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 2012

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 2012, together with the comparative figures for 2011, as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December

	Note	**2012** *HK$'000*	2011 *HK$'000* (As restated)
Revenue	*3*	**1,502,645**	1,250,109
Cost of sales	*4*	**(886,356)**	(745,241)
Gross profit		**616,289**	504,868
Distribution costs	*4*	**(122,641)**	(103,147)
Administrative expenses	*4*	**(469,256)**	(466,070)
Impairment of interests in jointly controlled entities		**–**	(51,007)
Gain/(loss) in relation to Thailand flooding – net	*5*	**79,059**	(114,967)
Gain on disposal of non-current assets held for sale	*11*	**64,975**	5,904
Other gains/(losses) – net	*6*	**10,526**	(2,110)
Operating profit/(loss)		**178,952**	(226,529)
Finance income		**288**	410
Finance costs		**(1,974)**	(81)
Finance (costs)/income – net		**(1,686)**	329
Share of (loss)/profit of:			
an associate		**(2,779)**	1,234
jointly controlled entities		**–**	19,838
Profit/(loss) before income tax		**174,487**	(205,128)
Income tax (expense)/credit	*7*	**(31,910)**	29,661
Profit/(loss) for the year		**142,577**	(175,467)
Profit/(loss) attributable to:			
owners of the Company		**132,775**	(178,143)
non-controlling interests		**9,802**	2,676
		142,577	(175,467)
Earnings/(loss) per share attributable to the owners of the Company during the year (expressed in HK cents per share)			
Basic/diluted	*8*	**62.57**	(83.96)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December

	2012 *HK$'000*	2011 *HK$'000*
Profit/(loss) for the year	**142,577**	(175,467)
Other comprehensive income:		
Currency translation differences	**8,063**	8,897
Release of reserves attributable to the disposal of non-current assets held for sale	**(57,624)**	–
Total comprehensive income for the year	**93,016**	(166,570)
Attributable to:		
owners of the Company	**83,193**	(170,739)
non-controlling interests	**9,823**	4,169
	93,016	(166,570)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	Note	2012 HK$'000	2011 HK$'000
Assets			
Non-current assets			
Land use rights		**1,406**	3,516
Property, plant & equipment		**313,233**	243,935
Construction in progress		**15,903**	22,051
Intangible assets		**33,324**	30,588
Interest in an associate		**18,970**	18,723
Deferred income tax assets		**15,261**	33,036
Prepayments		**–**	9,391
Pledged bank deposits		**1,038**	1,344
Fixed deposits		**–**	7,865
		399,135	370,449
Current assets			
Inventories		**281,614**	195,893
Trade & other receivables	9	**334,622**	205,109
Derivative financial instruments		**–**	1,022
Amount due from an associate		**–**	356
Financial assets at fair value through profit or loss		**556**	40,752
Current income tax assets		**2,829**	4,137
Pledged bank deposits		**11,639**	–
Fixed deposits		**4,345**	1,642
Cash & cash equivalents		**453,162**	117,164
		1,088,767	566,075
Non-current assets held for sale		**–**	311,904
		1,088,767	877,979
Total assets		**1,487,902**	1,248,428

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December

	Note	**2012** **HK$'000**	2011 HK$'000
Equity			
Equity attributable to owners of the Company			
Share capital		**21,219**	21,219
Reserves		**403,212**	452,794
Retained earnings:			
Proposed final dividend		**25,462**	19,097
Others		**426,871**	319,558
		876,764	812,668
Non-controlling interests		**58,339**	48,516
Total equity		**935,103**	861,184
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**123**	425
Retirement benefit obligations		**23,271**	20,009
Other long-term liabilities		**3,015**	2,584
		26,409	23,018
Current liabilities			
Bank borrowings – unsecured		**120,916**	866
Trade & other payables	*10*	**394,926**	346,899
Dividend payable		**285**	–
Current income tax liabilities		**4,212**	1,485
Other long-term liabilities – current portion		**–**	1,267
Derivative financial instruments		**1,693**	263
Amounts due to non-controlling shareholders		**4,358**	13,446
		526,390	364,226
Total liabilities		**552,799**	387,244
Total equity & liabilities		**1,487,902**	1,248,428
Net current assets		**562,377**	513,753
Total assets less current liabilities		**961,512**	884,202

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 and liabilities (including derivative financial 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.

