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 2005. The consolidated results, cash flow statement and statement of changes in equity for the Group for the six months ended 30 June 2005, and the consolidated balance sheet as at 30 June 2005, all of which are unaudited and reviewed by the audit committee of the Company, along with selected explanatory notes, can be found on pages 14 to 48 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's unaudited consolidated turnover for the six month period was HK$322.6 million, a 22.9% increase from HK$262.5 million for the same period last year. The unaudited consolidated profit after tax for the period was HK$27.3 million compared to the profit of HK$3.2 million in the same period in 2004. The comparative figures where necessary have been re-stated in accordance with the recent reporting changes required by the newly adopted Hong Kong Financial Reporting Standards ("HKFRS") effective for reporting periods commencing on or after 1 January 2005. During the period certain items in the condensed profit and loss account affected the results by a net favourable adjustment of HK$36.0 million (see below).

In line with the overall strategy as agreed by the Directors to transform the Group from a high-quality Asian manufacturer into a world-class customer-focused carpet company, during the period the Company increased its banking lines by HK$100 million to fund working capital growth.

Carpet Operations

In the six months to 30 June 2005 the Group's carpet manufacturing and trading turnover rose by 26.9% to HK$260.3 million as compared to the HK$205.1 million in the same period in 2004. HK$133.0 million or 51.1% arose from sales in Asia and 48.9% from sales to the rest of the world, compared to the split of 60.4% from Asian sales and 39.6% from sales to the rest of the world in the same period in 2004.

Gross margins remained stable at 39%. The benefit of improved factories utilization counter-balanced the effect of increases in raw material, energy and operating costs. Planned increases in overheads to build sales teams and develop global resources and marketing tools resulted in overhead costs increasing by HK$31.2 million to HK$116.1 million. This resulted in the carpet operations reporting a segmental loss before tax, finance and unallocated costs of HK$17.0 million compared to a restated loss of HK$2.5 million for the same period in 2004.

USA

The Group's turnover in carpet manufacturing and trading increased by 65.7% to HK$81.0 million in the first six months of 2005 compared to 2004.

The general economic environment in the USA for the first half of 2005 was good and the significant growth in the American commercial turnover was a direct result of Tai Ping Carpets Americas, Inc. ("TPCA") recruitment of key sales and design teams placed in important territories and effective new marketing materials supporting the development of key business relationships. Despite fierce competition in certain sectors of the commercial market, turnover grew in the hospitality and mass transit sectors serviced by the company.

The development of Tai Ping's residential business in the USA continued with the opening in May 2005 of a new concept showroom for the Tai Ping brand. The 12,000 sq.ft. showroom and office centrally located in Union Square, New York raised the profile of the Group and generated significant amounts of publicity and interest in the new brand identity and Tai Ping's signature custom made rugs. The showroom sells mainly to the design trade and interior specifiers.

In April 2005, Tai Ping completed the purchase of the business assets of Edward Fields, Inc. – a well known USA custom rug manufacturer with seven showrooms in Chicago, Dania, Dallas, Houston, New York, Los Angeles and San Francisco. Edward Fields was established in the 1940's with its major manufacturing undertaken in Long Island, New York. The Group's strategy is to transition Edward Fields' manufacturing to the Group's Asian manufacturing bases. This has been partially completed and, as anticipated, during this transition period the operation has negatively impacted the Group's results. However, the benefits of controlling the supply chain from manufacturing to retailing are beginning to affect positively operations in both the USA and Asia. The Group is delighted with the purchase of business assets of Edward Fields since it holds a unique and greatly respected place in the market and many of its experienced employees have been re-employed by Tai Ping.

The Group's custom manufacturer in Spindale, North Carolina, USA – White Oak Carpets Mills, Inc. – continued to develop "quick ship" programs for its major aircraft outfitter client and for the Group as well as provide warehousing and distribution services for the carpet sales throughout the USA.

Europe

European sales in the period increased by 35.4% to HK$31.6 million as compared to 2004.

