793</u>	<u>(871)</u>	<u>1,922</u>
At 31 December 2002			
Gross amount	6,682	(3,450)	3,232
Accumulated amortisation	<u>(2,775)</u>	<u>2,004</u>	<u>(771)</u>
Net amount	<u>3,907</u>	<u>(1,446)</u>	<u>2,461</u>

8. Fixed assets

	Six months ended 30 June 2003		
	Investment properties	Other properties	Other fixed assets
	HK\$'000	HK\$'000	HK\$'000
Opening net book value	69,258	99,829	159,031
Exchange adjustments	–	293	69
Additions	–	662	4,747
Transfer from construction in progress	–	3,634	10,619
Disposals	–	–	(15)
Depreciation	<u>–</u>	<u>(2,694)</u>	<u>(13,891)</u>
Closing net book value	<u>69,258</u>	<u>101,724</u>	<u>160,560</u>

9. Construction in progress

	Six months ended 30 June 2003 HK\$'000
Opening balance	25,770
Exchange adjustments	10
Additions	10,588
Transfer to fixed assets	(14,253)
Write off	(8)
	<u>22,107</u>
Closing balance	<u><u>22,107</u></u>

10. Trade and other receivables

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Trade receivables (<i>note</i>)	64,112	67,735
Other receivables	26,461	28,811
	<u>90,573</u>	<u>96,546</u>
	<u><u>90,573</u></u>	<u><u>96,546</u></u>

Note: The credit terms of the Group depend on the credit status and repayment history of customers and range from 0 to 90 days. At 30 June 2003, the ageing analysis of the trade receivables is as follows:

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Current – 30 days	41,542	48,850
31 days – 60 days	12,192	6,090
61 days – 90 days	4,521	3,965
Over 90 days	5,857	8,830
	<u>64,112</u>	<u>67,735</u>
	<u><u>64,112</u></u>	<u><u>67,735</u></u>

11. Trade and other payables

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Trade payables (<i>note</i>)	19,224	18,465
Other payables	61,414	58,670
	<u>80,638</u>	<u>77,135</u>
	<u><u>80,638</u></u>	<u><u>77,135</u></u>

Note: At 30 June 2003, the ageing analysis of the trade payables is as follows:

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Current – 30 days	17,046	16,907
31 days – 60 days	644	712
61 days – 90 days	499	161
Over 90 days	1,035	685
	<u>19,224</u>	<u>18,465</u>
	<u><u>19,224</u></u>	<u><u>18,465</u></u>

12. Long-term bank loans

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

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Within one year	7,632	7,992
In the second year	–	3,636
	<u>7,632</u>	<u>11,628</u>
Less: Amounts due within one year included under current liabilities	<u>(7,632)</u>	<u>(7,992)</u>
	<u>–</u>	<u>3,636</u>

13. Share capital

	Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
<i>Authorised:</i>		
At 1 January 2003 and 30 June 2003	<u>400,000,000</u>	<u>40,000</u>
<i>Issued and fully paid:</i>		
At 1 January 2003 and 30 June 2003	<u>207,619,483</u>	<u>20,762</u>

The movement of outstanding share options during the interim period was as follows:

Subscription period	Subscription price per share	Number of share options outstanding as at 1 January 2003	Number of share options forfeited during the period	Number of share options outstanding as at 30 June 2003
15 September 2000 to 14 September 2003	HK\$1.17	1,558,500	(102,000)	1,456,500
15 September 2001 to 14 September 2004	HK\$1.67	1,558,500	(102,000)	1,456,500
		<u>3,117,000</u>	<u>(204,000)</u>	<u>2,913,000</u>

The options were granted under a share option scheme approved by the shareholders at a special general meeting on 24 November 1997 ("1997 Share Options Scheme").

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.

The 1997 Share Options Scheme has been terminated by the shareholders in an annual general meeting held on 23 May 2002 to the effect that no further share options could be granted under this Scheme, but all share options granted under the 1997 Share Options Scheme prior to its termination shall continue to be exercisable with their terms of issue.

14. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the deferred tax assets/(liabilities) account is as follows:

	6 months ended 30 June 2003 HK\$'000	Year ended 2002 HK\$'000
At the beginning of the period/year	4,834	7,574
Exchange differences	(19)	–
Deferred taxation charged to profit and loss account	(842)	(2,740)
At the end of the period/year	<u>3,973</u>	<u>4,834</u>

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the period is as follows:

Deferred tax liabilities

	Accelerated tax depreciation 2003 HK\$'000	2002 HK\$'000
At 1 January	5,125	3,856
Charged/(credited) to profit and loss account	(28)	1,231
Exchange differences	19	38
At 30 June 2003/ 31 December 2002	<u>5,116</u>	<u>5,125</u>

Deferred tax assets

	Impairment of assets		Tax losses		Others		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st January	7,492	8,451	2,388	2,168	79	811	9,959	11,430
(Charged)/credited to profit and loss account	(734)	(959)	(61)	220	(75)	(732)	(870)	(1,471)
At 30 June 2003/ 31 December 2002	<u>6,758</u>	<u>7,492</u>	<u>2,327</u>	<u>2,388</u>	<u>4</u>	<u>79</u>	<u>9,089</u>	<u>9,959</u>

15. Contingent liabilities

(a) Guarantees and counter-indemnity

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Corporate guarantee in respect of performance bonds issued by subsidiaries to customers	2,793	3,686
Counter-indemnity in respect of performance bonds issued by banks	2,067	90
Guarantee in lieu of rental deposit	250	250
Guarantee in lieu of utility deposit	1,114	1,294
Guarantee in respect of import duty	–	1,693
	<u>6,224</u>	<u>7,013</u>

(b) Litigation

As disclosed in the Group's 2002 Annual Report, the former Director and Administrator of Tai Ping Carpets Europe S.A. ("TPCE") issued proceedings and a claim for Euro 180,790 (HK\$1,591,000) against the company for wrongful dismissal. TPCE's lawyers were confident that the outcome of the proceedings against TPCE in the French Labour Court would not be successful. There was no significant change in the situation during the interim period and no provision has been made by TPCE in respect of such claim (except the gross cost of holiday pay due to him provided in the accounts of 2000).

16. Capital commitments

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Contracted but not provided for in respect of – fixed assets	5,760	9,740
Authorised but not contracted for in respect of – fixed assets	–	234
	<u>5,760</u>	<u>9,974</u>
The Group's share of capital commitments of the joint ventures themselves not included in the above were as follows:		
– contracted but not provided for in respect of fixed assets	3,310	9,633
– authorised but not contracted for in respect of fixed assets	14,081	7,563
	<u>17,391</u>	<u>17,196</u>

17. Related party transactions

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

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Sales to an associated company (<i>note a</i>)	2,232	1,179
Sales to a joint venture (<i>note a</i>)	547	–
Sales to related companies (<i>note b</i>)	564	1,878
Rental expenses payable to a related company (<i>note b</i>)	<u>283</u>	<u>236</u>

- (a) Sales to an associated company and to a joint venture were conducted in the normal course of business and at terms mutually agreed between the parties.
- (b) Sales to and rental expenses payable to related companies are related party transactions by virtue of the fact that the substantial shareholder of the Company is also interested in more than 30% of the entire issued share capital in such related companies. Such transactions also constitute connected transactions under the Chapter 14 of the Listing Rules. The sales were conducted either in accordance with the terms of the agreements governing the transactions or on terms no less favourable than those available to independent third parties.

18. Subsequent events

- a) The Group owned and used 39,207 square feet of land in Yuen Long, Hong Kong as warehousing space. The Government resumed 28,831 square feet of the land in 1999 and a further 7,920 square feet in 2001. Compensation amounting to HK\$5,800,000 in respect of the land resumed in 1999 was received by the Group in May 2003. In March 2003, the Company reached a final settlement with the Government for a compensation offer of HK\$1,288,000 for the land resumed in 2001 which was written down to nominal value in 1999. The formalities for the compensation settlement are expected to be completed in the second half of the year which will give rise to an estimated profit of HK\$1,288,000 in the second half results.
- b) The Company and its wholly owned subsidiary, Hong Kong Carpet (Holdings) Limited, announced on 30 July 2003 that they had entered into a severance agreement with Mr. Kent Yeh ("Mr. Yeh"). According to the severance agreement, the employment of Mr. Yeh as the Managing Director of the Company would be terminated with effect from 31 August 2003, and Mr. Yeh would receive a severance payment amounting to HK\$5,400,000 which is payable in 3 annual instalments starting from the employment termination date, with certain conditions including that Mr. Yeh undertakes not to compete with any Group company for a two-year period since the date of the termination of his employment. After consideration of the conditions imposed on the severance payment, the Directors consider that the payment is highly probable and the whole amount of HK\$5,400,000 will be provided in the results of the second half of the year.

By Order of the Board
J. S. Dickson Leach
Chairman

Hong Kong, 22 September, 2003