Comparative figures of certain expense items have been reclassified in the consolidated income statement to conform with the presentation of current year consolidated income statement. There was no impact on profit/(loss) for the year and earnings/(loss) per share for the year ended 31 December 2012 and 2011. Prior year consolidated statement of financial position was not affected by this reclassification and hence the consolidated statement of financial position as at 1 January 2011 was not presented.

2. CHANGES IN ACCOUNTING POLICY & DISCLOSURES

(a) New and amended standards mandatory for the first time for the financial year beginning 1 January 2012 but which have no material impact to the Group

HKAS 12 (Amendment)	Deferred tax: recovery of underlying assets
HKFRS 7 (Amendment)	Financial instruments disclosure – transfer of financial assets

(b) New standards, amendments and interpretations which have been issued but are not effective for the financial year beginning 1 January 2012 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[1]
HKAS 19 (Amendment)	Employee benefits[2]
HKAS 27 (Revised)	Separate financial statements[2]
HKAS 28 (Revised)	Investments in associates and joint ventures[2]
HKAS 32 (Amendment)	Presentation on asset and liability offsetting[3]
HKFRS 1 (Amendment)	Government loans[2]
HKFRS 7 (Amendment)	Disclosure on asset and liability offsetting[2]
HKFRS 9	Financial instruments[4]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosures of interests in other entities[2]
HKFRS 13	Fair value measurements[2]

Note:

1 Effective from annual periods beginning on or after 1 July 2012
2 Effective from annual periods beginning on or after 1 January 2013
3 Effective from annual periods beginning on or after 1 January 2014
4 Effective from annual periods beginning on or after 1 January 2015

The Group is assessing the impact of these new standards and amendments, and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

3. TURNOVER & 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 three major business segments: Commercial, Residential Boutique Contract ("RBC") and Others (including trading of yarn).

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 wholesale operation was acquired by the Group in 2008. Since then, the Group decided to integrate the wholesale business into RBC segment and this was completed during the year 2011.

The Board of Directors assesses the performance of the operating segments based on a measure of segment results. Segment results represents the operating profit/loss of each business segments after excluding shared expenses for global operations, and the effects of gain/loss and income/expenditure that considered are relevant in assessing the segments performance when the impairment is the result of an isolated, non-recurring event.

The segment information provided to the management for the reportable segments for the years ended 31 December 2012 and 2011 is as follows:

For the year ended 31 December 2012

	Commercial *HK$'000*	RBC *HK$'000*	Total carpet *HK$'000*	Others *HK$'000*	Group *HK$'000*
Revenue from external customers	975,675	499,649	1,475,324	27,321	1,502,645
Segment results	24,050	733	24,783	232	25,015
Unallocated expenses[1]					9,903
Gain in relation to Thailand flooding – net	79,059	–	79,059	–	79,059
Gain on disposal of non-current assets held for sale	64,975	–	64,975	–	64,975
Operating profit					178,952
Finance income					288
Finance costs					(1,974)
Share of loss of an associate	(2,779)	–	(2,779)	–	(2,779)
Profit before income tax					174,487
Income tax expense					(31,910)
Profit for the year					142,577
Segment assets	785,089	276,042	1,061,131	407,801	1,468,932
Interest in an associate	18,970	–	18,970	–	18,970
Total assets					1,487,902
Segment liabilities	359,706	177,069	536,775	16,024	552,799
Capital expenditure	(108,994)	(23,951)	(132,945)	(10,444)	(143,389)
Depreciation of property, plant & equipment	(46,315)	(10,686)	(57,001)	(2,199)	(59,200)
Amortisation of land use rights	(2,102)	–	(2,102)	–	(2,102)
Amortisation of intangible assets	(1,149)	(705)	(1,854)	(4,990)	(6,844)
Recovery of impairment of property, plant & equipment	7,143	–	7,143	–	7,143
Impairment of intangible assets	–	(1,213)	(1,213)	–	(1,213)
Recovery of impairment of inventories	17,561	163	17,724	–	17,724
(Impairment)/recovery of impairment of trade receivables	(2,208)	1,589	(619)	–	(619)
Loss on disposal of property, plant & equipment	(3,916)	(96)	(4,012)	–	(4,012)
Gain on disposal of non-current assets held for sale	64,975	–	64,975	–	64,975

