TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 146)

TAI PING

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The Directors of Tai Ping Carpets International Limited (the "Company") announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011, together with the comparative figures for 2010, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

	Note	2011 HK$'000	2010 HK$'000
Revenue	3	**1,250,109**	1,221,548
Cost of sales	5	**(645,053)**	(625,133)
Gross profit		**605,056**	596,415
Distribution costs	5	**(107,219)**	(102,562)
Administrative expenses	5	**(562,186)**	(498,179)
Impairment of intangible assets		**–**	(15,533)
Impairment of interests in jointly controlled entities	5	**(51,007)**	–
Loss in relation to Thailand flooding	6	**(114,967)**	–
Other gains/(losses) – net	4	**3,794**	(845)
Operating loss		**(226,529)**	(20,704)
Finance income		**410**	197
Finance costs		**(81)**	(374)
Finance income/(costs) – net		**329**	(177)
Share of profit/(loss) of:			
an associate		**1,234**	(1,335)
jointly controlled entities		**19,838**	33,313
(Loss)/profit before income tax		**(205,128)**	11,097
Income tax credit/(expenses)	7	**29,661**	(22,905)
Loss for the year		**(175,467)**	(11,808)
(Loss)/profit attributable to:			
owners of the Company		**(178,143)**	(13,063)
non-controlling interests		**2,676**	1,255
		(175,467)	(11,808)
Loss per share attributable to the owners of the Company during the year (expressed in HK cents per share)			
Basic	8	**(83.96)**	(6.16)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	2011	2010
	HK$'000	*HK$'000*
Loss for the year	**(175,467)**	(11,808)
Other comprehensive income:		
currency translation differences	**8,897**	49,326
Total comprehensive income for the year	**(166,570)**	37,518
Attributable to:		
owners of the Company	**(170,739)**	35,434
non-controlling interests	**4,169**	2,084
	(166,570)	37,518

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	Note	2011 HK$'000	2010 HK$'000
Assets			
Non-current assets			
Land use rights		**3,516**	5,359
Property, plant and equipment		**243,935**	278,886
Construction in progress		**22,051**	6,036
Intangible assets		**30,588**	25,661
Interest in an associate		**18,723**	17,489
Interests in jointly controlled entities		**–**	322,078
Deferred income tax assets		**33,036**	11,771
Prepayments		**9,391**	–
Pledged bank deposits		**1,344**	1,359
Bank deposits		**1,170**	439
		363,754	669,078
Current assets			
Inventories		**195,893**	192,535
Trade and other receivables	9	**205,109**	232,754
Derivative financial instruments		**1,022**	1,109
Amount due from an associate		**356**	403
Amounts due from jointly controlled entities		**–**	19,495
Financial assets at fair value through profit or loss		**40,752**	133,065
Current income tax assets		**4,137**	–
Pledged bank deposits		**–**	1,988
Cash and cash equivalents		**125,501**	86,697
		572,770	668,046
Non-current assets classified as held for sale	11	**311,904**	25,411
		884,674	693,457
Total assets		**1,248,428**	1,362,535

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	Note	2011 HK$'000	2010 HK$'000
Equity			
Equity attributable to owners of the Company			
Share capital		**21,219**	21,219
Reserves		**452,794**	445,390
Retained earnings:			
Proposed final dividend		**19,097**	19,097
Others		**319,558**	516,798
		812,668	1,002,504
Non-controlling interests		**48,516**	45,018
Total equity		**861,184**	1,047,522
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**425**	5,597
Retirement benefit obligations		**20,009**	18,281
Other long-term liabilities		**2,584**	837
		23,018	24,715
Current liabilities			
Bank borrowings – unsecured		**866**	5,989
Trade and other payables	*10*	**346,674**	256,137
Dividend payable		**225**	–
Current income tax liabilities		**1,485**	13,698
Other long-term liabilities – current portion		**1,267**	1,028
Derivative financial instruments		**263**	–
Amounts due to non-controlling interests shareholders		**13,446**	13,446
		364,226	290,298
Total liabilities		**387,244**	315,013
Total equity and liabilities		**1,248,428**	1,362,535
Net current assets		**208,544**	377,748
Total assets less current liabilities		**884,202**	1,072,237

1. BASIS OF PREPARATION

The consolidated financial statements of Tai Ping Carpets International Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets (including derivative instruments) at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Certain comparative figures have been reclassified to confirm the current year presentation.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) New and amended standards adopted by the Group

The Group adopted HKAS 24 (Revised) "Related Party Disclosures" for the first time for the financial year beginning 1 January 2011. It introduces an exemption from all of the disclosures requirements of HKAS 24 for transactions among government related entities and the government. The adoption of the revised standard does not result in a significant impact on the results and financial position of the Group.

