TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2004

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 2004. The consolidated results, cash flow statement and statement of changes in equity for the Group for the six months ended 30 June 2004, and the consolidated balance sheet as of 30 June 2004, all of which are unaudited and condensed, along with selected explanatory notes, can be found on pages 8 to 19 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the six months ended 30 June 2004, the Group's unaudited consolidated turnover increased by 8.0% to HK$262.5 million, compared with HK$243.0 million for the same period last year. The Group's unaudited consolidated profit attributable to shareholders for the period was HK$2.9 million, compared with HK$9.8 million for the corresponding period in 2003.

In the first six months of 2004, under the guidance of the new Chief Executive Officer, Mr. James Kaplan, the Group began its transformation to create a more powerful customer experience. Using Mr. Kaplan's strong branding and sales background, initiatives are under way to build front-end sales expertise and to enhance the Tai Ping brand name in the North American and European markets. The Group is reworking its sales and marketing tactics; it is recruiting talented and experienced personnel and revamping its sales organization, creating a centralized global marketing team and overhauling its marketing tools and programmes in order to strengthen the brand name. While the initial costs to fund these changes have negatively impacted the first six months' results, the costs are within management's expectations.

Carpet Operations

For the first half of 2004, the Group's turnover in carpet manufacturing and trading increased 11.3% to HK$203.5 million.

USA

Sales in the US, primarily through Tai Ping Carpets Americas Inc. ("TPCA"), increased by 7.0% to HK$48.9 million, accounting for about 24.0% of the Group's carpet sales. During the period, commercial sales of TPCA grew by more than 57%, but sales to the residential sector remained disappointing, due mainly to the loss of OEM business. Various actions are being taken which should result in positive changes to this sector. The cost of adding sales and design expertise to the operation to extend coverage in the US, to establish a New York office and to implement global marketing initiatives increased operating costs by HK$8.5 million.

Europe

Sales in Europe increased by 7.1% to HK$23.4 million, due partly to the appreciation of the Euro and partly to an increase in sales. However, gross margins from European operations fell following the establishment of a strategic new European OEM distributor and an increased proportion of sales in the commercial market, which generally carries lower gross margins than the residential market. Overhead increased by HK$5.1 million, compared to the same period the previous year due to the recruitment of more salespeople and the development of necessary support functions.

Hong Kong, Macau and China

The Hong Kong, Macau and China markets continue to be price driven. In this environment, sales grew in Hong Kong by selling more economical products from our factory in Thailand, but at the expense of gross margins. Sales in China fell in the face of continuing aggressive price competition from PRC competitors. Sales in the combined Hong Kong-Macau-China market totaled HK$17.6 million, compared to HK$15.3 million in the corresponding period the previous year.

Thailand and Southeast Asia

Sales in Thailand and Southeast Asia, through our Thai subsidiary, Carpets International Thailand Public Company Ltd. ("CIT"), increased by 19.5% to HK$96.2 million, representing 47.3% of the Group's total carpet sales. Almost half of this increase was a result of the appreciation of the baht, with the remainder generated by real growth in sales from the supply of carpets to the fast-growing automotive industry in Thailand and neighbouring countries. During the period, automotive carpet sales accounted for 32% of CIT's total sales, compared with 16% in the same period last year. Gross margins fell from 26% to 24% due to raw material price increases, particularly in synthetic yarn and fiber and continuing competition in the commercial tufted and tiles from China.

The overall gross margin of the carpet operation remained stable at 39%, which is comparable to the same period last year. Based on the increase in carpet turnover, the gross margin increased by 8.8% to HK$79.4 million. However, the cost to the carpet operation of implementing the strategy to move closer to the customer with the recruitment of additional salespeople, the enhancement of customer service and the production of uniform marketing materials, resulted in carpet segmental profits falling to HK$1.3 million from HK$10.6 million in the same period in 2003.

Joint Ventures and Associated Company

With combined sales that increased by 28.6% to HK$178.6 million during the first half of the year, Weihai Shanhua Huabao Carpet Co., Ltd and Weihai Shanhua Premier Carpet Co., Ltd. benefited from the robust market in China. The increased sales, improved product mix and reduction in unit production cost resulting from economies of scale increased the Company's share of their pre-tax profit by 57.9% to HK$9.8 million over the same period last year. On the other hand, the price of raw materials such as wool, polypropylene and nylon grew in this period.

Philippine Carpet Manufacturing Corporation results improved during the period and the Group's share of their pre-tax profits amounted to HK$0.6 million, compared to HK$0.2 million in 2003.

Other Operations

At the Group's yarn manufacturing and dyeing operations in Nanhai in the PRC and Premier Yarn Dyers, Inc. ("PYD") in Georgia, USA, turnover increased by 5.5% to HK$31.1 million, but segmental profits remained flat at HK$5.6 million. The continuing slow US contract carpet market affected PYD's sales performance. The contraction of demand in the hank dyeing area reduced overhead and labour costs. The increase in the space dyeing capacity that took place during 2003 to meet the growing demand in this area placed the company in a position to be able to handle an increase in this business sector. Nanhai's external woollen yarn sales remained flat, but its gross margin fell due to raw material price increases effected by the devaluation of the US dollar which could not be recovered in the very competitive Chinese market.