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	720,100	490,933	5,649	1,216,682	33,427	1,250,109
Segment results	(53,029)	15,229	(7,060)	(44,860)	463	(44,397)
Unallocated expenses[1]						(22,062)
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)
Gain on disposal of non-current asset held as sale	–	–	–	–	5,904	5,904
Operating loss						(226,529)
Finance income						410
Finance costs						(81)
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	592,291	252,296	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 held for sale	311,904	–	–	311,904	–	311,904
Total assets						1,248,428
Segment liabilities	216,264	146,970	1,774	365,008	22,236	387,244
Capital expenditure	(48,088)	(21,833)	–	(69,921)	(9,923)	(79,844)
Depreciation of property, plant & equipment	(47,888)	(10,206)	–	(58,094)	(2,045)	(60,139)
Amortisation of land use rights	(1,304)	(794)	–	(2,098)	–	(2,098)
Amortisation of intangible assets	(39)	(1,127)	(1,442)	(2,608)	(2,904)	(5,512)
Impairment of property, plant & equipment	(10,024)	–	–	(10,024)	–	(10,024)
(Impairment)/recovery of impairment of inventories	(21,654)	2,764	(713)	(19,603)	–	(19,603)
Recovery of impairment/(impairment) of trade receivables	1,031	(3,476)	325	(2,120)	–	(2,120)
Loss on disposal of property, plant & equipment	(398)	(328)	(266)	(992)	(19)	(1,011)
Gain on disposal of non-current asset held for sale	–	–	–	–	5,904	5,904

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 and deferred income tax assets by the location are based on the physical location of the assets.

For the year ended 31 December 2012

	Revenue *HK$'000*	**Non-current assets** *HK$'000*
Asia	**623,787**	**318,578**
Oceania	**76,472**	**–**
Europe	**199,433**	**23,642**
North America	**563,527**	**40,497**
South America	**24,648**	**119**
Africa	**14,778**	**–**
	1,502,645	**382,836**

For the year ended 31 December 2011

	Revenue *HK$'000*	Non-current assets *HK$'000*
Asia	498,150	256,261
Oceania	64,436	–
Europe	217,408	17,789
North America	427,134	54,076
South America	39,966	78
Africa	3,015	–
	1,250,109	328,204

There is no single external customer contributed more than 10% revenue to the Group's revenue for the years ended 31 December 2012 and 2011.

4. EXPENSES BY NATURE

	2012	2011
	HK$'000	*HK$'000*
Raw materials & consumables used	**694,959**	332,028
Amortisation of intangible assets	**6,844**	5,512
Amortisation of land use rights	**2,102**	2,098
Depreciation of property, plant & equipment	**59,200**	60,139
Employee benefit expenses	**471,790**	467,487
Operating lease charges		
– Land & buildings	**43,067**	33,433
– Other assets	**2,029**	2,727
(Recovery of impairment)/impairment of property, plant & equipment	**(102)**	2,986
Property, plant & equipment written off	**–**	4,028
Impairment of intangible assets	**1,213**	–
(Recovery of impairment)/impairment of inventories	**(15,920)**	225
Inventories written off	**704**	–
Impairment of trade receivables	**3,616**	4,056
Impairment of interests in jointly controlled entities		
– Dissolution of a jointly controlled entity	**–**	1,825
– Disposal of interests in jointly controlled entities	**–**	49,182
Bad debts written off	**3,162**	3,423
Auditor's remuneration	**4,200**	3,550
Recovery of impairment of trade receivables previously recognised	**(2,997)**	(1,936)
Research & development costs	**130**	3,148

5. GAIN/(LOSS) IN RELATION TO THAILAND FLOODING – NET

		2012	2011
	Notes	***HK$'000***	*HK$'000*
Gain in relation to Thailand flooding			
– Insurance recoveries	*(a)*	**112,191**	–
Loss in relation to Thailand flooding			
– Expenses incurred	*(b)*	**(33,132)**	(114,967)
Gain/(loss) in relation to Thailand flooding – net		**79,059**	(114,967)

(a) Insurance Recoveries in Relation to Thailand Flooding

During the financial year ended 31 December 2011, the Group had submitted several claims to various insurance companies in relation to the loss sustained by the Group's operations in Thailand due to the severe flooding in 2011.

In February 2012, the insurance companies advanced 150,000,000 Thai Baht (approximately HK$38,000,000) to the Group in cash to enable the Group to meet its immediate cash needs. In June 2012, the insurance companies agreed to further advance an additional 150,000,000 Thai Baht (approximately HK$37,475,000) to the Group. The Group received the full advances in July 2012.