(b) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted.

The Group has not early adopted the following new and revised standards, amendments and interpretations that are relevant to the Group. These standards have been issued but not yet effective:

HKAS 1 (Amendment)	Presentation of Financial Statements[3]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (Amendment)	Employee Benefits[4]
HKAS 27 (Revised)	Separate Financial Statements[4]
HKAS 28 (Revised)	Investments in Associates and Joint Ventures[4]
HKFRS 7 (Amendment)	Disclosure – Transfer of Financial Assets[1]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosures of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurements[4]

Notes:

[1] Effective from annual periods beginning on or after 1 July 2011
[2] Effective from annual periods beginning on or after 1 January 2012
[3] Effective from annual periods beginning on or after 1 July 2012
[4] Effective from annual periods beginning on or after 1 January 2013
[5] Effective from annual periods beginning on or after 1 January 2015

3. TURNOVER AND SEGMENTAL INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to assess performance and allocate resources. Management considers the businesses primarily based on the nature of operations and customers. The Group is currently organised into four major business segments: Commercial, Residential Boutique Contract ("RBC"), Wholesale and Others (including manufacturing and trading of yarn and property holding).

The Commercial division designs for hotels and large-scale projects such as airports, ballrooms, convention centres and other large public spaces. RBC projects are those in which concepts of private and public space intersect. Wholesale is a resourcing and product development division, which sources new and innovative products for the residential market.

The Board of Directors assesses the performance of the operating segments based on a measure of segment results. Segment results excludes the effects of non-recurring expenditure from the operating segments such as impairments when the impairment is the result of an isolated, non-recurring event. The measure also excludes the effects of change in fair values of derivative financial instruments.

The segment information provided to the management for the reportable segments for the year ended 31 December 2011 and 2010 is as follows:

For the year ended 31 December 2011

	Commercial *HK$'000*	RBC *HK$'000*	Wholesale *HK$'000*	Total carpet *HK$'000*	Others *HK$'000*	Group *HK$'000*
Revenue from external customers	754,996	456,037	5,649	1,216,682	33,427	1,250,109
Segment results	(82,840)	71,131	(3,172)	(14,881)	21,538	6,657
Unallocated expenses[1]						(67,212)
Impairment of interests in jointly controlled entities	(49,182)	–	(1,825)	(51,007)	–	(51,007)
Loss in relation to Thailand flooding	(114,967)	–	–	(114,967)	–	(114,967)
Operating loss						(226,529)
Finance costs						(81)
Finance income						410
Share of profit of:						
an associate	1,234	–	–	1,234	–	1,234
jointly controlled entities	19,838	–	–	19,838	–	19,838
Loss before income tax						(205,128)
Income tax credit						29,661
Loss for the year						(175,467)
Segment assets	666,294	178,293	5,106	849,693	67,752	917,445
Interest in an associate	18,723	–	–	18,723	–	18,723
Amount due from an associate	356	–	–	356	–	356
Non-current assets classified as held for sale	311,904	–	–	311,904	–	311,904
Total assets						1,248,428
Segment liabilities	233,967	129,267	1,774	365,008	22,236	387,244
Capital expenditure	66,745	11,381	–	78,126	178	78,304
Depreciation of property, plant and equipment	51,188	6,995	–	58,183	1,956	60,139
Amortisation of land use rights	2,098	–	–	2,098	–	2,098
Amortisation of intangible assets	2,943	1,127	1,442	5,512	–	5,512
Impairment of property, plant and equipment	10,024	–	–	10,024	–	10,024
Impairment/(Recovery of impairment) of inventories	16,856	(3,060)	713	14,509	–	14,509
(Recovery of impairment)/impairment of trade and other receivables	(831)	3,276	(325)	2,120	–	2,120
Loss on disposal of property, plant and equipment	(633)	(89)	(266)	(988)	(19)	(1,007)
Gain on disposal of asset held for sale	–	–	–	–	5,904	5,904

