

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 25, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants).

These condensed interim accounts should be read in conjunction with the 2003 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 2003.

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 2004								
	Carpet HK\$'000	Yarn HK\$'000	Interior furnishings HK\$'000	Property holding HK\$'000	Others HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenues								
– External revenues	203,479	31,089	24,955	2,978	–	–	–	262,501
– Inter-segment revenues	683	8,356	205	270	–	(9,514)	–	–
	<u>204,162</u>	<u>39,445</u>	<u>25,160</u>	<u>3,248</u>	<u>–</u>	<u>(9,514)</u>	<u>–</u>	<u>262,501</u>
Segment results	<u>1,303</u>	<u>5,629</u>	<u>3,405</u>	<u>2,800</u>	<u>–</u>	<u>(2,695)</u>	(7,306)	3,136
Finance costs								(541)
Share of profits of								
Associated company	619	–	–	–	–	–	–	619
Joint ventures	9,844	–	–	–	–	–	–	9,844
Profit before taxation								13,058
Taxation								(9,886)
Minority interests								(226)
Profit attributable to shareholders								<u>2,946</u>

2. Segment information (continued)

(a) Business segments (continued)

	Six months ended 30 June 2003							Group HK\$'000
	Carpet HK\$'000	Yarn HK\$'000	Interior furnishings HK\$'000	Property holding HK\$'000	Others HK\$'000	Elimination HK\$'000	Unallocated HK\$'000	
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>	<u>(9,365)</u>	<u>9,554</u>
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								<u>9,775</u>

(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 2004 HK\$'000	2003 HK\$'000	Six months ended 30 June 2004 HK\$'000	2003 HK\$'000
Hong Kong and Macau	41,029	38,720	2,359	(4,118)
Mainland China	3,912	6,354	(2,058)	(2,584)
South East Asia	98,008	82,663	10,668	10,833
Middle East	6,347	8,394	1,060	227
Other Asian countries	8,544	8,647	323	948
Europe	23,377	21,818	(1,697)	1,768
North America	78,675	74,073	(7,685)	1,884
Others	2,609	2,379	166	596
	<u>262,501</u>	<u>243,048</u>	<u>3,136</u>	<u>9,554</u>

3. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Crediting:–		
Profit on disposal of fixed assets	180	36
Negative goodwill recognised as income (note 7)	307	575
Additional gain on compensation of resumption of land	–	1,821
Release of unvested benefit of the previous retirement scheme	–	459
	<u>17,143</u>	<u>16,585</u>
Charging:–		
Depreciation (note 8)	17,143	16,585
Amortisation of positive goodwill (note 7)	1,114	1,114
	<u>1,114</u>	<u>1,114</u>

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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	
	2004	2003
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	–	–
Overseas taxation	7,646	2,665
Deferred taxation relating to the origination and reversal of temporary differences	672	992
Deferred taxation resulting from an increase in tax rate	–	(150)
	<u>8,318</u>	<u>3,507</u>
Share of taxation attributable to		
Associated company	196	66
Joint ventures	1,372	477
	<u>1,372</u>	<u>477</u>
Taxation charge	<u>9,886</u>	<u>4,050</u>

5. Dividends

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
2003 final dividend, payable, of HK\$0.03 per share (note)		
(2002 final dividend payable: HK\$0.03 per share)	6,334	6,229
	<u>6,334</u>	<u>6,229</u>

Note: The 2003 final dividend was paid on 15 July 2004.

The Board does not recommend the payment of an interim dividend for the period (2003: Nil).

6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$2,946,000 (2003: HK\$9,775,000) and the weighted average of 211,121,275 shares (2003: 207,619,483 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 2004		
	Positive goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
Opening net amount	1,680	(356)	1,324
Exchange adjustments	—	2	2
Amortisation charges (<i>note 3</i>)	(1,114)	307	(807)
Closing net amount	<u>566</u>	<u>(47)</u>	<u>519</u>
At 30 June 2004			
Gross amount	6,682	(3,512)	3,170
Accumulated amortisation	(6,116)	3,465	(2,651)
Net amount	<u>566</u>	<u>(47)</u>	<u>519</u>
At 31 December 2003			
Gross amount	6,682	(3,515)	3,167
Accumulated amortisation	(5,002)	3,159	(1,843)
Net amount	<u>1,680</u>	<u>(356)</u>	<u>1,324</u>

8. Fixed assets

	Six months ended 30 June 2004			Total HK\$'000
	Investment properties HK\$'000	Other properties HK\$'000	Other fixed assets HK\$'000	
Opening net book value	74,053	113,550	174,025	361,628
Exchange adjustments	(2,020)	(3,439)	(5,468)	(10,927)
Additions	—	70	5,478	5,548
Transfer from construction in progress	—	—	2,286	2,286
Disposals	(1,871)	(85)	(371)	(2,327)
Depreciation	—	(2,609)	(14,534)	(17,143)
Closing net book value	<u>70,162</u>	<u>107,487</u>	<u>161,416</u>	<u>339,065</u>