During the year 2012, the Group had received letters of settlement of various claims from the insurance companies and hence recognised income of 436,000,000 Thai Baht (approximately HK$112,000,000) based on these letters of settlements, out of which 250,000,000 Thai Baht (approximately HK$63,560,000) attributable to the inventory loss claim has already been received as part of the cash advances.

The remaining cash advances of 50,000,000 Thai Baht (approximately HK$12,750,000) has been recorded as deferred income since the claims relating to business interruption and property damage are still under negotiation.

(b) Costs in Relation to Thailand Flooding

The loss in relation to this flooding presented as part of the Group's operating expenses (excluded in Note 4) is as follows:

	2012	2011
	HK$'000	*HK$'000*
Direct labour costs incurred for idle staff	**11,529**	19,488
Cost of purchasing replacement carpets	**6,323**	2,766
(Recovery of impairment)/impairment of inventories	**(1,804)**	19,378
Write off of inventories	**1,149**	59,357
(Recovery of impairment)/impairment of property, plant & equipment	**(7,041)**	7,038
Loss on disposal of property, plant & equipment	**3,837**	–
Repairs & maintenance of property, plant & equipment	**6,391**	3,035
Freight charges	**9,409**	668
Others	**3,339**	3,237
	33,132	114,967

6. OTHER GAINS/(LOSSES) – NET

	2012	2011
	HK$'000	*HK$'000*
Gain on disposal of financial assets at fair value through profit or loss	**698**	1,645
Loss on disposal of property, plant & equipment	**(175)**	(1,011)
Gain/(loss) on change in fair value of derivative financial instruments	**260**	(338)
Net foreign exchange gain/(loss)	**1,012**	(2,406)
Write off of amount due from an associate	**(356)**	–
Write off of amount due to non-controlling shareholders	**9,087**	–
	10,526	(2,110)

7. INCOME TAX EXPENSE/(CREDIT)

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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.

	2012	2011
	HK$'000	*HK$'000*
Current income tax		
Hong Kong	**6,655**	(764)
Overseas	**7,323**	(2,200)
Underprovision in prior years	**675**	1,044
Deferred income tax expense/(credit)	**17,257**	(27,741)
Income tax expense/(credit)	**31,910**	(29,661)

Share of income tax expenses of an associate of HK$nil (2011: HK$220,000) and share of income tax expenses of jointly controlled entities of HK$nil (2011: HK$10,341,000) respectively are included in the share of (loss)/profit of an associate and jointly controlled entities.

8. EARNINGS/(LOSS) PER SHARE

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

	2012	2011
Profit/(loss) attributable to owners of the Company (HK$'000)	**132,775**	(178,143)
Weighted average number of ordinary shares in issue (thousands)	**212,187**	212,187
Basic earnings/(loss) per share (HK cents)	**62.57**	(83.96)

As the Group had no equity-related instruments in issue as at 31 December 2012 and 2011, diluted earnings/(loss) per share is equivalent to basic earnings/(loss) per share.

9. TRADE & OTHER RECEIVABLES

Group

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**248,902**	159,177
Less: provision for impairment of trade receivables	**(13,788)**	(15,362)
Trade receivables – net	**235,114**	143,815
Prepayments	**25,252**	31,633
Value added tax receivables	**8,849**	10,536
Rental deposits	**7,746**	4,247
Insurance recoveries receivables	**47,614**	–
Other receivables	**10,047**	14,878
	334,622	205,109

The trade receivables approximate fair values as at 31 December 2012 and 2011. 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:

	2012	2011
	HK$'000	*HK$'000*
0 to 30 days	**124,240**	79,237
31 to 60 days	**45,731**	22,842
61 to 90 days	**22,056**	7,031
91 to 365 days	**46,626**	29,287
More than 365 days	**10,249**	20,780
	248,902	159,177

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

	2012	2011
	HK$'000	*HK$'000*
Amounts past due but not impaired:		
Less than 30 days past due	**51,955**	30,755
31 to 60 days past due	**19,455**	16,210
61 to 90 days past due	**10,304**	3,550
91 to 365 days past due	**40,359**	30,929
More than 365 days past due	**10,005**	18,212
	132,078	99,656

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

As at 31 December 2012, trade receivables of approximately HK$132,078,000 (2011: HK$99,656,000) 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 should be fully recovered.