For the year ended 31 December 2010

	Commercial *HK$'000*	RBC *HK$'000*	Wholesale *HK$'000*	Total carpet *HK$'000*	Others *HK$'000*	Group *HK$'000*
Revenue from external customers	806,513	361,382	19,123	1,187,018	34,530	1,221,548
Segment results	26,037	50,012	(28,049)	48,000	(770)	47,230
Unallocated expenses[1]						(67,934)
Operating loss						(20,704)
Finance costs						(374)
Finance income						197
Share of (loss)/profit of:						
an associate	(1,335)	–	–	(1,335)	–	(1,335)
jointly controlled entities	33,208	–	105	33,313	–	33,313
Profit before income tax						11,097
Income tax expense						(22,905)
Loss for the year						(11,808)
Segment assets	762,779	189,706	7,039	959,524	43,546	1,003,070
Interest in an associate	17,489	–	–	17,489	–	17,489
Amount due from an associate	403	–	–	403	–	403
Interests in jointly controlled entities	322,078	–	–	322,078	–	322,078
Amount due from jointly controlled entities	19,495	–	–	19,495	–	19,495
Total assets						1,362,535
Segment liabilities	229,760	60,078	13,047	302,885	12,128	315,013
Capital expenditure	42,108	7,842	6	49,956	–	49,956
Depreciation of property, plant and equipment	59,263	2,661	104	62,028	–	62,028
Amortisation of land use rights	2,152	–	–	2,152	–	2,152
Amortisation of intangible assets	4,051	39	2,324	6,414	–	6,414
Impairment of intangible assets	–	–	15,533	15,533	–	15,533
Impairment of inventories	–	301	–	301	–	301
Recovery of impairment of trade and other receivables	(2,373)	(654)	(42)	(3,069)	–	(3,069)
Gain on disposal of investment properties/property, plant and equipment	400	–	–	400	361	761

Note:

1 Included shared expenses for global operation, information technology, marketing, internal audit, etc.

Analysis of revenue by the location are based on the sales destination.

Analysis of non-current assets other than financial instruments, deferred income tax assets and post-employment benefit costs by the location are based on the physical location of the assets.

For the year ended 31 December 2011

	Revenue *HK$'000*	**Non-current assets** *HK$'000*
Asia		
Hong Kong	**55,682**	**71,020**
Macau	**26,323**	**–**
Mainland China	**30,667**	**356,278**
Thailand	**229,895**	**139,030**
Singapore	**32,453**	**1,824**
Malaysia	**5,208**	**–**
Japan	**5,820**	**–**
Korea	**16,334**	**–**
India	**30,017**	**1,049**
Middle East	**42,459**	**–**
Others	**23,292**	**308**
Oceania		
Australia	**63,553**	**–**
Others	**883**	**–**
Europe		
France	**67,066**	**14,729**
Germany	**48,937**	**2,667**
United Kingdom	**56,951**	**758**
Italy	**14,897**	**–**
Switzerland	**12,472**	**–**
Others	**17,085**	**–**
America		
United States of America	**402,043**	**54,881**
Argentina	**24,468**	**78**
Canada	**25,091**	**–**
Others	**15,498**	**–**
Africa		
Others	**3,015**	**–**
	1,250,109	**642,622**

For the year ended 31 December 2010

	Revenue *HK$'000*	Non-current assets *HK$'000*
Asia		
Hong Kong	50,790	34,850
Macau	17,704	–
Mainland China	25,430	358,340
Thailand	252,437	186,542
Singapore	47,773	685
Malaysia	12,542	–
Japan	13,548	–
Korea	8,634	–
India	23,122	1,446
Middle East	91,322	–
Others	4,992	–
Oceania		
Australia	74,852	–
Others	423	–
Europe		
France	66,038	12,597
Germany	46,188	2,697
United Kingdom	39,809	1,361
Italy	7,379	–
Switzerland	8,028	–
Others	8,185	–
America		
United States of America	383,128	58,652
Argentina	31,799	137
Others	7,425	–
	1,221,548	657,307

There is no single external customer contributed more than 10% revenue to the Group's revenue for the years ended 31 December 2011 and 2010.

4. OTHER GAINS/(LOSSES) – NET

	2011	2010
	HK$'000	*HK$'000*
Gain on disposal of financial assets at fair value through profit or loss	**1,645**	1,128
(Loss)/gain on disposal of property, plant and equipment	**(1,011)**	400
Gain on disposal of non-current asset classified as held for sale	**5,904**	–
Gain on disposal of investment properties	**–**	361
(Loss)/gain on change in fair value of derivative financial instruments	**(1,338)**	1,017
Net foreign exchange losses	**(1,406)**	(3,865)
Others	**–**	114
	3,794	(845)