9. Construction in progress

	Six months ended 30 June 2004 HK\$'000
Opening balance	11,201
Exchange adjustments	(400)
Additions	4,130
Transfer to fixed assets	(2,286)
Write off	(35)
Closing balance	<u>12,610</u>

10. Trade and other receivables

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Trade receivables (<i>note</i>)	83,153	85,626
Other receivables	18,570	17,501
	101,723	103,127

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, 2004, the ageing analysis of the trade receivables is as follows:

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Current – 30 days	57,849	58,242
31 days – 60 days	9,029	10,285
61 days – 90 days	6,045	7,650
Over 90 days	10,230	9,449
	83,153	85,626

11. Trade and other payables

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Trade payables (<i>note</i>)	28,512	27,136
Other payables	70,270	61,216
	98,782	88,352

Note: At 30 June, 2004, the ageing analysis of the trade payables is as follows:

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Current – 30 days	25,757	24,661
31 days – 60 days	1,093	911
61 days – 90 days	300	160
Over 90 days	1,362	1,404
	28,512	27,136

12. Share capital

		Ordinary shares of HK\$0.10 each	
		No. of shares	HK\$'000
<i>Authorised:</i>			
At 1 January 2004 and 30 June 2004		<u>400,000,000</u>	<u>40,000</u>
<i>Issued and fully paid:</i>			
At 1 January 2004 and 30 June 2004		<u>211,121,275</u>	<u>21,112</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 2004 and 30 June 2004
15 September 2001 to 14 September 2004	HK\$1.67	<u>879,000</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 in accordance with their terms of issue.

13. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement on the net deferred tax liabilities account is as follows:

	6 months ended 30 June 2004 HK\$'000	Year ended 2003 HK\$'000
At the beginning of the period/year	4,178	2,363
Exchange differences	(56)	59
Deferred taxation charged to profit and loss account		
– relating to the origination and reversal of temporary differences	672	1,895
– resulting from an increase in tax rate	–	(139)
At the end of the period/year	<u>4,794</u>	<u>4,178</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.

13. Deferred taxation (continued)

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

<i>Deferred tax liabilities</i>	Accelerated tax depreciation		Revaluation of properties		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	4,040	4,013	8,952	7,826	12,992	11,839
(Credited)/charged to profit and loss account	(52)	27	103	269	51	296
Exchange differences	–	–	(437)	857	(437)	857
At 30 June 2004/31 December 2003	<u>3,988</u>	<u>4,040</u>	<u>8,618</u>	<u>8,952</u>	<u>12,606</u>	<u>12,992</u>

Deferred tax assets

	Impairment of assets		Tax losses		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	7,670	7,693	1,028	1,703	116	80	8,814	9,476
(Charged)/credited to profit and loss account	(94)	(821)	(527)	(675)	–	36	(621)	(1,460)
Exchange differences	(381)	798	–	–	–	–	(381)	798
At 30 June 2004/ 31 December 2003	<u>7,195</u>	<u>7,670</u>	<u>501</u>	<u>1,028</u>	<u>116</u>	<u>116</u>	<u>7,812</u>	<u>8,814</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the condensed consolidated balance sheet:

	30 June 2004	31 December 2003
	HK\$'000	HK\$'000
Deferred tax assets	378	834
Deferred tax liabilities	(5,172)	(5,012)
	<u>(4,794)</u>	<u>(4,178)</u>

14. Contingent liabilities

(a) Guarantees and counter-indemnity

	30 June 2004	31 December 2003
	HK\$'000	HK\$'000
Corporate guarantee in respect of performance bonds issued by subsidiaries to customers	2,485	2,982
Counter-indemnity in respect of performance bonds issued by banks	1,255	–
Guarantee in lieu of utility deposit	1,429	1,533
Guarantee in respect of import duty	–	1,601
	<u>5,169</u>	<u>6,116</u>

(b) Litigation

As disclosed in the Group's 2003 Annual Report, the former Director and Administrator of Tai Ping Carpets Europe S.A. ("TPCE") issued proceedings and a claim for Euro180,790 (HK\$1,716,000) 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).

15. Capital commitments

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Contracted but not provided for in respect of – fixed assets	<u>1,123</u>	<u>793</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	50,021	28,767
– authorised but not contracted for in respect of fixed assets	<u>18,906</u>	<u>15,301</u>
	<u>68,927</u>	<u>44,068</u>

16. 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 2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Sales to an associated company (<i>note a</i>)	851	2,232
Sales to joint ventures (<i>note a</i>)	234	547
Sales to related companies (<i>note b</i>)	281	564
Rental expenses payable to a related company (<i>note b</i>)	<u>238</u>	<u>283</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.

James S. Dickson Leach
Chairman

James H. Kaplan
Chief Executive Officer

Hong Kong, 21 September, 2004