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

	2012	2011
	HK$'000	*HK$'000*
At 1 January	**15,362**	13,801
Impairment of trade receivables	**3,616**	4,056
Recovery of impairment previously recognised	**(2,997)**	(1,936)
Receivables written off as uncollectible	**(2,193)**	(559)
At 31 December	**13,788**	15,362

10. TRADE & OTHER PAYABLES

Group

	2012	2011
	HK$'000	*HK$'000*
Trade payables	**69,566**	56,139
Deposits received in advance	**149,614**	133,983
Accrued expenses	**127,049**	96,487
Other payables	**48,697**	60,290
	394,926	346,899

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

	2012	2011
	HK$'000	*HK$'000*
0 to 30 days	**49,772**	48,382
31 days to 60 days	**11,264**	4,996
61 days to 90 days	**1,745**	1,512
More than 90 days	**6,785**	1,249
	69,566	56,139

11. GAIN ON DISPOSAL OF NON-CURRENT ASSETS HELD FOR SALE

On 17 September 2010, Hong Kong Carpet (Holdings) Limited, a subsidiary of the Company, entered into an agreement to dispose of a property with a carrying value of approximately HK$25,411,000 for a consideration of HK$31,699,000. Such property had been presented as non-current assets held for sale following the approval of the Group's management and shareholders on 17 September 2010. The transaction was completed on 16 September 2011.

On 1 August 2012, formal sale and purchase agreements were signed to dispose the Company's entire 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. (the "Disposal Group"). The consideration was RMB280,000,000 (approximately HK$347,000,000) and the total transaction costs amounted HK$28,000,000. The transaction was completed on 7 December 2012.

The gain on disposal of the Disposal Group on the completion date was as follows:

	2012	2011
	HK$'000	*HK$'000*
Consideration of the disposal	**346,991**	–
Less: direct expenses in relation to the disposal	**(27,736)**	–
Net consideration	**319,255**	–
Carrying value of the Disposal Group	**(311,904)**	–
Release of exchange reverses attributable to the Disposal Group	**41,927**	–
Release of capital reserves attributable to the Disposal Group	**15,697**	–
Gain on disposal	**64,975**	–

DIVIDEND

No interim dividend was paid during the year. The Directors recommend a final dividend of HK12 cents per share (2011: HK9 cents), totalling HK$25,462,000 (2011: HK$19,097,000) for the year ended 31 December 2012. 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 3 June 2013.

CHAIRMAN'S STATEMENT

2012 was a year focused on rebuilding our production facility in Pathumthani, Thailand following the dramatic floods of October 2011, and bringing the business back to profitability following the substantial flood-related write-downs and losses incurred in our 2011 results.

Assisted by resources from all parts of the Group, the local operations team in Thailand did a formidable job, managing to reopen the Pathumthani factory two months sooner than anticipated, while also increasing full-year production volumes versus a non-flood affected 2010.

Significant flood-related costs were incurred in the first quarter of the year, as continued outsourcing of production was required to fulfill the Group's order book. However, profitability was restored from the second quarter onwards when the Pathumthani factory was functioning again at normal capacity, and over the full year the Group was able to record an operating profit.

We continue to pursue full compensation for the losses sustained as a result of the flood with our underwriters. Progress of our claim is slow, due to the overwhelming number of claims being filed with the insurance industry in Thailand. Thus far we have succeeded in settling our claim related to damaged inventories. Parts of the claim related to business interruption losses and property damage are still under discussion and we hope to resolve these in 2013, although final settlement may take well into 2014.

Our Commercial businesses, for which the majority of product comes from the Pathumthani factory, were most impacted by the flood in Thailand, yet they experienced a fast turn around. Aided by backlogged orders, and a better economic climate in the U.S., sales grew and profitability was restored.

Our high-end Residential businesses had a year of stable growth, with the strongest sector being Aviation, where we are gaining market share based on our strong product offerings, fast delivery times and outstanding customer service. Year-on-year, Aviation sales grew 40%. The U.S. residential sector is recovering, but sales are still below the 2008 peak level. Europe saw slower growth levels after several years of double– digit increases.

The sale of our 49% stake in the Weihai Shanhua joint venture was completed in December, ending a long-standing relationship between the two companies. We expect to continue our co-operation with Weihai Shanhua and to use the company as an important supplier to the Group.