Tai Ping Carpets (Europe) ("TPCE") turnover grew by 46.9% in the period, and gross margins were maintained at 28%. Showroom and high-end residential project sales were encouraging but the slow development of the residential distribution and boutique commercial markets was disappointing. However, the development of new sales tools to be delivered later this year should help spur growth in 2006.

Tai Ping Carpets Interieur GmbH ("TPCI") turnover grew 44.4%, mainly through increased commercial sales, but with a negative impact on gross margins, which fell to 16% to match local competition. However, the growth in the commercial sales has reduced TPCI's dependence on a major residential client.

Early in 2005 the Group recruited an experienced UK-based commercial sales and design team similar to the operating units successfully established in America by TPCA, and opened an office in Kidderminster. This UK team will focus on the commercial markets in the UK, Europe and the Middle East.

Hong Kong, Macau and China

Turnover for the first half of 2005 increased by 19.2% to HK$22.8 million over the prior year period's figures. Selling prices were generally lower and gross margins fell from 39% to 37%. Operating expenses increased with the cost of bringing 'manufacturing excellence' to the southern Chinese factory in Nanhai and to support the development and travel of a more international pan-Asian sales team. These figures have been restated with minimal impact to include the turnover of the Nanhai wool spinning operations in China, as Carpet Operations instead of Yarn Operations, since all external wool sales by Nanhai have stopped in the period and production focused to meet the increased internal demand from the Group.

Thailand and Southeast Asia

Carpet International Thailand Public Company Ltd. ("CIT") turnover rose 7.6% to HK$119.7 million for the period. The growth in the Thai economy slowed in the first half of 2005 in the face of soaring oil prices and the high Thai current account deficit. CIT's domestic sales were flat but growth occurred in export sales to the Middle East and South East Asia and in automotive products to Asian car assembly manufacturers. Improved factory utilization during the period offset the effect of increased raw material and energy costs and keen competition in the automotive market from China and Malaysia but the gross margin fell to 25.5% compared to 28.9% in the same period in 2004. A relaunch of the CIT corporate identity is being planned to strengthen the overall CIT brand.

Singapore Carpet Manufacturers was renamed Tai Ping Carpets (S) Pte. Ltd. in January 2005 to be easily recognizable as part of the Group and change made for the office to be a support operation for sales growth plans into South East Asia.

Joint Ventures and Associated Company

The combined sales of the Group's joint ventures in Weihai, China grew by 15.9% to HK$206.9 million. The Group's share of profit after tax in the joint ventures increased to HK$9.2 million in the period as compared to HK$8.5 million for the period to 30 June 2004. The joint ventures continued to market and grow their sales aggressively in China with competitive pricing but with some impact on gross margins.

At the end of 2004 the Company signed a Memorandum of Understanding with Weihai Shanhua Carpet Group Company Limited (“Weihai”) agreeing that with effect from 1 January 2005 the Company would represent Weihai to market and distribute globally all Weihai products outside the Peoples Republic of China. In addition the Company would cease all sales in China by 1 April 2005 and Weihai and the Company would cooperate for 18 months on all sales in Asia Pacific. This strategic agreement signed with Weihai will add Weihai’s ‘Shanhua’ brand to the Group’s range of products, add factory capacity and increase the Group’s product offerings from the viewpoint of strategic price positioning. Sales made directly into China by the Group ceased on 1 April 2005 following the signing of the agreement except for the completion of prior orders.

Philippine Carpet Manufacturing Corporation (“PCMC”) results were disappointing with the Group’s share of the reported losses after tax being HK$0.6 million compared to a profit of HK$0.4 million for the comparative period in 2004. The losses arose as a result of manufacturing difficulties which have been resolved.

Other Operations

With regard to the Group’s yarn dyeing operations of Premier Yarn Dyers, Inc. (“PYD”) in Georgia, USA, sales and segmental results remained constant at HK$29.8 million and a profit of HK$5.0 million compared to the previous year’s comparative period’s results of HK$29.5 million and a profit of HK$4.0 million. The Directors wish to acknowledge the many years of valuable service contributed by the previous Managing Director Mr. Edward Jones, who retired on 31 December 2004, and congratulate PYD’s senior management for the smooth transition and continuation of business operations and profits into 2005.