5. EXPENSES BY NATURE

	2011	2010
	HK$'000	*HK$'000*
Raw materials and consumables used	**332,028**	340,782
Amortisation of intangible assets	**5,512**	6,414
Amortisation of land use rights	**2,098**	2,152
Depreciation of property, plant and equipment	**60,139**	62,028
Employee benefit expense	**510,285**	488,692
Operating lease charges		
– Land and buildings	**33,433**	25,582
– Plant and machinery	**2,727**	490
Impairment of inventories	**14,509**	301
Impairment of trade receivables	**4,056**	–
Impairment of interests in jointly controlled entities		
– Dissolution of a jointly controlled entity	**1,825**	–
– Disposal of interests in jointly controlled entities *(Note 11)*	**49,182**	–
Bad debts written off	**3,423**	1,960
Auditor's remuneration	**5,057**	3,481
Recovery of impairment previously recognised	**(1,936)**	(3,069)
Direct operating expenses arising from investment properties that generated rental income	**–**	3,982
Research and development costs	**3,148**	2,652

6. LOSS IN RELATION TO THAILAND FLOODING

During the year, the severe flooding in Thailand had led the Group to suspend its production facility in Pathumthani, near Bangkok on 17 October 2011. The loss in relation to this flooding is as follows:

	2011	2010
	HK$'000	*HK$'000*
Direct labour costs incurred for idle staff	**19,488**	–
Replacement carpet costs	**2,766**	–
Impairment of inventories	**19,378**	–
Write off of inventories	**59,357**	–
Impairment of property, plant and equipment	**7,038**	–
Repairs and maintenance	**3,035**	–
Legal and professional fees	**1,329**	–
Others	**2,576**	–
	114,967	–

7. INCOME TAX CREDIT/(EXPENSES)

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2011	2010
	HK$'000	*HK$'000*
Current income tax		
Hong Kong	**(764)**	(4,629)
Overseas	**(1,006)**	(18,227)
Deferred income tax credit/(expenses)	**31,431**	(49)
Income tax credit/(expenses)	**29,661**	(22,905)

Share of income tax expenses of an associate of HK$220,000 (2010: HK$180,000) and share of income tax expenses of jointly controlled entities of HK$10,341,000 (2010: HK$14,698,000) respectively are included in the share of (loss)/profit of an associate and jointly controlled entities.

8. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2011	2010
Loss attributable to owners of the Company (HK$'000)	**(178,143)**	(13,063)
Weighted average number of ordinary shares in issue (thousands)	**212,187**	212,187
Basic loss per share (HK cents)	**(83.96)**	(6.16)

The Group had no outstanding share options as at 31 December 2011 and 2010. As a result, diluted loss per share is not presented.

9. TRADE AND OTHER RECEIVABLES

Group

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**159,177**	203,822
Less: provision for impairment of trade receivables	**(15,362)**	(13,801)
Trade receivables – net	**143,815**	190,021
Prepayments	**31,633**	25,898
Value added tax receivables	**10,536**	6,320
Rental deposits	**4,247**	2,611
Other receivables	**14,878**	7,904
	205,109	232,754

The amounts approximate to their respective fair values as at 31 December 2011 and 2010. The credit terms of the Group range from 0 to 90 days, depending on the credit status and repayment history of customers. At the reporting date, the ageing analysis of the trade receivables based on invoice date were as follows:

	2011	2010
	HK$'000	*HK$'000*
0 to 30 days	**79,237**	141,941
31 to 60 days	**22,832**	20,776
61 to 90 days	**6,999**	10,018
91 to 365 days	**25,993**	15,385
More than 365 days	**8,754**	1,901
	143,815	190,021

While the ageing analysis of the trade receivables which are past due but not impaired are as follows:

	2011	2010
	HK$'000	*HK$'000*
Amount past due:		
Less than 30 days past due	**30,755**	44,653
31 to 60 days past due	**16,210**	14,339
61 to 90 days past due	**3,549**	7,798
91 to 365 days past due	**30,929**	11,291
More than 365 days past due	**18,212**	1,600
	99,655	79,681

The current balances relate to existing customers, most of which have no recent history of default.

As at 31 December 2011, trade receivables of approximately HK$99,655,000 (2010: HK$79,681,000) were past due but not impaired. The balances were related to a number of customers that have a good track record with the Group. Based on the past experience, management estimates that the carrying amounts could be fully recovered.