We announced our intention to build a new artisan workshop in Xiamen, PRC, exclusively focused on the production of high-end, custom handmade products and have retained the renowned French architect Jean-Marc Sandrolini to conceive the master design. A letter of intent with the local government has been signed, and the land was recently purchased. Completion of the facility is expected by mid 2014. The artisan workshop will enable the Group to meet the growing demand for its premium products and open up new business opportunities in the future.

We entered 2013 with a strong order book, but the global economic environment remains volatile. Continued investments will be made to develop key markets and sectors globally, especially in the higher added value segments of the business.

On behalf of the other members of the Board, I would like to thank Tai Ping management and staff for their contributions throughout this year. I would also like to thank the Directors for their continued support and advice.

MANAGEMENT DISCUSSION & ANALYSIS

The Group's consolidated turnover for the year ended 31 December 2012 was HK$1,503 million, up HK$253 million or 20% compared to the previous year.

Gross margin rose by 1 percentage point to 41%. Operating expenses increased by 2% to HK$581 million and the Group recorded an operating profit of HK$35 million before exceptional items.

Exceptional items include a profit of HK$65 million related to the disposal of jointly controlled entities. This gain was the result of foreign exchange differences, which was only recorded upon the completion of the transaction under HKFRS.

Losses due to the Thailand flood amounted to HK$33 million, bringing the total losses to HK$148 million over the two years. However, insurance recoveries amounting to HK$112 million were included in 2012 results, but final settlement of all the insurance claims is expected to take well into 2013 and might stretch into 2014.

Operating profit after exceptional items amounted to HK$179 million and net profit attributable to the equity holders to HK$133 million, an improvement of HK$311 million versus the previous year.

CARPET OPERATIONS

Turnover of the carpet operations increased by 21%, or HK$259 million, to HK$1,475 million in 2012 driven by the Commercial Division's strong rebound from the devastation in Thailand of HK$1,217 million in the previous year.

Steady growth in the U.S. Aviation sector combined with growth in Asia, albeit low-based, drove turnover in the Residential Division, resulting in a 2% increase in sales to HK$500 million.

Our operating entities in Asia generated the largest share of our turnover, accounting for 44% of sales, while America and Europe, Middle East & Africa accounted for 38% and 18% respectively.

The gross profit margin increased 1 percentage point to 41%, due to a change in mix as a result of the faster growth in the Commercial sector sales, more than offset by price increases to compensate for higher raw material costs, and wage inflation. Before exceptional items the operating profit of the carpet operations increased by HK$70 million year-on-year, to an operating profit of HK$25 million.

The Americas

Our business in the Americas experienced a very solid year, with turnover growing to HK$556 million, an increase of 33% from HK$418 million in the previous year.

Residential turnover grew by HK$15 million or 9% to HK$191 million. Gross margin decreased by 1 percentage point to 67%. Growth was led by the Aviation sector, which had another very sound year, increasing turnover 18%. We have significantly shortened our lead times for custom-made samples and are winning more projects by being involved in the early stages of the aircraft design process. We were viewed as a pre-eminent supplier to the aircraft industry at the EBACE aviation show in Geneva, which generated a lot of media attention. In addition we secured a global contract to supply Juicy Couture retail stores worldwide and won several prestigious high-end contracts for private residences.

Following our decision to restructure and write-down our investment in the J.S.L. Carpet Corporation in 2011, we created a new Division focused on the design and sale of high-end custom-made hand-knotted carpets from Nepal, to be sold through the Tai Ping global residential showroom network. The business is still in its early stages, but we expect sales in this segment to significantly grow over the coming years and intend to set up a full sourcing unit in Nepal in 2013.

The U.S. Commercial business had a robust performance, with turnover growing by HK$128 million or 54% to HK$364 million, partly resulting from the fulfillment of 2011 orders which had been backlogged due to the flooding of our Thailand factory. We secured major projects for Marriott CFRST properties (Courtyard, Fairfield Inn, Residence Inn, Spring Hill Suites and Town Place Suites), which rebounded from the poor economic conditions in 2010 and 2011. Our ability to stock for these hospitality programmes put us in a prime position to service the majority of the dealings in this market segment. Our business in Latin America, led from our Buenos Aires office, reported an operating profit for the first time since its establishment in 2007.

Gross margin decreased by 5% due to the higher percentage of commercial products in the mix, but operating profit increased significantly to HK$81 million, an increase of HK$50 million compared with the prior year.