The improvement in the Hong Kong property market has had a positive impact in the territory’s tourism and top-end retailers but less impact on the mid-range retailers including the houseware and furniture sectors. The impact of the name change of the operations to Indigo Living Limited (“Indigo”) took longer to establish then expected and it was only towards the mid year of 2005 that retail and rental sales begin to improve with the influx of new expats. Project sales were also slow with the limited number of new projects coming into the Hong Kong market. As a result, Indigo reported a fall in turnover of HK$5.2 million to HK$19.7 million and its results were breakeven as compared to a profit of HK$3.4 million in the same period in 2004. With many small new competitors entering the Hong Kong project market the company continued to explore opportunities for growth outside the territory.

The results of Suzhou Shuilian Mattress Company Limited (“SSMCL”), the Group’s mattress operation in China, were first reported as a subsidiary of the Group following the acquisition of the 52% Chinese joint venture party’s shares in December 2004. SSMCL reported sales for the period of HK$9.3 million and a profit of HK$0.3 million.

During the period the investment in Oceanic Cotton Mill Ltd. was liquidated and various office units on the 13th floor and the entire 26th floor of Tower A, Regent Centre, Kwai Chung were transferred to the Group on the 1 June 2005 in the form of a dividend in specie. The aggregate fair values of these properties at the date of transfer resulted in gain on liquidation of investment of HK$21.3 million credited directly to the Profit and Loss Account.

In addition, under the Hong Kong Accounting Standard ("HKAS") 40 "Investment Property", the Group has performed a fair value assessment of its investment properties and restated certain investment properties to their fair values as at 30 June 2005, with a favourable adjustment of HK$14.7 million being reported in the current period results. HK$11.4 million arose on the 6 shops owned in Wing On Plaza, Hong Kong which have been reclassified under current assets and are subject to contract for sale for HK$20.7 million with a completion date due on 15 November 2005.

Capital Expenditure

During the six-month period ended 30 June 2005, the Group invested HK$42.0 million (2004: HK$9.7 million) in capital expenditure in the form of leasehold land and land use rights, investment properties, property, plant & equipment and construction in progress. As at 30 June 2005, the aggregate net book value of the Group's capital expenditures amounted to HK$418.1 million (HK$376.4 million as at 31 December 2004).

Employees and Remuneration Policy

As at 30 June 2005, the Group had approximately 3,100 employees (as at 31 December 2004: approximately 3,100) in Hong Kong, Thailand, Singapore, Mainland China, USA, Germany, France and United Kingdom. Since 31 December 2004, 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.

As at 30 June 2005, the Group's bank loan stood at HK$98.4 million, with HK$2.1 million of bank overdrafts. The total cash and bank balances amounted to HK$71.8 million. The total borrowings net of cash and bank balances represented 4.1% of the Group's total equity.

All bank loans and overdrafts are unsecured and repayable within 1 year. Except for a bank loan of HK$5,700,000 which carries interest at floating rates, all other bank borrowings have their interest rates fixed throughout the entire terms.

The currency denomination of borrowings was as follows:–

	30 June 2005		31 December 2004	
	Bank loans HK$'000	**Bank overdrafts HK$'000**	Bank loans HK$'000	Bank overdrafts HK$'000
Thai Baht	**60,044**	**–**	51,509	–
United States Dollars	**23,318**	**–**	21,119	–
Hong Kong Dollars	**15,000**	**2,137**	–	–
	98,362	**2,137**	72,628	–

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 relatively 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 2005, total contingent liabilities of the Group amounted to HK$5.5 million (at 31 December 2004: HK$7.4 million). Full disclosure of contingent liabilities as at 30 June 2005 has been made in note 14 to the accounts.