Movements on the Group's provision for impairment of trade receivables are as follows:

	2011	2010
	HK$'000	*HK$'000*
At 1 January	**13,801**	19,670
Impairment of trade receivables	**4,056**	–
Recovery of impairment previously recognised	**(1,936)**	(3,069)
Receivables written off as uncollectible	**(559)**	(2,800)
At 31 December	**15,362**	13,801

10. TRADE AND OTHER PAYABLES

Group

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**56,139**	65,667
Deposits received in advance	**133,983**	93,645
Accrued expenses	**96,487**	67,032
Other payables	**60,065**	29,793
	346,674	256,137

At the reporting date, the ageing analysis of the Group's trade payables based on invoice date is as follows:

	2011	2010
	HK$'000	*HK$'000*
0 to 30 days	**48,382**	56,302
31 days to 60 days	**4,996**	7,606
61 days to 90 days	**1,512**	642
More than 90 days	**1,249**	1,117
	56,139	65,667

11. NON-CURRENT ASSETS HELD FOR SALE

On 17 November 2011, the Group's Board of Directors approved the acceptance of a non-binding offer to dispose all of its interests in the three jointly controlled entities namely, Weihai Shanhua Huabao Carpet Co., Ltd., Weihai Shanhua Premier Carpet Co., Ltd. and Weihai Shanhua Weavers Carpet Co., Ltd. for a proposed consideration of RMB280,000,000 (approximately HK$341,600,000). The interests in these jointly controlled entities were written down by HK$49,182,000 (primarily represent withholding tax payable and transactions costs) to its recoverable amount (HK$311,904,000). Such amount has been prescribed as non-current assets held for sale since then.

DIVIDEND

No interim dividend was paid during the year. The Directors recommend a final dividend of HK9 cents per share (2010: HK9 cents), totaling HK19,097,000 for the year ended 31 December 2011. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, the final dividend will be paid to shareholders whose names appear on the register of members of the Company at the close of business on 25 May 2012.

CHAIRMAN'S STATEMENT

On 17 October 2011, our factory in Pathumthani near Bangkok was flooded, and inundated with water for several weeks thereafter. Fortunately, there was no loss of life, but more than 1300 of our factory employees suffered severe damage to their homes.

A company-wide effort was immediately put into effect to help the victims of the flood and limit the damage to our business operations. The global crisis management team did an extraordinary job fulfilling existing orders and continuing supply to our customers, by redeploying orders to our facilities in China and arranging--in a matter of weeks-– ad-hoc sourcing through a select group of carpet companies in China and South-East Asia. Additional rapid response by the Operations team and the factory workers, who were instrumental in the clean-up and recovery, enabled the factory to be back up and running, close to pre-flood capacity, by early March, albeit at significant extra cost.

It is important to note that Carpets Inter management was recognised by the Thai Ministry of Labour for their post-flood efforts and diligence in assuring all staff were accounted for and unharmed. Additionally, I would like to pay tribute to the many customers who showed such understanding and flexibility in the light of this natural disaster, thereby also providing valuable support to the Company.

The losses related to the floods, which included damage to raw materials, inventory and equipment, as well as business interruption, had a major impact on our operating results, especially on our Commercial Division, which has the majority of its products manufactured in Thailand. Therefore, we had to issue a profit warning in December, as under current accounting standards none of the expected insurance payouts could be included in the 2011 results. We have adequate insurance coverage and we expect to recover the majority of the incurred losses from the underwriters. We hope to settle major parts of the insurance claim in 2012, but final settlement might take well into 2013. However, we are fortunate to have a strong balance sheet with healthy cash reserves and the support of good banking relationships, leaving us in a position to endure and recover robustly from this unexpected natural disaster.

Excluding the significant impact of the flood, our Commercial division had a good year. A general recovery in the key hospitality sector, apparent in the second half of the previous year, continued, and we also witnessed a further increase in pricing and margins. The outlook for 2012, already showing a strong order book, is very positive.

Our Residential businesses felt very little effect from the floods, as the vast majority of their products are manufactured in our factory in Nanhai, PRC. Turnover of this high-end, luxury, strategic focus area of our business grew double digits once again, and now represents close to 40% of our overall turnover, compared to less than 10% five years ago. After years of significant investments, profitability is also increasing in line with our long-term strategic goals. The U.S. business managed to break-even for the first time. Our focus on the private Yacht and Aviation segments is paying off, with sales increasing more than 30%. We now manage the Aviation business sector globally through the appointment of a Global Managing Director for Aviation. We re-introduced the Tai Ping brand in China through the very successful launch of the André Fu collection. We also created a new sales team in Shanghai, a key growth market. In Paris, we opened a new flagship showroom, which will allow us to expand the business further.

Our manufacturing operations in China had a record year in terms of production and overall contribution to the Group. We increased the retention rate of our top-skilled employees, as well as the operating efficiency of the factory through the introduction of environmentally friendly package dyeing and best-in-class manufacturing practices.

In September 2011 we announced our intention to sell our 49% stake in the Shanhua, Weihai joint venture. Although making a profitable contribution to the Group, we concluded that the shareholding was not in line with our long-term intent to focus on our portfolio of top-quality brands. We expect to complete the disposal in the first half of 2012 and although we will record a book loss, this will release substantial funds for future investments into our own core operations.