Asia

As sales in Thailand recovered post-flood, and despite the factory operating below regular capacity in the first quarter of the year, turnover in Asia increased by 21% from HK$540 million to HK$651 million.

Thailand achieved 22% growth, as domestic, export and automotive sales rebounded quickly and backlogged orders were fulfilled.

Commercial turnover in the rest of Asia grew by 36% to HK$195 million, buoyed by carryover from 2011 as a result of the flood in Thailand. Key markets were Hong Kong and Macau, where we continued with major hotel and casino renovations, and Southern China, which is seeing an increased opening of 5-Star Hotels. Looking forward we are also considering entering other emerging markets in Asia.

Our exclusive distributor in Australia continues to increase sales of Carpets Inter modular carpet tiles, which showed a year-on-year growth of 14% from HK$58 million to HK$66 million. We have introduced the *1956 by Tai Ping* brand and associated products in this market as well, and early sales have been encouraging.

We significantly downscaled our operations in India. We entered the market in 2008, but found market conditions and practices to be challenging, as well as lacking consistency with the Group's overall brand strategy. Going forward we will focus on the sales of our own high-end *1956 by Tai Ping* commercial brand and residential products, rather than low-priced locally produced products.

Our Asian Residential business being managed out of Hong Kong had another satisfactory year, and sales increased by 29% to HK$26 million. The business recorded an operating loss, as we are investing in the high-end residential business in Mainland China. We are planning to open a new showroom in Shanghai in 2013.

Before exceptional items, the region generated an operating loss of HK$41 million, an improvement of HK$30 million compared with the previous year. After exceptional items the region recorded an operating profit of HK$103 million.

Europe, Middle East and Africa

Despite the downturn in the European economy we increased turnover in the region by 4% over the prior year to HK$269 million.

We completed several high-end projects, including the Emiri terminal at the new Doha International airport. We have strengthened our position in the luxury boutique sector, which accounts for approximately 15% of regional turnover. The Yacht sector had an exceptional year, showing 68% growth over 2011.

2012 was an important reconstruction year for La Manufacture Cogolin, acquired in 2010. A showroom in Paris, designed by the brand's director Jean-Pierre Tortil, was opened, and new collections launched, both of which have stimulated great interest in the brand. As we continue to place investment behind the re-launch of this iconic brand in France and across the globe, an operational loss was reported for 2012. However we expect the business to break even in 2013.

In June we unveiled our new Tai Ping European flagship in Paris. The new showroom concept by Belgium-born designer Ramy Fischler presents the Tai Ping brand in a true luxury context. We also opened a new sales office in Dubai, allowing direct access to the fast growing market in the Middle East.

Gross margin decreased by 1 percentage point to 52% compared to the previous year, and the region generated an operating loss of HK$18 million for the year.

Jointly Controlled Entities

The completion of the sale of three jointly controlled entities representing our shareholding in Weihei Shanhua in December marked the end of our 20-year investment in the joint venture. We recognised a non-cash accounting profit of HK$65 million, mainly represent realisation of foreign exchange reserves and capital reserves attributable to the joint ventures in prior years.

Manufacturing Operations

Our manufacturing operations in Nanhai improved their operating efficiency again, increasing Hand Tufted output by 24% to 92,000 square meters. Axminster machine-made production matched the previous year at 675,000 square meters. Employee turnover remained low, although we lost some factory employees to competing industries, which we try to mitigate through selective pay raises, training and improvement of secondary benefits. Continued progress was made with the Aviation business, achieving critical production deadlines and the highest standards of colour matching in the industry. The new package dyeing facility became operational mid-year, delivering significant improvements in efficiency and environmental performance with drastically reduced wastewater discharge and treatment costs.

In Thailand, operation of the factory following the catastrophic floods resumed two months ahead of schedule, and the team proceeded to grow monthly production outputs by 20%, matching previous annual production in just 10 months of activity. Commercial carpet output reached 2.78 million square meters and Automotive 5.64 million square meters. The site has now been protected with a permanent floodwall.

Human Resources

The number of employees grew by 48 to 3,178, predominantly due to increases in our China factory workforce and the start-up of our Dubai enterprise. We further harmonised our human resource practices across the globe and introduced our short-term management incentive plan in Thailand, bringing our entire management establishment under one performance scheme. We refined our recruitment strategy by initiating a global career opportunities page on the intranet and establishing a company presence on an international social media recruitment website. We introduced a global HR administrative system, which will be completed in 2013.