The interior furnishing operations of Banyan Tree Limited and Options Home Furnishings Ltd. reported an 8.6% decrease in combined turnover to HK$25.0 million, compared with the similar period in 2003. The higher margins earned on a change in sales mix resulted in a significant gross margin improvement; segmental profits increased to HK$3.4 million.

Capital Expenditure

During the six-month period ended 30 June 2004, the Group invested HK$9.7 million (2003: HK$16.0 million) in capital expenditure in the form of fixed assets and construction in progress ("CIP"). As at 30 June 2004, the aggregate net book value of the Group's fixed assets and CIP amounted to HK$351.7 million (HK$372.8 million as at 31 December 2003).

Employees and Remuneration Policy

As at 30 June 2004, the Group had approximately 2,900 employees (as at 31 December 2003: approximately 2,900) in Hong Kong, Thailand, Singapore, Mainland China, USA, Germany and France. Since 31 December 2003, 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$80.2 million at 30 June 2004 which exceeded all the outstanding bank loans and overdrafts of a total of HK$51.9 million (representing 7.9% 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 and an ungeared balance sheet available to raise any borrowings necessary to finance its operation and capital expenditure during the implementation of the strategy to be closer to the customer and while the expected growth materialises.

All bank loans and overdrafts are repayable within 1 year. Total borrowings decreased by 4.5% reflecting the repayment of bank loans during the period.

The currency denomination of the borrowings was as follows:–

	30 June 2004		31 December 2003	
	Borrowings (including overdraft) *HK$'000*	**Carrying value of assets pledged** *HK$'000*	Borrowings (including overdraft) *HK$'000*	Carrying value of assets pledged *HK$'000*
Thai Baht				
– Secured	**20,041**	**41,567**	19,787	43,788
– Unsecured	**16,621**	**–**	24,050	–
United States Dollars				
– Unsecured	**13,511**	**–**	10,469	–
Hong Kong Dollars				
– Unsecured	**1,710**	**–**	–	–
	51,883	**41,567**	54,306	43,788

At 30 June 2004, 96.7% of the borrowings are on fixed interest rates, and 3.3% on floating 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 2004, the total contingent liabilities of the Group amounted to HK$5.2 million (at 31 December 2003: HK$6.1 million) excluding litigation. Full disclosure of contingent liabilities as at 30 June 2004 has been made in note 14 to the Accounts.

Outlook

Substantial changes are happening in the carpet industry worldwide, primarily through technical change and the search by global companies to seek lower-cost manufacturing bases. Many new entrants are establishing factories in Asia and price competition is fierce. Last year the Board decided that the Group needed to alter its focus towards the European and North American markets and to extend sales beyond the factory operations. With a new CEO and his team in place, Tai Ping is moving closer to the customer and is controlling more of the Company's supply chain. As reported in the last Annual Report, these changes come with additional expenses, and the Board understands and recognizes that in the immediate period the impact of these expenses will be felt in the Company's results.

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 2004, 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*

Name	No. of ordinary shares held (long position) Personal interests	Corporate interests	Aggregate % to the share capital
James S. Dickson Leach	3,826,442	–	1.812%
Anthony Y. C. Yeh	5,036,230	–	2.385%
Kent M. C. Yeh	1,237,500	–	0.586%
Ian D. Boyce	209,267	–	0.099%
Lincoln C. K. Yung	30,000	–	0.014%
Lincoln K.K. Leong	–	2,000,000*	0.947%
Alison S. Bailey	1,179,814	–	0.559%
David C. L. Tong	304,484	–	0.144%
John J. Ying	–	11,656,420#	5.521%
Nelson K.F. Leong *(Alternate Director to Lincoln K.K. Leong)*	–	2,000,000*	0.947%

* *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 2004 and 30 June 2004	Exercise price *(HK$)*	Date of grant	Exercisable from	Exercisable until
Alison S. Bailey	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

Name	No. of ordinary shares held in associated corporations of the Company 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 2004, 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. Except for Mr. John J. Ying whose shares are held through iVentures I, L. P., 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	117,688,759*	55.745%
Hesko Limited	117,688,759*	55.745%
Esko Limited	117,688,759*	55.745%
New Holmium Holding Corporation	114,144,497*	54.066%
iVentures I, L. P.	11,656,420**	5.521%

* *Bermuda Trust Company Limited has an interest in Esko Limited and Hesko Limited. Of the 117,688,759 shares, 114,144,497 shares are owned by New 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% New 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 (now the "Hong Kong Institute of Certified Public 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 Mr. Michael T. H. Lee and Mrs. Yvette Y. H. Fung, one Non-executive Director (Mr. John J. Ying), and one Alternate Director (Mr. Nelson K. F. Leong).

The Audit Committee has reviewed with the 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 2004 with the Directors.