We also, in September 2011, relocated to our new global head offices in Kwai Chung, giving a much-needed boost to the working atmosphere for our staff, and providing the right environment to welcome our customers and the international design community.

Based on strong improvement of markets around the globe and our current order book, 2012 should be a positive year for all our businesses, although economic turmoil in Europe or political issues in the Middle East could change the overall outlook.

Our people have once again proven to be our key asset, as we managed to work through a major crisis and come out stronger than before. On behalf of the other members of the Board, I would like to thank Tai Ping management and staff for their contributions in this difficult year. I would also like to thank the Directors for their support and advice throughout 2011.

In this regard, I should note that due to other commitments, Mr. Lincoln Leong will step down from the Board in May 2012, and that it is proposed that Mr. Nelson Leong will stand as Director in his stead. Nelson already makes a significant contribution to the Board in his capacity as Alternate and on the Executive Committee. I would like to thank Lincoln for all his valuable advice during his period of service, and I am pleased to add that it is proposed that he would act as Alternate to Nelson.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's consolidated turnover for the year ending 31 December 2011 was HK$1,250 million, virtually unchanged from 2010. The turnover was, however, heavily affected by the flooding that forced our Thailand operations to cease production for several months. We estimate that had the company not been impacted by customer order delays and cancellations, global turnover would have increased by about 10%.

All regions suffered some impact from the floods, but it was heaviest felt in Asia, where Thailand domestic and export sales were decimated following the inundation of major parts of the country. Overall sales in Asia decreased, while sales in the Americas grew by 10% and in Europe grew by 7%.

Our gross margin also decreased due to the floods. A combination of factors-– price increases at the beginning of the year, a better product mix resulting from faster growth in Residential and Boutique Contract sales over Commercial sales, and more efficient production--all helped to partly offset increases in factory wages, raw material prices, and more expensive third-party manufacturing, incurred as a consequence of the disaster.

Operating expenses grew by 11%. Flood damage expenses, which are fully provided for in 2011, amounted to HK$115 million. In combination with reduced sales following the flood, these resulted in an operating loss of HK$227 million for the Group.

Share of profits of the jointly controlled entities, which mainly reflects our 49% interest in the carpet manufacturing operations of Weihai Shanhua in China was HK$20 million, a drop of HK$13 million from 2010. We have announced our intention to dispose of our full shareholding in the partnership and expect to complete this transaction in the first half of 2012.

As a result, loss attributable to owners of the Company amounted to HK$178 million, compared with HK$13 million in the prior year.

CARPET OPERATIONS

Turnover of the carpet operations improved in 2011, driven by another year of excellent sales performance in the Residential Division, which increased by 26%, offset by a 6% flood-impacted drop in Commercial sales.

Our operating entities in Asia generated the largest share of our turnover, accounting for 44% of sales, while America and Europe, Middle East and Africa accounted for 34% and 22%, respectively.

Gross profit margin slightly decreased by 0.5% due to yearly raw material and wage inflation, in spite of strategic price increases and expedited growth in Residential and Boutique Contract sales. Operating loss of the carpet business increased by HK$190 million, which includes flood expenses related to the impairment of fixed assets and inventory write-offs.

The Americas

The signs of economic recovery that were starting to show in the second half of 2011 continued, and turnover in all sectors of our business in the Americas increased. Carpet turnover increased by 10% to HK$418 million.

Growth in the Residential business was led by the Aviation sector, which had another very strong year, growing turnover 13%. A new U.S.-based Managing Director was hired to better service our customers and to oversee this key business sector, globally. Margins improved as a result of dedicated sales efforts and we continued to take market share from our competitors globally through this focused initiative. Additionally, we secured preferred vendor contract status with Bombardier.

Residential sales grew to HK$176 million; the U.S. Residential business broke even for the first time in its existence, delivering on several years of high-end investments made in sales and support staff, showrooms, collections, events and marketing expenditure, with the intent to increase the client base.

Despite the flooding in Thailand, which led to the delay and cancellation of orders at the end of the year, the U.S. Commercial business managed to increase turnover by 15%, grow market share, secure, among other projects, a large order for a Houston convention centre and strengthen relationships with key hospitality clients such as Westin, Sheraton and Venetian hotels.

The transformation of J.S.L. Carpet Corporation ("JSL"), a U.S.-based wholesale distributor of high-end custom carpets and rugs acquired by the Group in 2008, into an internal supplier of woven carpets was completed during the year. Operating expenses were significantly reduced and management fully integrated.