Outlook

The transformation of the Group into a world-class customer-focused carpet company is proceeding as planned and on schedule. Turnover is growing as forecast and the new Tai Ping brand is gaining recognition in key markets as a vertically integrated company. With the development of new and effective sales and marketing tools, the Group is beginning to leverage its heritage and superior manufacturing capabilities. However in a period of significant growth, the Company's focus will continue to be on the most effective use of its resources and careful management of working capital.

Compliance with the Code on Corporate Governance Practices

During the six months ended 30 June 2005, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), with the exception of the following:–

Code provision A.2.1

This code stipulates that the division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

The Company has separate persons to hold these two roles but their division of responsibilities was formally set out in writing at the board meeting on 23 September 2005.

Code provision A.4.1

This code stipulates that Non-executive Directors should be appointed for a specific term subject to re-election.

The Company's Non-executive Directors are not appointed for specific terms. However, at the Company's Annual General Meeting on 10 June 2005, in order to be more consistent with this code provision A.4.1, the relevant Bye-law was amended to ensure that every director other than any Executive Chairman or Managing director retire by rotation at least once every 3 years. The Executive Chairman or Managing Director cannot be required to retire by rotation in the By-laws as pursuant to section 2(e) of the Tai Ping Carpets International Limited Company Act 1990 of Bermuda. Notwithstanding this, the Directors intend to comply with this code provision A.4.1 by asking any Executive Chairman or Managing Director to voluntarily retire by rotation at least once every 3 years.

Code provision B.1.1

This code stipulates that a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be Independent Non-executive Directors.

The terms of reference of the Company's remuneration committee were not formally set out as those contained in the code provision B.1.3 and the majority of its members were not Independent Non-executive Directors. At the board meeting on 23 September 2005, the terms of reference for the remuneration committee in accordance with those set out in the Code were adopted and its composition will be changed so that the majority of its members will be Independent Non-executive Directors.

Code provision C.3.3

This code stipulates that the terms of reference of the audit committee should include at least the duties as set out thereunder.

The terms of reference of the Company's audit committee were not in accordance with those set out in the Code. In order to comply with the Code, the Company adopted the terms of reference of the audit committee as set out in the Code at the board meeting held on 23 September 2005.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the Code) on terms no less exacting than the required standard set out in the Model Code contained in Appendix 10 of the Listing Rules.

Upon specific enquiries made, all Directors have confirmed that, in respect of the accounting period covered by the interim report, they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

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 have purchased or sold any of the Company's shares during the period.

Directors' interests in equity or debt securities

At 30 June 2005, 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 shares held (long position)			
Name	Personal interests	Family interests	Corporate interests	Aggregate % to the total issued share capital
Anthony Y. C. Yeh@	5,036,230	–	–	2.376%
James H. Kaplan	268,000	–	–	0.126%
Alison S. Bailey	1,208,589	3,919,769	–	2.420%
Ian D. Boyce	214,371	–	–	0.101%
John J. Ying	–	–	11,940,722#	5.634%
Kent M. C. Yeh@	1,237,500	–	–	0.584%
Lincoln K. K. Leong	–	–	2,000,000*	0.944%
David C. L. Tong	431,910	–	–	0.204%
Nelson K. F. Leong (alternate director to Lincoln K. K. Leong)	–	–	2,000,000*	0.944%
Lincoln C. K. Yung	30,000	–	–	0.014%

* 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.

@ Mr. Anthony Y. C. Yeh and Mr. Kent M. C. Yeh resigned as Non-executive Directors of the Company on 8 September 2005.

(b) Share options

During the six-month period ending 30 June 2005, a total of 2,000,000 shares options were granted under an employee share option scheme adopted and approved by the shareholders of the Company on 23 May 2002 (the "2002 Share Options Scheme") which fully complies with Chapter 17 of the Listing Rules.

As at 30 June 2005, an aggregate of 1,500,000 share options granted under the 2002 Share Options Scheme remained outstanding, representing approximately 0.71% of the issued share capital of the Company.

Details of options granted and outstanding under the 2002 Share Options Scheme during the period are as follows:

			Changes during the period					
Name	Balance as at 1 January 2005	Date of grant	Granted	Cancelled /lapsed	Exercised	Balance as at 30 June 2005	Exercise price (HK$) (Note 1)	Exercisable period
James H Kaplan	–	10 January 2005	500,000	270,000	230,000	–	1.21	10 January 2005-31 January 2005
	–	10 January 2005	500,000	–	–	500,000	1.21	31 December 2005-31 January 2006
	–	10 January 2005	500,000	–	–	500,000	1.21	31 December 2006-31 January 2007
	–	10 January 2005	500,000	–	–	500,000	1.21	31 December 2007-31 January 2008

Note 1: The exercise price of share options granted to James H. Kaplan was fixed at the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant. The closing price of the shares immediately before the date on which the options were granted (as of 10 January 2005) was HK$1.18.

Apart from the above, the Company had not granted any share option under the 2002 Share Options Scheme to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

Pursuant to Rule 17.08 of the Listing Rules, the value of the share options granted during the period is as follows:

The Company has used the Black Scholes option pricing model (the "Model") to value the share options granted during the review period. 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 he variables so adopted may materially affect the estimation of the fair value of an option.

In the current period, share options were granted to Mr. James H. Kaplan, the Company's Chief Executive Officer on 10 January 2005. The aggregate fair value of the options determined at the date of grant using the Model was HK$341,000. Such value will be expensed through the Group's profit and loss account over the respective vesting periods of each batch of options. In the current period, an amount of share option expense of HK$85,000 has been recognized, with a corresponding adjustment recognized in the Group's capital reserve.

Details of calculation of the fair value of share options with significant variables and assumptions are as follows:

Date of grant	10 January 2005
Closing price at the date of grant	HK$1.18
Risk free rate (Note 1)	0.58%-1.63%
Expected life of options	1 – 3 years
Expected volatility (Note 2)	38.65%
Expected dividend per annum (Note 3)	HK$0.0218

Notes:

1. 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.

2. Expected volatility: being the approximate volatility of closing prices of the share of he Company in the past one year immediately before the date of grant.

3. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

(c) Interest in associated corporations of the Company

Name	Personal Interests	Family Interests	Corporate interests	Aggregate % to total issued share capital of the associated corporation
	No. of ordinary shares held in associated corporation of the Company			
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. Mr. Yeh resigned as Non-executive Director of the Company on 8 September 2005.

Substantial shareholders

As at 30 June 2005, 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 Peak Capital Partners I, L.P., these interests are in addition to those disclosed above in respect of the Directors.

Name	No. of shares held (long position)	Aggregate % to the total issued share capital of the Company
Bermuda Trust Company Limited	117,688,759*	55.531%
HWR Trustees Limited	117,688,759*	55.531%
Esko Limited	117,688,759*	55.531%
Hesko Limited	117,688,759*	55.531%
Lawrencium Corporation	117,688,759*	55.531%
Acorn Holdings Corporation	117,688,759*	55.531%
New Holmium Holding Corporation	117,688,759*	55.531%
Peak Capital Partners I, L.P.	11,940,722**	5.634%

* Bermuda Trust Company Limited and HWR Trustees Limited are deemed to be interested in the 117,688,759 shares in which Esko Limited and Hesko Limited are deemed to be interested. Esko Limited and Hesko Limited are deemed to be interested in the 117,688,759 shares in which Lawrencium Corporation and Acorn Holdings Corporation are deemed to be interested. Lawrencium Corporation and Acorn Holdings Corporation are deemed to be interested in the 117,688,759 shares in which New Holmium Holding Corporation is interested. The 117,688,759 shares are owned by New Holmium Holding Corporation.

** Mr. John J. Ying (a Director of the Company) is the sole shareholder of the general partner of Peak Capital Partners I, L.P. and is deemed to have 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).

Audit Committee

The authority and duties of the Audit Committee operate within the suggested guidelines as published by 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, and one Non-executive Director, Mr. John J. Ying.

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 2005 with the Directors.

By order of the Board

Nicholas T.J. Colfer
Chairman

James H. Kaplan
Chief Executive Officer

Hong Kong, 23 September 2005