Information Technology

We continued the roll out of the Oracle system, facilitating faster order processing and better customer service. Following the launch in the U.S. in 2011, it was implemented for Hong Kong, Macau and Shanghai, with Europe and Singapore underway. We also initiated a feasibility study for the system for our main factories in China and Thailand.

Development of our Quantum design software is substantially complete with further enhancements in progress. The introduction of this in-house proprietary software will deliver significant savings in license fees.

Design and Marketing

Highlights for the year included the opening of two new flagships in Paris.

The new showroom for *La Manufacture Cogolin*, our upscale French hand-woven carpet brand, was launched in April, garnering much attention from the press and the international design community. Over the coming years, we expect to roll out Cogolin globally.

Our new Tai Ping European flagship opened in June. With interiors conceived by Belgium-born designer Ramy Fischler, the gracious 18th-century Hôtel de Livry, houses our European management team and also marks a new generation of showcasing the Tai Ping luxury brand offering.

In the residential market the main focuses were the global launch of Eclipse, an in-house designed collection inspired by Asian modern style, and Ramy Fischler's Chinoiserie collection first introduced during the opening of the Paris showroom, then globally.

After restructuring the Hand Knotted business, we debuted our first Tai Ping branded hand-knotted collection in Europe and Asia, making the division truly global.

1956 by Tai Ping launched its first digital collections, Momentum and Imperial. In early 2013 both Accent Textures, a comprehensive tool to educate designers and end-users on our wide array of unique capabilities, and the Axminster Specifier, a tutorial and reference to the many qualities that *1956 by Tai Ping* offers, were created. Alongside these, 2013 will also see the debut of The Design Collective, an innovative, global collaboration based on design in its truest form.

Carpets Inter developed a modern upgrade of uniformed books and brochures in conjunction with the launch of several collections: Artline II, Urban Elements, Emporium, Executive Suite and In Transit.

Overall, we increased our focus on social media and other web-based initiatives. The development of a digital interface, which will facilitate the interaction between designers and sales representatives, is almost complete. The interface will be launched globally in 2013.

NON-CARPET OPERATIONS

Yarn Operations

Premier Yarn Dyers, Inc. ("PYD"), which operates the Group's U.S.-based yarn-dyeing facilities, recorded a small profit despite lower volumes.

Turnover in the second half of the year was stronger than the prior year. The carpet industry around Atlanta, which houses PYD's main customers, is slowly recovering, absorbing the overcapacity in the sector and allowing it to regain some of the volume lost in previous years. Turnover decreased by 18% to HK$27 million. We expect sales in 2013 to slightly increase.

LIQUIDITY & 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 2012, the Group had total cash and bank balances amounting to HK$453 million (2011: HK$117 million).

As at 31 December 2012, the Group also held financial assets at fair value through profit or loss of HK$1 million (2011: HK$41 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 has complied with the applicable code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) (the "Code") and the Corporate Governance Code (effective from 1 April 2012) (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2012, other than code provision A.6.7 of the CG code.

In respect of code provision A.6.7 of the CG Code, all non-executive directors (including independent non-executive directors) attended the annual general meeting of the Company held on 17 May 2012 except one non-executive director and one independent non-executive director due to other commitments.

Financial Reporting & 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 and 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

The Company has set up an Audit Committee and the terms of reference of Audit Committee are aligned with the CG Code and 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 Wednesday, 22 May 2013 to Friday, 24 May 2013 (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 share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 21 May 2013.

For determining the entitlements to the proposed final dividend for the year ended 31 December 2012, the transfer books and the register of members of the Company will be closed from Thursday, 30 May 2013 to Monday, 3 June 2013 (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 share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, 29 May 2013.

By order of the Board

Nicholas T. J. Colfer
Chairman

James H. Kaplan
Chief Executive Officier

Hong Kong, 22 March 2013

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. Roderic N. A. Sage, Mr. Lincoln C. K. Yung, Mr. Aubrey K. S. Li; Non-executive Directors – Mr. Ian D. Boyce, Mr. David C. L. Tong, Mr. John J. Ying, Mr. Nelson K. F. Leong.

The 2012 Annual Report containing the information required by the Listing Rules will be published in due course in the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.taipingcarpets.com).