Asia

Turnover in Asia dropped to HK$540 million due to the completion of the large Marina Bay project in 2010, and the flood-related decrease in sales at Carpets Inter Thailand. Adjusting for the floods, the performance of the underlying business in Hong Kong was strong, driven by sales into Macau and Southern China.

Carpets Inter domestic, export and automotive sales reduced dramatically after the inundation of the factory and a large part of Thailand, resulting in an overall decrease of 10%. The factory is due to be fully operational again at the end of March 2012.

Our growing Hong Kong Residential business had a successful year, and a small sales team was created in Shanghai. Overall sales grew to HK$21 million, although the operating result went from break-even to a small loss due to investment in the future growth of the China market business. Strategic company investment in the Residential sector in China resulted in significant percentage increases in both order bookings and sales in this market and will continue to be a focus of our company strategy in Asia.

Europe, Middle East and Africa

Following a very strong 2010 sales performance with several one-off projects, Europe grew turnover to HK$259 million, a 7% increase compared to the previous year.

The European Commercial Business, managed out of Kidderminster, U.K. was restructured in the beginning of the year, and combined with the Residential business, managed out of Paris, to form one regional Selling and Distribution organisation, handling both Residential and Commercial product lines. The creation of a single entity selling both Commercial and Residential products represents a unique model for the company.

La Manufacture Cogolin, acquired in 2010, was wholly integrated into the European division and received significant investment in people, brand equity and capital expenditure to revive sales. Progress of the company is according to plan.

Jointly Controlled Entities

Combined turnover of the three jointly controlled entities in China was up to HK$994 million in 2011. The Group's share of the profit, after tax expenses and HKFRS accounting adjustments, amounted to HK$20 million, a 39% decrease from 2010.

We announced our intention to dispose of our shareholding in Weihei Shanhua in November 2011. The disposal will generate an expected loss on disposal of HK$49 million versus book value, which we have fully provided for. The shareholdings have been reclassified as non-current assets held for sale.

Manufacturing Operations

Our manufacturing business in Nanhai managed to improve output and efficiency by 10%. Wages continued to increase significantly in real terms, but less than in the previous year. A combination of improved salaries, training, housing and other secondary benefits, all contributed to fewer labour shortages, and the retention of our best operators and tufters.

The operations team and factory workers in Thailand were faced with great challenges following the flooding of the factory on 17 October 2011, but through hard work and much dedication we managed to get the facility back up and running in record time. The facility was back in full operation by the end of March 2012. Production for the year was down by 17%, but had the disaster not occurred, would have significantly surpassed 2011.

Human Resources

Our number of employees dropped to 3130, which was predominantly due to a decrease of factory workers in Thailand by year-end 2011. As we ramp-up production post-flood, and return production in-house following the re-start of the Thailand factory, we expect the number of employees to grow again above 2010 levels.

We worked with a New York and Hong Kong-based design team from M Moser Associates to develop a new and improved headquarters and relocated in September 2011 from Regent Centre to leased facilities at the Kowloon Commerce Centre in Kwai Chung. The new space offers a much better working environment and includes new showrooms for both Residential and Commercial product for customer presentations, product launches and display throughout the year.

Information Technology

Oracle was launched in the U.S., facilitating faster order processing and better customer service. Oracle financials were placed into the majority of our operating entities, and in 2012 the system will be implemented in Paris, Hong Kong and Nanhai, fully completing the rollout.

Design and Marketing

In the luxury market, the launch of the André Fu Collection achieved very positive results, from both a sales and a PR perspective. The re-launch of *La Manufacture Cogolin*, including a fresh visual identity and website is underway, and a brand new Cogolin showroom will open its doors in Paris in April 2012. Additionally, a new Tai Ping Paris flagship, conceived by Belgium-born designer Ramy Fischler is in progress, with a planned opening for June 2012.

The 1956 by Tai Ping rebranding and launch was successfully completed on schedule for the Commercial sector and we have already seen the benefits of distinguishing the Hospitality-focused products from the luxury Residential and Boutique Contract line.

Web-based Marketing initiatives, including social media continue to be a strategic focus area. Facebook pages for both the Tai Ping and Edward Fields brands have been launched and a Twitter account for Tai Ping has been opened, providing new ways of connecting directly with our customers and the architect and design communities around the globe.

NON-CARPET OPERATIONS

Yarn Operations

Premier Yarn Dyers, Inc. ("PYD"), which operates the Group's U.S.-based yarn-dyeing facilities, experienced a difficult year due to the recession and structural over-capacity, resulting in their customers moving dyeing in-house, rather than outsourcing. Turnover decreased by 3%, and the operating result was break-even. The expense base has been reduced and some recovery is expected, depending on the U.S. economy.

Other Operations

The sale of the 26th floor of Regent Centre, Hong Kong to a wholly-owned subsidiary of Winsor Properties Holdings Limited was completed in September 2011 for a total consideration of HK$31 million and resulted in a profit of HK$6 million.

LIQUIDITY AND FINANCIAL RESOURCES

The Group coordinates its financing and cash management activities at the corporate level, and usually funds its business with internally generated cash flows and through banking facilities at various subsidiaries.

As at 31 December 2011, the Group had total cash and bank balances amounting to HK$126 million (2010: HK$87 million).

As at 31 December 2011, the Group also held financial assets at fair value through profit or loss of HK$41 million (2010: HK$133 million).

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

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

CORPORATE GOVERNANCE

The Board and Management are committed to promoting good corporate governance to safeguard the interests of shareholders. The Company codified its corporate governance practices by reference to the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has applied the principles in the Code and complied with the code provisions set out in the Code throughout the year ended 31 December 2011.

Financial Reporting and Internal Controls

The Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. The internal control system of the Group is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the consolidated financial statements, and ensure compliance with relevant legislation and regulations. However, associate and jointly controlled entities might not fully follow the Group's internal control system. The Group is not involved in routine operational decisions or does not play an active role in running the businesses of the associate and jointly controlled entities, and an audit or certain review procedures are performed on their annual financial results. Major business decisions and challenges, including key policies, capital expenditure, regulatory and financing issues, would be presented and considered through regular Board meetings. Such practices provide reasonable, but not absolute, assurance against material mis-statement or loss and manage rather than eliminate risks associated with the business activities.

The independent internal audit function has written terms of reference and reports directly to the Audit Committee. Internal Audit conducts reviews of the effectiveness of the Group's internal control system based on the internal audit plan and ad hoc requests from the Audit Committee and senior management. The annual internal audit plan is developed based on an assessment of the various business and operational risks of the Group and is approved by the Audit Committee. The Audit Committee reviews the findings and opinion of Internal Audit in respect of the effectiveness of the Group's internal control system periodically, and reports annually to the Board the key findings of such reviews.

Audit Committee

Written terms of reference of the Audit Committee in line with code provision C.3.3 of the Code were adopted at the Board meeting on 23 September 2005 and were revised at the Board meeting on 29 March 2012.

Under these terms of reference, the responsibilities of the Audit Committee include overseeing the relationship with the Company's external auditor (including making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and approving the audit fee and reviewing the audit scope), review of financial information of the Group, oversight of the Group's financial reporting system and internal controls.

During the year under review, the Audit Committee held three meetings with management and the representatives of the external auditor for reviewing the interim and annual reports before submission to the Board for consideration and approval, reviewing the annual audit plan and scope of work of both external auditor and internal auditor, and discussing issues arising from the audits including internal controls and financial reporting.

CLOSING OF REGISTER

For the purpose of determining shareholders' entitlements to attend and vote at the forthcoming annual general meeting, the transfer books and the register of members of the Company will be closed from 15 May 2012 to 17 May 2012 (both days inclusive), during which period no transfer of shares will be effected. In order to establish the right to attend and vote at the annual general meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Branch Registrars and Registration Office in Hong Kong, Computershare Hong Kong Investor Services Limited, 46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 14 May 2012.

For determining the entitlements to the proposed final dividend for the year ended 31 December 2011, the transfer books and the register of members of the Company will be closed from 23 May 2012 to 25 May 2012 (both days inclusive), during which period no transfer of shares will be effected. To ensure that shareholders are entitled to receive the distribution of final dividends to be approved at the annual general meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Branch Registrars and Registration Office in Hong Kong, Computershare Hong Kong Investor Services Limited, 46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 22 May 2012.

By order of the Board

Nicholas T. J. Colfer
Chairman

James H. Kaplan
Chief Executive Officer

Hong Kong, 30 March 2012

The names of Directors as at the date hereof are – Chairman and Non-executive Director: Mr. Nicholas T. J. Colfer; Chief Executive Officer and Executive Director: Mr. James H. Kaplan; Independent Non-Executive Directors: Mrs. Yvette Y. H. Fung, Mr. Aubrey K. S. Li, Mr. Roderic N. A. Sage, Mr. Lincoln C. K. Yung; Non-Executive Directors: Mr. Ian D. Boyce, Mr. Lincoln K. K. Leong, Mr. David C. L. Tong, Mr. John J. Ying; Alternate Director: Mr. Nelson K. F. Leong (Alternate to Mr. Lincoln K. K. Leong).

The 2011 Annual Report containing the information required by the Listing Rules will be published in due course in the website of The Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk).