Tai Ping Carpets International Limited

Annual Report 2018

TAI PING

Incorporated in Bermuda with limited liability | Stock code 146

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TAI PING

Vision

Tai Ping will be a leader in the creation and distribution of exceptional products and services for prestigious interiors ranging from royal palaces and private residences of discerning homeowners, the world's most exceptional yachts and aircraft, luxury boutique stores, corporate offices and high-end hospitality.

Sold globally under an array of market-leading brands, Tai Ping will maintain its reputation as a vibrant, well-respected, innovative company with an ambitious and realistic strategy for continued growth and prosperity.

Tai Ping will expand its custom project business through the introduction of new products, services and technologies, further strengthening its brand position and continuing to set the bar for quality, technique and design excellence. Standard product business will offer additional growth opportunities as new routes to market are introduced and new customer types gain access to the incomparable products and services offered by Tai Ping.

In attaining its vision, Tai Ping will hold steadfast to its ideals and to the well-being of its employees and the environment.

Peerless since 1956

Polis I, Nephele Series by AB Concept for Tai Ping
Wool, Lurex, Dull Silk, Steele & Field Yarns, Handmade Rug

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Tai Ping at-a-Glance

Tai Ping is a global leader in the premium custom carpet sector. The Company was founded in 1956 by a group of visionary businessmen and has been publicly traded since 1973. The Company's shares are traded under stock code 146 on The Stock Exchange of Hong Kong Limited.

Tai Ping focuses on handmade or traditionally woven carpets that target high-end business segments including luxury residential, private yachts and jets, boutique stores, and premium or VIP areas of corporate offices, luxury hotels and resorts. With its superior design and manufacturing capabilities, Tai Ping can transform the most complicated custom design into a work of art for the most discerning buyer.

FINANCIAL HIGHLIGHTS

In thousands of Hong Kong dollars except per share amounts

		2018	2017
Per share	Net worth per share (HK$)	**2.16**	2.43
	Basic (losses)/earnings per share (HK cents)		
	Continuing operations	**(16.09)**	(73.71)
	Discontinued operation	**–**	165.26
	Total – Included Discontinued operation	**(16.09)**	91.55
	Final dividend declared per share (HK cents)	**–**	–
For the year	Turnover	**540,932**	446,858
	(Loss)/profit for the year	**(43,411)**	189,744
	(Loss)/profit attributable to owners of the Company		
	Continuing operations	**(34,136)**	(156,393)
	Discontinued operation	**–**	350,644
	Total – Included Discontinued operation	**(34,136)**	194,251
	Additions to land use rights, property, plant & equipment, construction in progress and intangible assets	**58,355**	123,285
As at 31 December	Capital & reserves attributable to owners of the Company	**438,587**	484,257
	Shares in issue (in thousands)	**212,187**	212,187
Ratio	Return on capital & reserves attributable to owners	**-7.8%**	40.1%

Five-year Consolidated Financial Summary

Year ended 31 December

Assets & Liabilities

	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**733,447**	917,212	1,245,484	1,264,446	1,336,532
Total liabilities	**274,592**	401,942	528,367	485,461	501,053
Total equity	**458,855**	515,270	717,117	778,985	835,479

Consolidated Income Statement

	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
(Loss)/profit attributable to:					
Owners of the Company	**(34,136)**	194,251	(33,372)	18,958	23,832
Non-controlling interests	**(9,275)**	(4,507)	(4,336)	1,003	1,859
	(43,411)	189,744	(37,708)	19,961	25,691

Ducasse sur Seine, Paris, by Interware

Chairman's Statement

2018 marked a significant milestone in Tai Ping's history as, after the divestment of its Commercial interests in late 2017, management began to focus exclusively on the core, handmade Artisan business.

It is encouraging that in its first year, the new Tai Ping delivered 21% sales growth, a significant improvement in gross margins to 54% from 48% in 2017, and a HK$34 million reduction in selling, distribution and administrative expenses. The combined effect of these improvements was an operating loss of HK$43 million, well down on the HK$159 million loss in 2017, and meeting the commitment to reduce losses made in the circular to shareholders ahead of the Commercial business disposal.

Net of non-recurring expenses for the two years, operating losses for 2018 were reduced to HK$21 million compared to HK$100 million in 2017. With the commercial business divestment and relocation of production completed, and the right-sizing of the remaining business well advanced, the cost base has reduced and the financial benefits accruing from this have started to show through. The full benefit will be realised as the turnaround proceeds through 2019 and 2020.

The sales growth in 2018 confirmed that salesforce and customer confidence has been restored following a period of change and instability. The Americas and EMEA regions delivered 30% and 29% growth respectively, while Asia also showed strong growth in the residential and boutique markets offset by the expected reduction in hospitality sales following divestment.

Manufacturing migration to the new Artisan workshop in Xiamen was completed in the first half of the year, with the grand opening taking place in May. Performance from the new facility is steadily improving as the new workforce stabilises and skills improve. To reinforce this, a new factory ERP system went live shortly after opening, and significant efficiency and cost benefits are expected to result. As the new factory ramps up, the liquidation of Tai Ping's previous manufacturing joint venture in Guangdong is progressing.

On the Selling and Marketing side, Tai Ping continued to participate in global design events throughout 2018, introducing a number of outstanding new design collections developed by our talented in-house team as well as through collaboration with renowned external partners. The Company will continue to leverage its design leadership, and all three of its brands – Tai Ping, Edward Fields and Cogolin – as it deploys growth strategies across its markets.

With stability restored, a lower cost base and a new state-of-the-art factory, there is confidence that company performance will continue to improve, but the complex macro-economic and trade climate remains a significant concern as America is Tai Ping's biggest market while its manufacturing is located in China. So far, the Company has managed the implication of the 10% tariff with only limited financial impact, but any further increase in tariff would have an adverse effect on the business. Mitigation plans and options are under continual review, including the possible expansion of the Company's existing, albeit small US manufacturing footprint.

On behalf of all the members of the Board, I would like to thank Tai Ping management and staff who, in a challenging year, have executed considerable change in the business and delivered good progress. I would also like to thank the Directors for their continued support and advice.

Nicholas T. J. Colfer
Chairman

Hong Kong, 22 March 2019

Management Discussion & Analysis

BUSINESS REVIEW

The Group's consolidated turnover for the year ended 31 December 2018 was HK$541 million, compared to HK$447 million in 2017, a significant increase of 21%.

Gross margin for the year was 54%, an increase from 48% in 2017. Consistent with the increased sales, distribution costs increased by 3% to HK$187 million, while administrative expenses decreased by 20% to HK$158 million. These combined improvements delivered a significantly reduced loss of HK$43 million for the year, compared to HK$159 million in 2017.

The internal reorganisation communicated in the last Annual Report began in the fourth quarter of 2017, following the disposal of the Commercial business. Streamlining of the regional sales and distribution management structure was substantially completed in the first half of 2018. Consolidated operating results included non-recurring expenditure of HK$22 million incurred in executing this transition, as well as closing the Company's former Guangdong manufacturing facility. However, one-off costs were significantly reduced compared to HK$59 million in 2017.

Net of non-recurring impacts, Tai Ping's loss in its core business was HK$21 million, compared to HK$100 million in the prior year.

The net loss attributable to owners of the Company was HK$34 million, compared to a net profit of HK$194 million in 2017, although this included the gain on disposal of HK$351 million for the Commercial business sold in that year. Excluding the one-off gain, the net loss attributed to the owners in 2017 was HK$156 million.

The internal reorganisation and the relocation of manufacturing activities to the new Artisan workshop in Xiamen are substantially complete, and the Group now operates from a leaner cost structure.

CARPET OPERATIONS

Turnover for the year was HK$520 million, increased by 23% compared to HK$421 million in 2017.

Turnover in the Americas was HK$222 million, increased by 30% from HK$171 million in the prior year. The increase followed growth in both the residential and private aviation sectors.

Turnover in Europe, the Middle East and Africa ("EMEA") also increased by 29% to HK$202 million, compared to HK$156 million in 2017. This followed encouraging growth in the Luxury Boutique stores sector, but was also bolstered by a number of large yacht projects carried into the year that were originally scheduled to complete in 2017.

The turnover in Asia was HK$96 million, up 2% from HK$94 million in 2017. Again, the Luxury Boutique stores sector showed strong growth, but this was largely off-set by a reduction in hospitality sales following the divestment of the Commercial business.

Overall gross margin was 56%, compared with 50% in the previous year, due to the reduction in one-off expenses, improving manufacturing costs, and a more favourable sales mix.

Manufacturing Operations

The performance of the new Artisan workshop in Xiamen continues to improve as the workforce stabilises and skill-levels improve. All manufacturing in the former Nanhai facility ceased in May 2018 with processes now consolidated into the new workshop. Construction is now also completed, so the capacity and infrastructure are in place to meet future growth.

With supply stabilised, management emphasis is fully focused on delivering continuous improvement in service, quality and cost.

Total headcount for manufacturing operations at the end of the year was 663.

Termination of the joint venture at Nanhai in Southern China is progressing and final closure will be subject to approval from the relevant government authorities.

Human Resources

The number of employees has decreased by 7% since the start of the year linked to business right-sizing. The total number of employees at the end of December 2018 was 829 compared to 893 at the end of 2017.

Employees are remunerated according to the nature of the job and market trends, with built-in merit components incorporated as an annual incentive to reward and motivate individual performance.

The primary focus for Human Resources during the year was in establishing stability and retaining talent through a period of considerable organisational change.

Mr. James H. Kaplan retired as Chief Executive Officer and was succeeded by Mr. Mark S. Worgan, effective from 1 January 2018.

Information Technology

Implementation of the Datatex factory ERP system in the Artisan workshop is a key step in establishing improved control and productivity. The project began in 2017 and went live in the first quarter of 2018. Additional functionality will be deployed in the fourth quarter of 2019 to enhance production scheduling, human resource management and overall workflow.

The existing Oracle system, which supports sales and distribution activities, is also being integrated with Datatex to establish improved communication, reporting and business efficiency.

Design and Marketing

In 2018, House of Tai Ping continued to establish itself as a creative leader through the launch of innovative new collections across its brands.

The primary Tai Ping launches were: *Kiso*, a new collaboration with well-known international designers George Yabu and Glenn Pushelberg of Yabu Pushelberg, inspired by Japan's wahi-sabi philosophy and refined traditional textiles. The collection was launched at Design Shanghai; *Nephele*, named after the Greek nymph born from a cloud and Zeus, and developed in conjunction with Ed Ng and Terence Ngan of AB Concepts, a Hong Kong design practice with an international luxury design presence. The collection was launched in Paris at Maison & Objet.

Edward Fields introduced *On-the-Fringe*, a new edition comprised of 12 abstract designs from the archives that were reinterpreted with modern hand-tuft craftsmanship in an unconstrained and exaggerated way, resulting in a collection of textiles that can be presented on the floor as rugs or dress the walls as tapestries.

La Manufacture Cogolin launched *Nord-Sud*, a collection of hand-knotted rugs designed by French interior architect and designer Stéphane Parmentier, and Binaire, a collection of five raffia rugs inspired by Moroccan craft in cooperation with designer Julie Richoz.

NON CARPET OPERATIONS

Other operations comprise mainly Tai Ping's U.S. based yarn-dyeing subsidiary, Premier Yarn Dyers, contributing approximately 4% of total sales. The Group is conducting a strategic review of its manufacturing strategy in the U.S. following losses incurred in 2018.

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.

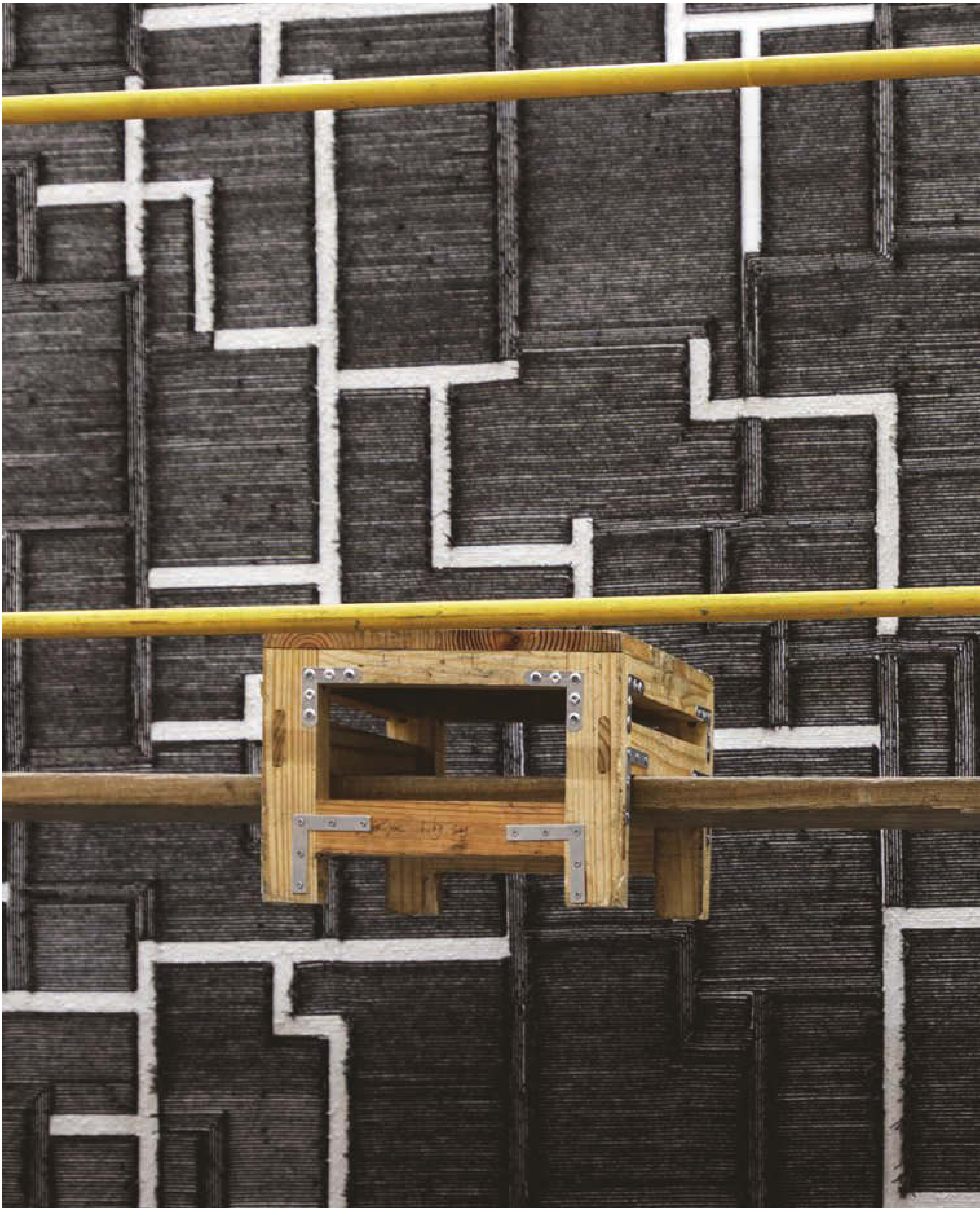
At the end of the financial year, the Group had total cash and bank balances amounting to HK$93 million (2017: HK$264 million) and unsecured bank borrowings of HK$nil (2017: HK$62 million).

ASSETS HELD FOR SALE

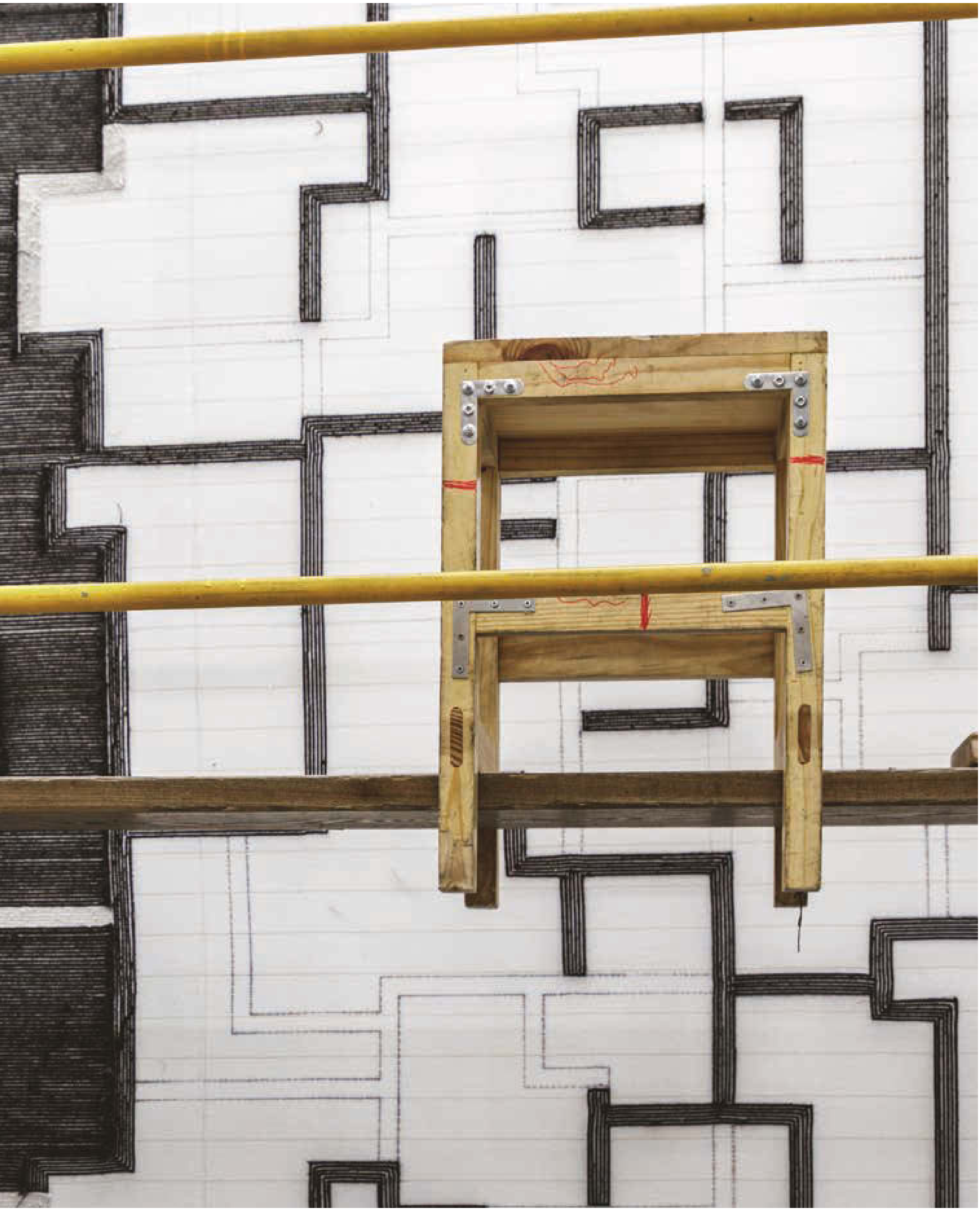
Assets held for sale represents our minority shareholding in Philippine Carpet Manufacturing Corporation ("PCMC"). In February 2019, PCMC entered into a sale and purchase agreement to dispose of its principal property asset in Manila, with completion scheduled to follow shortly. Following this sale, PCMC will be closed and proceeds distributed to shareholders, which is expected to happen within the next 12 months.

Mark S. Worgan
Chief Executive Officer

Hong Kong, 22 March 2019



Hand-tufting In Progress, Xiamen Artisian Workshop



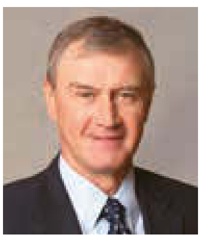
Board of Directors

Chairman & Non-Executive Director
Nicholas T. J. Colfer: aged 59
Chairman since 2005; Non-Executive Director since 2003; Chairman of the Executive and Nomination Committees

Mr. Colfer is a Director of Sir Elly Kadoorie & Sons Ltd., a Non-Executive Director of The Hongkong and Shanghai Hotels, Ltd. and serves on several other corporate boards in Hong Kong. He holds a Master of Arts degree from the University of Oxford.

Chief Executive Officer & Executive Director
Mark S. Worgan: aged 55
Chief Executive Officer and Executive Director since 2018; Member of the Executive Committee

Mr. Worgan joined Tai Ping in 2008 and was the Vice President of Operations and Chief Operation Officer of Tai Ping. He is a director of a number of subsidiaries of Tai Ping. He has over 30 years of experience in textiles and floorcovering industry and prior to joining Tai Ping, he held various positions including global operations director, and chief executive officer of the US operations of Brintons Carpets Ltd. He holds a Bachelor of Science degree from the University of Aston in Birmingham, United Kingdom.



Non-Executive Director
Andrew C. W. Brandler: aged 62
Non-Executive Director since 2014

Mr. Brandler is a Director and Chairman of Sir Elly Kadoorie & Sons Ltd., a Non-Executive Director and Deputy Chairman of The Hongkong and Shanghai Hotels, Ltd. and a Non-Executive Director of CLP Holdings Ltd. and an Independent Non-Executive Director of MTR Corporation Ltd. He has had an extensive career as an international banker and company executive. He is a Chartered Accountant, and holds Bachelor of Arts and Master of Arts degrees from the University of Cambridge and a Master of Business Administration degree from Harvard Business School.

Non-Executive Director
Nelson K. F. Leong: aged 55
Non-Executive Director since 2012; Member of the Executive Committee

Mr. Leong is an Executive Director of Henry G. Leong Estates, Ltd., a Director of Fontana Enterprises Ltd., Gainsborough Associates Ltd. and a number of companies involved in real estate in Hong Kong and North America. He holds a Master of Business Administration degree from the University of Toronto and a Bachelor of Arts degree from Brown University.

Non-Executive Director
David C. L. Tong: aged 48
Non-Executive Director since 1997; Member of the Executive and Remuneration Committees

Mr. Tong is a Director of Sir Elly Kadoorie & Sons Ltd., CLP Power Hong Kong Ltd., Hong Kong Business Aviation Centre Ltd. and serves on several other corporate boards in Hong Kong. He was an Independent Non-Executive Director of Hong Kong Aircraft Engineering Co., Ltd. He is a Chartered Engineer and holds a Bachelor of Engineering degree from the University of London.

Non-Executive Director
John J. Ying: aged 56
Non-Executive Director since 1999; Member of the Audit Committee

Mr. Ying is the Managing Director of Peak Capital, a private investment firm focused on investments in Greater China and Chairman of the Asian Republican Coalition. He was the Chairman of Bracell Ltd. He holds a Master of Business Administration degree from the Wharton School, a Master of Arts degree from the University of Pennsylvania and a Bachelor of Science degree from the Massachusetts Institute of Technology.

Independent Non-Executive Director
Yvette Y. H. Fung: aged 57
Independent Non-Executive Director since 2004; Member of the Remuneration and Nomination Committees

Mrs. Fung is a Director of Hsin Chong International Holdings Ltd. and Chair of The Yeh Family Philanthropy Ltd., a member of various boards in the education and non-profit sectors. She holds both a Juris Doctor and a Bachelor of Arts degree from Stanford University and a Master of Business Administration degree from the University of California, Los Angeles.

Independent Non-Executive Director
Roderic N. A. Sage: aged 66
Independent Non-Executive Director since 2005; Chairman of the Remuneration and Audit Committees

Mr. Sage is an Independent Non-Executive Director of Guoco Group Ltd. and Alpha Real Trust Ltd. listed on London's Specialist Fund Market. He was the Executive Chairman of a specialist tax, corporate services and trust consultancy firm in Hong Kong. Prior to that, he had worked with KPMG Hong Kong for over 20 years as a senior partner and member of the management board. He has been granted fellow status with the Institute of Chartered Accountants in England and Wales and with the Hong Kong Institute of Certified Public Accountants. He is also an associate member of the Institute of Taxation in England.

Independent Non-Executive Director
Aubrey K. S. Li: aged 69
Independent Non-Executive Director since 2010; Member of the Audit Committee

Mr. Li is the Chairman of IAM Holdings (Hong Kong) Ltd., a Hong Kong-based investment group, a Non-Executive Director of The Bank of East Asia, Ltd. and an Independent Non-Executive Director of Café de Coral Holdings Ltd., Kunlun Energy Co., Ltd., Kowloon Development Co., Ltd. and Pokfulam Development Co., Ltd. He was a Non-Executive Director of AFFIN Bank Berhad and an Independent Non-Executive Director of China Everbright International Ltd. He possesses extensive experience in the fields of investment banking, merchant banking and capital markets. He holds a Master of Business Administration degree from Columbia University and a Bachelor of Science degree in Civil Engineering from Brown University.

Independent Non-Executive Director
Daniel G. Green: aged 45
Independent Non-Executive Director since 2018; Member of the Executive Committee

Mr. Green is the Managing Director of Arnhold Holdings Ltd. Mr. Green joined Arnhold in 2002 and has served as an Executive Director since 2006. Prior to joining Arnhold, he worked in New York as a strategy consultant for Andersen Consulting (now Accenture), and as an equity analyst for Sofaer Capital's Global Hedge Fund. He is currently on the General Committee of The Hong Kong Exporters' Association and on the Executive Committee of the Hong Kong Chapter of Young Presidents' Organization. He graduated with honors from the University of Pennsylvania with a degree in Systems Engineering.

Independent Non-Executive Director
Lincoln C. K. Yung, JP, FHKIB: aged 73
Non-Executive Director (1980-2004) and Independent Non-Executive Director since 2004; Member of the Nomination Committee

Mr. Yung is currently Deputy Managing Director of Nanyang Holdings Ltd., a Director of The Shanghai Commercial & Savings Bank, Ltd. (whose shares had been listed on the Taiwan Stock Exchange in October 2018), Honorary President of HK Wuxi Trade Association Ltd. and the Executive Vice-chairman of Federation of HK Jiangsu Community Organisations Ltd. He has extensive experience in the textile, banking and investment industries and serves on various committees and boards. He is an Honorary Advisory Vice President and Fellow of The Hong Kong Institute of Bankers and holds a Master of Business Administration degree from the University of Chicago and is a graduate of Cornell University. He was appointed an Adjunct Professor of The Hong Kong Polytechnic University (School of Accounting and Finance).

Corporate Governance

CORPORATE GOVERNANCE

The Board of Directors and Management are committed to promoting good corporate governance to safeguard the interests of shareholders. The Company has complied with the applicable code provisions in the Corporate Governance Code (the "CG 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") throughout the year ended 31 December 2018, except for the deviation as disclosed in this report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the Directors' transactions in the securities of the Company (the "Tai Ping Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). Specific enquiry has been made to all Directors of the Company and they have confirmed their compliance with the required standard set out in the Model Code and the Tai Ping Code throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

The Board of Directors (the "Board") is accountable to the shareholders for the leadership and management and control of the business of the Company. The Board delegates to the Chief Executive Officer ("CEO") and his management team day-to-day management of the Company's business, including the preparation of annual and interim financial statements and implementation of internal controls, in accordance with the strategy, policies and programmes approved by the Board.

The Board currently consists of eleven members. Among them, one is Executive Director, five are Non-Executive Directors and five are Independent Non-Executive Directors.

Mr. James H. Kaplan retired as Executive Director of the Company with effect from 1 January 2018. Mr. Mark S. Worgan and Mr. Daniel G. Green were appointed as Executive Director and Independent Non-Executive Director of the Company, respectively with effect from 17 January 2018.

The Board possesses, both as individual Directors and collectively, appropriate experience, competencies and personal qualities, including professionalism and integrity, to discharge its responsibilities adequately and effectively. In addition, the Board collectively has adequate knowledge and expertise relevant to the material business activities of the Group and the associated risks in order to ensure effective governance and oversight.

Members of the Board, who come from a variety of different backgrounds, have a diverse range of business, and professional expertise. Brief biographical particulars of the Directors, together with information relating to the relationship among them, are set out on pages 18 to 20 in this Annual Report. During the year, all Directors have given sufficient time and attention to the Company's affairs.

The Board considers that its diversity, including gender diversity, is a vital asset to the business. The Board adopted a Board Diversity Policy for better transparency and governance. Board appointments are based on merit and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company remains committed to meritocracy in the boardroom, which requires a diverse and inclusive culture where Directors believe that their views are heard, their concerns are attended to and they serve in an environment where bias, discrimination and harassment on any matter are not tolerated.

During the year, all Directors have received regular updates on the changes to and developments in the relevant laws and regulations applicable to Directors. Additionally, training has been attended by all Directors covering a broad range of topics including Directors' duties, updates on the Listing Rules and accounting reporting standards. All Directors have also participated in the E-training provided by The Stock Exchange of Hong Kong Limited to understand the new corporate governance requirements.

The Board has a balance of skills and experience appropriate for the requirements of the businesses of the Group. All Directors have separate and independent access to the advice and services of the senior management and the Company Secretary, with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

CHAIRMAN & CHIEF EXECUTIVE OFFICER

The posts of Chairman and CEO are separate and are not held by the same individual to ensure their independence, accountability and responsibility. The Chairman of the Board is Mr. Nicholas T. J. Colfer and the CEO is Mr. Mark S. Worgan. To comply with code provision A.2.1 of the CG Code, the division of responsibilities between the Chairman and the CEO was formally set out in writing. Essentially, the Chairman takes the lead to oversee the Board functions while the CEO, supported by his management team, is responsible for the day-to-day management of the business of the Company.

NON-EXECUTIVE DIRECTORS

The Company's Non-Executive Directors are not appointed for specific terms as required by code provision A.4.1 of the CG Code. However, the relevant Bye-laws of the Company require that every Director would retire by rotation at the annual general meeting of the Company (the "AGM") at least once every three years which is in line with the CG Code.

Code provision A.6.7 of the CG Code provides that Independent Non-Executive Directors and other Non-Executive Directors, as equal Board members, should attend the general meetings and develop a balanced understanding of the views of shareholders.

The Company considers that its Non-Executive Directors and Independent Non-Executive Directors bring to the Board a good mix of expertise and experience in the fields of accounting, investment and business. At least one of the Independent Non-Executive Directors has appropriate accounting or related financial management expertise as required under Rule 3.10 (2) of the Listing Rules. Pursuant to the requirements of the Listing Rules, Mrs. Yvette Y. H. Fung, Mr. Aubrey K. S. Li, Mr. Roderic N. A. Sage, Mr. Lincoln C. K. Yung and Mr. Daniel G. Green, Independent Non-Executive Directors, have given the Company annual written confirmations of their independence. The Company considers all the Independent Non-Executive Directors to be independent with due regard to the guidelines as set out in Rule 3.13 of the Listing Rules.

To the best knowledge of the Company, there is no financial, business, family or other material or relevant relationships among members of the Board.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Appropriate directors' and officers' liability insurance has been arranged for the Directors and Officers of the Company during the year.

BOARD MEETINGS

The Board of Directors held a total of four Board meetings during the year ended 31 December 2018 in which two meetings were held to approve the 2017 final results and 2018 interim results of the Group; the other meetings were held to consider financial and operating performances of the Group. The Chief Financial Officer ("CFO") and the Company Secretary, attended all Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial perspectives.

The attendance of individual Directors during the year ended 31 December 2018 is set out in the table below. All businesses transacted at the Board meetings are well-documented and the records are maintained in accordance with applicable laws and regulations.

	No. of meetings attended
Chairman & Non-Executive Director	
Nicholas T. J. Colfer	4/4
Chief Executive Officer & Executive Director	
Mark S. Worgan[1]	4/4
Non-Executive Directors	
Nelson K. F. Leong	4/4
David C. L. Tong	4/4
John J. Ying	3/4
Andrew C. W. Brandler	4/4
Independent Non-Executive Directors	
Yvette Y. H. Fung	2/4
Aubrey K. S. Li	3/4
Roderic N. A. Sage	3/4
Lincoln C. K. Yung	4/4
Daniel G. Green[2]	4/4

Notes:

1 Mr. Mark S. Worgan was appointed as Executive Director of the Company on 17 January 2018.

2 Mr. Daniel G. Green was appointed as Independent Non-Executive Director of the Company on 17 January 2018.

The proceedings of the Board of Directors at the meetings are conducted by the Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and also equal opportunities are being given to Directors to speak, express their views and share their concerns. Minutes of the Board meetings record in sufficient detail the matters considered by the Board of Directors and the decisions reached. The draft minutes of each Board meeting are sent to all Directors for comments.

Apart from the above mentioned Board meetings, the Chairman of the Board held a meeting with all the Non-Executive Directors and Independent Non-Executive Directors without the presence of the Executive Director during the year for discussing, amongst other matters, Directors' time commitment and contribution in performing their responsibilities to the Company, and the Group's strategy.

BOARD COMMITTEES

The Company currently has four Board committees, namely, Executive Committee, Remuneration Committee, Audit Committee and Nomination Committee.

1. Executive Committee

The Executive Committee was established in August 2005 and operates as an executive management committee under the Board to monitor and control the financial and operational performance of the Group.

During the year under review, it held five meetings and the attendances of the members are as follows:

	No. of meetings attended
Nicholas T. J. Colfer (Chairman)	5/5
Mark S. Worgan[1]	5/5
David C. L. Tong	5/5
Nelson K. F. Leong	4/5
Daniel G. Green[2]	–

Notes:

1 Mr. Mark S. Worgan was appointed as a member of the Executive Committee of the Company on 17 January 2018.

2 Mr. Daniel G. Green was appointed as a member of the Executive Committee of the Company on 14 December 2018.

2. Remuneration Committee

The Company has set up a Remuneration Committee on 23 September 2005 and the terms of reference of Remuneration Committee are aligned with the CG Code. Detailed terms of reference of Remuneration Committee are accessible on the Company's website. Given below are main duties of the Remuneration Committee:

- to make recommendation on the Company's policy and structure for remuneration of the Directors and senior executives
- to determine remuneration of all Executive Directors and senior executives
- to review and approve performance-based remuneration
- to review and approve compensation in connection with any loss or termination of office or appointment of any Executive Directors and senior executives

The committee evaluates the remuneration packages of the Executive Director and the senior executives by linking their performance against corporate objectives, the profits of the Group and their potential contribution to the development of the Group. The fees for the Non-Executive Directors and the Independent Non-Executive Directors are determined on the basis of market benchmarks, experience, responsibilities and workload.

The members of the Remuneration Committee and their attendances are set out below:

	No. of meetings attended
Roderic N. A. Sage (Chairman)	2/2
Yvette Y. H. Fung	2/2
David C. L. Tong	2/2

3. Audit Committee

The Company has set up an Audit Committee on 23 September 2005 and the terms of reference of Audit Committee are aligned with the CG Code. 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, risk management and internal control systems. Detailed terms of reference of Audit Committee are accessible on the Company's website.

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 financial reporting, risk management and internal control.

During the year, the Audit Committee has recommended to the Board to appoint KPMG as the new auditor of the Company to fill the casual vacancy after the resignation of PricewaterhouseCoopers.

The members of the Audit Committee and their attendances are set as follows:

	No. of meetings attended
Roderic N. A. Sage (Chairman)	3/3
John J. Ying	3/3
Aubrey K. S. Li	3/3

4. Nomination Committee

The Company has set up a Nomination Committee on 31 March 2012 and the terms of reference of Nomination Committee are aligned with the CG Code. Detailed terms of reference of Nomination Committee are accessible on the Company's website and the Nomination Committee has also adopted a nomination policy. Given below are main duties of the Nomination Committee and when considering matters related to nomination, the members of the Nomination Committee and the Board will have regard to these principles:

- to review the structure, size, composition and diversity of perspectives (including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy
- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships
- to assess the independence of Independent Non-Executive Directors
- to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the chief executive

The members of the Nomination Committee and their attendances are set out below:

	No. of meeting attended
Nicholas T. J. Colfer (Chairman)	1/1
Lincoln C. K. Yung	1/1
Yvette Y. H. Fung	0/1

AUDITOR'S REMUNERATION

For the year under review, the fees charged to the financial statements of the Company and its subsidiaries by the Group's external auditor, KPMG and other member firms under KPMG, for services provided are analysed as follows:

	HK$'000
KPMG:	
Audit service	2,128
Non-audit services	78

COMPANY SECRETARY

Mr. Chi Sing Alex Lung ("Mr. Lung") has been the Company Secretary of the Company since November 2016. Mr. Lung is the CFO of the Company. The Company Secretary is responsible to the Board for ensuring the Board procedures are followed and that the Board is briefed on legislative, regulatory and corporate governance developments. Mr. Lung has been in full compliance with the requirements of Rule 3.29 of the Listing Rules during the year.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company for the year ended 31 December 2018 have been reviewed by the Audit Committee and audited by the external auditor, KPMG. The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group and they are not aware of any events or conditions that may cast significant doubt upon its ability to continue as a going concern.

The independent auditor's report is on page 54 and 60.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the risk management and internal control systems of the Group and reviewing their effectiveness. The internal control systems of the Group are designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. Such systems are designed to manage, rather than eliminate, the risks associated in failing to achieve certain business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has overall responsibility for evaluating and determining the nature and extent of the risks that the Group is willing to take in achieving its strategic objectives, and establishing and maintaining the appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management as well as overseeing the formation, implementation and monitoring of the risk management and internal control systems.

The management of the Company performs the risk assessment process and implements the systems of internal control and has reported and confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2018.

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

The Board, as supported by the Audit Committee, assessed the effectiveness of the risk management and internal control systems by reviewing the respective reports from management and internal audit and considered that, for the year ended 31 December 2018, the risk management and internal control systems of the Company were effective and adequate. The Audit Committee also reviewed the adequacy of resources, qualifications, experience and training programme arranged for internal audit staff and accounting and financial reporting staff and considered that the staffing was adequate and the staffs were competent to carry out their roles and responsibilities.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group has a policy in place for handling and dissemination of inside information. The Group has taken various procedures and measures, including arousing employees' awareness to preserve confidentiality of inside information within the Group, sending blackout period and securities dealing restrictions notification to the relevant directors and employees regularly, disseminating information to specified persons on a need-to-know basis in accordance with the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission.

CHANGE OF ADDRESS OF PRINCIPAL PLACE OF BUSINESS

The principal place of business of the Company has been changed to Units 1801-1804, 18th Floor, 909 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon, Hong Kong with effect from 22 February 2018.

COMMUNICATION WITH SHAREHOLDERS

The Company is committed to ensure that the Group complies with disclosure obligations under the Listing Rules and other applicable laws and regulations, and that all shareholders and potential investors have the equal opportunity to receive and obtain externally available information issued by the Company. Information regularly provided to the shareholders includes annual and interim reports, circulars and announcements in accordance with the Listing Rules.

The Company welcomes the attendance of shareholders at general meetings to express their views. All Directors are encouraged to attend the general meetings to have personal communication with shareholders. The external auditor is also required to be present to assist the Directors in addressing any relevant queries by shareholders.

For both institutional and retail investors, the Company's website at www.taipingcarpets.com provides up-to-date information on the Group. All key information such as announcements, annual and interim reports can be downloaded from it.

During the year, the Company held the AGM on 23 May 2018. Directors, including the Chairman of the Board and chairman of the committees, attended the AGM to answer questions and proposals raised by the shareholders of the Company with the exception of Mr. John J. Ying, Mrs. Yvette Y. H. Fung and Mr. Aubrey K. S. Li, who were absent from the AGM due to their other business engagement.

SHAREHOLDERS' RIGHTS

1. Procedure for shareholders to convene a Special General Meeting ("SGM")

The Board shall, on the requisition in writing of the shareholders of not less than one-tenth of the paid-up capital of the Company upon which all calls or other sums then due have been paid, forthwith proceed to convene an SGM.

If within twenty-one days of such deposit the Board fails to proceed to convene the SGM, the requisitionists or any of them representing more than one half of the total voting rights of all of them, may themselves convene an SGM, but any meeting so convened shall be held within three months from the date of the original deposit.

2. Procedures for putting forward proposals at shareholders' meeting

Shareholders can submit a written requisition to move a resolution at shareholders' meeting. The number of shareholders shall represent not less than one-twentieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the shareholders' meeting, or who are no less than one hundred shareholders.

The written requisition must state the resolution, accompanied by a statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at the shareholders' meeting. It must also be signed by all of the shareholders concerned and be deposited at the Company's office in Hong Kong at Units 1801-1804, 18th Floor, 909 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon, Hong Kong, for the attention of the Company Secretary not less than six weeks before the shareholders' meeting in case of a requisition requiring notice of a resolution and not less than one week before the shareholders' meeting in case of any other requisition.

The shareholders concerned must deposit a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned under applicable laws and rules.

3. Shareholders' enquiry

Shareholders should direct their questions about their shareholdings to the Company's Registrar. Shareholders and the investment community may at any time make a request for the Company's information to the extent that such information is publically available. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's office in Hong Kong at Units 1801-1804, 18th Floor, 909 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon, Hong Kong.

CONSTITUTIONAL DOCUMENTS

During the year, there was no change in the Company's constitutional documents.

Okeanos I, 2018 Yacht Collection, Tai Ping
Wool, Silk, Felted Wool & Delicate Silk, Handmade Rug

Environmental, Social & Governance Report

ABOUT THIS REPORT

Tai Ping is pleased to present the Environmental, Social & Governance ("ESG") report for the fiscal year 2018. This report is compiled in accordance with the ESG Reporting Guide under Appendix 27 of the Main Board Listing Rules issued by the Stock Exchange of Hong Kong Limited. This report summaries the initiatives, quantitative data, and approach that the Group undertakes to managing its material ESG issues and discloses environmental quantitative information to reflect its sustainability performance and involvement which aims to provide the transparency and accountability of the Group's actions to stakeholders.

Tai Ping's core business is offering high-quality custom design carpets to its customers. The business is supported by our key manufacturing plant based in Xiamen, China and showrooms and sales offices located at major cities around the world including New York, Paris, Hong Kong and Shanghai. The Group aims to merge value creation with long-term sustainable development by investing in initiatives that contribute to environmental sustainability and workforce development.

In order to uphold transparency regarding the policy of combining growth with the important issues valued by society, the Group constantly communicates with stakeholders to solicit their opinions and understand their expectations on the Group's ESG performance and disclosure. The Group values stakeholder engagement as it provides valuable input which contributes to steering the Group's development in the ESG aspects. The Board is responsible for overseeing the statutory compliance, stakeholder benefits, ESG performance and risk management. The overall direction of the development is set according to the stakeholders' view and insights, and to address stakeholders' concerns wherever possible.

This ESG Report has summarised the measures and achievements the Group has accomplished in pursuit of sustainability and the evaluation of the environmental and social impact as a result of the Group's actions. Moreover, implications of sustainability regarding the development of certain future initiatives are also discussed in this report.

ENVIRONMENTAL

The Group strictly complies with the Environmental Protection Law of the People's Republic of China and all local environmental laws and regulations in markets it operates in. A set of policies and procedures defining the environmental management system are formally established to govern monitoring activities and certified in line with the relevant internationally recognised standards such as the ISO 14001 standard. Environmental guidelines have been incorporated into employment policies for employee to follow. A specific Environmental Health & Safety ("EHS") department has also been established and is responsible for environmental and social governance in Xiamen manufacturing plant. Clear goals and instruction are set up to guide different departments to work hand in hand and drive environmental protection initiatives.

Emission Reduction

The Group spares no effort in operating its business in an environmentally responsible manner through minimising greenhouse gas ("GHG") emissions and its environmental footprint. The biggest environmental impact of the Group's business originates from the use of energy for offices and production line. The objective is to reach even higher levels of energy efficiency and continuously pursue new ways to reduce emission. At the manufacturing plant in Xiamen, energy efficiency initiatives are widely undertaken to maximise the energy efficiency and reduce GHG emissions. In addition, the Group encourages the adoption of energy-efficient LED lighting systems and remind employees to switch off idle electric appliances. Modern glass facades are installed to optimise natural light in office areas during the daytime, and to reduce the energy used for lighting.

As waste-water management is a key focus of environmental protection efforts, the Group appointed an environmental consultancy firm to formulate an advance waste-water solution and assist in building a modern water treatment plant at the Xiamen manufacturing premises. Waste-water generated in dye processing, cleaning and daily use by workers in manufacturing premises is put through the wastewater treatment process. Four PH meters are installed in our wastewater treatment process to monitor the water quality. Weekly water quality analysis are performed to ensure the standards are met. Water discharged from the system is neutralised, soft-water that can be re-used in plant-watering and toilet flushing. This helps to greatly reduce the amount of effluent discharged to the environment. The waste-water treatment plant processes around 200 tonnes of waste-water per day throughout the year and is attributable to the success in achieving zero polluted discharge in Xiamen. This allows Tai Ping not to be restricted in setting up its production line only at the dedicated pollution controlled industrial zone.

With waste disposal being one of the most prevalent environmental issues corporations face, the Group has put in place various measures to address this problem. The proper workflow on waste materials handling is outlined in the internal policies and procedures. A waste segregation system is in place under which staffs are required to collect and separate waste according to different categories. Different types of waste, including glue used in manufacturing process, general office waste produced, and sludge from wastewater treatment will be collected by third party contractors, who are authorised by a regulatory body, for proper processing and disposal to fulfil environmental protection requirements.

The Group also demonstrated a commitment to managing the environmental footprint by encouraging employees to make a difference by reducing waste produced in office, manufacturing sites, dormitories or other facilities.

Use of Resources

The Group is dedicated to limiting its use of natural resources in different parts of its operations.

The Group strives to ensure all water utilised in the production processes is used as effectively and efficiently as possible to minimise impact to the environment. Monitoring system is established to track water usage across the facilities to understand consumption petterns. This helps to identify opportunities to improve water consumption.

In addition, the Group engages only with quality business partners and clearly specifies the requirements of raw materials in procurement contracts. This ensures a high passing rate of raw materials and helps to reduce raw material wastage.

The Environment and Natural Resources

Xiamen manufacturing plant not only strictly complies with the local environmental protection law and rules but also extending the responsibility and expectations of environmental and natural resource protection to suppliers and contractors. Green manufacturing policies are strictly followed and stringent process is in place to evaluate production flow design and to prevent any pollution and damages to the environment. The Group monitors and minimises greenhouse gas emissions in the manufacturing processes and endeavour to reduce waste and noise production on an ongoing basis.

Through all of the above, the Group is committed to investing in people, technology and innovation to protect environment.

Environmental Performance Data Table

Environmental KPIs	Unit	2018	2017
NOx emissions	tonne	**0.03**	–
Total greenhouse gas (GHG) emissions	tonne CO_2e	**4,470.60**	2,743.74
Scope 1 – Direct emissions and removals	tonne CO_2e	**160.28**	14.78
Scope 2 – Energy indirect emissions	tonne CO_2e	**4,310.32**	2,728.96
Total hazardous waste produced	tonne	**0.36**	2.35
Total non-hazardous waste produced	tonne	**143.80**	173.61
Total energy consumption	kWh	**8,987,171.32**	5,233,008.58
Total direct energy consumption[1]	kWh	**50,663.32**	53,292.18
Petrol	kWh	**50,663.32**	49,545.75
Diesel	kWh	**–**	3,746.43
Total direct energy consumption intensity			
By revenue	kWh/revenue (HK$'000)	**0.09**	0.12
Total indirect energy consumption[1]	kWh	**8,936,508.00**	5,179,716.40
Purchased electricity	kWh	**2,478,369.00**	1,943,320.00
Purchased steam	kWh	**6,458,139.00**	3,236,396.40
Total indirect energy consumption intensity			
By revenue	kWh/revenue (HK$'000)	**16.52**	11.43
Total Water consumption	m^3	**98,412.00**	58,173.00
Total Water consumption intensity			
By revenue	m^3/revenue (HK$'000)	**0.18**	0.13
Total packaging materials	tonne	**14.26**	26.52
Total packaging materials intensity			
By revenue	Tonne/revenue (HK$'000)	**0.000026**	0.000059

Note:

1 Definition of direct and indirect energy refers to Part 2 of the ISO14064-1 standard.

SOCIAL RESPONSIBILITY

Employment

The Group adheres to the Labor Contract Law of the People's Republic of China and all employment regulations in markets it operates in. Furthermore, the Group sets zero tolerance towards any forms of discrimination or harassment in workplace.

To deepen employees' understanding of the Group's culture and human resource management approach, all relevant employment policies, compensation and benefits offered to employees, office management details and security information are either uploaded to the Group's intranet or included in the employees' handbook for all employees' easy reference.

The Group places great importance on employee engagement and is committed to cultivate a supportive workplace culture. Employees are titled to a wide-range of benefits, including accommodation for workers who are relocated from different provinces, meal plans, paid leave, medical insurance plans, and transportation subsidies for migrant workers to visit families at home. The Group also introduced family-friendly initiatives such as paternity leave for male employees. Recreational activities are organised by human resource department regularly to promote work-life-balance and strengthen team bond. Monthly birthday gatherings, Mid-autumn Festival party and lucky draws, Christmas celebrations, Spring Festival reunion dinners and half-day leave for female employees on International Women's Day are some examples of the Group's support for a healthy work life balance. In terms of recreational activities, different interest groups are established, such as, fishing association, basketball club, and square dancing association. These benefits help to build a cohesive work environment and sustained a low staff turnover rate.

To promote and build a harmonious and inclusive workplace, the Group's code of conduct is communicated to all employees when they join the Company and is refreshed annually during the declaration for complying with the Group's Global Code of Conduct. The code of conduct outlines an employee's expected behaviour, as well as anti-harassment, sexual harassment and personal relationship guidelines. Any employment-related decisions such as recruitment, compensation, promotion, and performance evaluation are conducted solely based on staff merits and qualifications.

Occupational Health and Safety

The Group cares about its employees' health and safety and adheres to stringent work safety regulations and standards.

It is of the utmost priority to provide a safe working environment to employees and protecting them from occupational hazards. As such, comprehensive policies and procedures, such as Control Procedures for Environmental Operation, Hazardous Chemicals EHS Management Regulations and the Control Procedures for Occupational Health and Safety Operation have been established to provide guidelines towards harm prevention and minimising any health hazards to the workforce and relevant parties. As set out in the policy and procedure documents, workers are required to wear protective gear, including safety shoes, safety glasses, ear protection, gloves and task-specific protection, at all times when in the manufacturing site to ensure work safety.

Safety training is regularly provided to employees to enhance their ability to detect any hidden hazards that may reside in tasks. This enabled employees to perform necessary corrective measures that minimise the risks of any accidents and reduce the impact should an accident occur. Fire drills, practice emergency drills and workshops on different workplace hazards are also organised to prepare staff to face accidents. In addition, safety meetings and work-place inspections are conducted to perform regular check and serve as reminders for workers on importance of work safety.

The Group has been accredited with OHSAS 18001 certification for meeting safety management standard since 2007. Healthcare products such as masks are distributed every month. With strong controls and good protective measures in place, no fatal accidents occurred in the office or factory in this financial year.

Development and Training

The Group sees its employees as its greatest asset and has devoted resources to tailor development and training programs for all employees in different levels of seniority. To cultivate talent and build a professional workforce, the Group has provided on-job training and self-learning programs to employees. In addition to these resources, external training, team building activities and environmental operation training for supervisors are utilised to lift team morale, create stronger team bonds and deepen employees' sense of belonging to the Group.

An effective performance assessment mechanism which comprises of the Goal and Performance Management and Performance Improvement Plan is adopted to enable proper evaluation of staff performance and plan relevant training and development programs effectively. Based on their annual targets and goals, employees will receive performance appraisal. This helps employees to identify their strengths whilst highlighting potential areas of development that aid in leading them towards better career planning within the Company.

Labour Standards

The Group is in strict compliance with the Labour Law of the People's Republic of China as well as all local labour laws and regulations in the markets it operates in. Human Rights Policy and Child Labour Protection Procedures are maintained to ensure regulatory compliance.

In hiring process, identity checks are performed by the human resource department to ensure all recruited staff are above legal working age. The Group upholds high labour standards throughout the businesses and requires suppliers to apply the same standard in their operations to combat child or forced labour.

The Group adopts various employee insurance and social insurance plans in accordance with local laws and regulations. In addition to meeting the local requirements, scheduled regular health check services are made available at Xiamen manufacturing plant so that employees can obtain body check at their convenient.

Supply Chain Management

The operation fulfils its commitment to the environment and society by actively observing their supply chain to ensure all suppliers are up to the Group's standard of quality, labour, environmental and social responsibility. The Procurement and Quality Assurance departments jointly established a supplier management system to verify suppliers' qualifications, assess suppliers' performance and review suppliers' occupational health and safety measures in place. Suppliers who fail to meet the standard and show no improvement after remedial actions were communicated will be terminated.

In addition, the Group conducts its procurement with the highest ethical standards. A comprehensive procedure has been implemented to ensure qualified materials that are not harmful to humans and the environment are selected. Moreover, Xiamen manufacturing plant prioritises the use of materials or products that can be obtained locally or nearby cities to support the domestic economy and environmental protection. Therefore, this helps to reduce environmental impact from transportation.

Product Responsibility

The manufacturing operations have a quality management system in place which is certified with the ISO 9001 standard and is adopted in different supporting facilities, including high-tech dyeing machinery and advance testing equipment to ensure raw material and product procured, manufactured and delivered are in compliance with quality control requirements.

Throughout the years, carpets are manufactured to compile with the American with Disabilities Act (ADA), where products are edged to facilitate wheelchair activities and the Green Label Plus (GLP), pass toxicity tests and are fire-proof.

An extensive monitoring system, spanning across procurement of materials to delivery of products, has been developed to safeguard product safety. Furthermore, chemicals are handled with care to ensure products produced will not contain or be contaminated by any harmful materials.

An advanced testing facility is also employed to conduct tests and verifications of the products produced. This not only ensures accurate information is obtained and communicated to customers, but also helps to guarantee the quality of all materials sourced, manufactured, and dispatched from the manufacturing plant. Furthermore, robust complaint management systems and data privacy policy have been developed to ensure that customers' personal information and feedback are properly valued and protected.

The Group fully respects intellectual property rights and customers' data privacy. The Group's employment policies include practices regarding conflict of interests, confidentiality, intellectual property, copyright protection and sensitive data privacy protection.

Anti-corruption

Proper business ethics are one of the Group's key values. The Group strictly complies with the relevant laws and regulations, such as the Criminal Law of the People's Republic of China and the Anti-unfair Competition Law of the People's Republic of China, on anti-corruption with no avail.

The Group endeavours to uphold a high standard of integrity, which is the foundation for building a sustainable operation. In addition to formulation and distribution of a comprehensive code of conduct to employees, detailed instructions describing appropriate responses to any forms of cheating, bribery, corruption and money laundry have been communicated to all new employees during their orientation sessions.

In addition to showing the Group's commitment to promoting a corruption-free workplace, employees are required to sign the global code of conduct and global whistle blower policy on an annual basis. This helps to keep all employees aware of the latest policies. Furthermore, a whistleblowing channel is in place for employees or other stakeholders to report any ethical violations and possible illegal or fraudulent activity. All correspondences of reported cases will only be accessible by the Chairman of Audit Committee and the Internal Audit Manager. Reported cases will be investigated on a timely basis by Internal Audit Manager and any confirmed case will be escalated to Chairman of Audit Committee to ensure full remediation has taken place.

Community Investment

The Group recognises that the business can only advance and flourish if the business maintains a harmonious relationship with these communities. Xiamen manufacturing plant emphasises employing local residents in an effort to boost the domestic economy. In addition, employees are encouraged to participate in local charity activities and create greater value for the society.

REGULATORY COMPLIANCE

The Group did not observe any forms of non-compliance with laws and regulations within the reporting period that may cause a potential impact on the Group's operating areas, such as environmental protection and conservation, employment, labour practices, operational and organisational activities.

Private Residence, Andermatt, by Caron & Associés
Aperture I, Blur Collection, Tai Ping

Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES & GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company and its subsidiaries (the "Group") consist of design, manufacture, import, export and sale of carpets, manufacture and sale of yarns and sale of leather.

An analysis of the Group's performance for the year by segment is set out in Note 5 to the consolidated financial statements.

RESULTS & APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 61.

No interim dividend was paid during the year (2017: Nil).

At the Board meeting held on 22 March 2019, the Board has resolved not to declare any dividend for the year ended 31 December 2018 (2017: Nil).

DIVIDEND POLICY

The Company has adopted a dividend policy on 14 December 2018, in considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for future growth of the Group.

The Board shall consider the following factors before recommending or declaring dividends:

i. The Company's actual and expected financial performance;
ii. Retained earnings and distributable reserves of the Company and each of the members of the Group;
iii. The Group's working capital, capital expenditure requirements and future expansion plans;
iv. The Group's liquidity position;
v. General economic conditions, business cycle of the Group and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
vi. Other factors that the Board deems relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of Bermuda and the Company's Bye-laws. The Board will review the dividend policy from time to time and there can be no assurance that dividend will be paid in any particular amount for any given period.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$14,000 (2017: HK$391,000).

FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 7 of the annual report.

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.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Chairman & Non-Executive Director
Nicholas T. J. Colfer

Chief Executive Officer & Executive Director
Mark S. Worgan (appointed as Chief Executive Officer on 1 January 2018 and appointed as Executive Director on 17 January 2018)

Non-Executive Directors
David C. L. Tong
John J. Ying
Nelson K. F. Leong
Andrew C. W. Brandler

Independent Non-Executive Directors
Yvette Y. H. Fung
Roderic N. A. Sage
Lincoln C. K. Yung
Aubrey K. S. Li
Daniel G. Green (appointed as Independent Non-Executive Director on 17 January 2018)

In accordance with the Company's Bye-laws, Mr. Nicholas T. J. Colfer, Mr. John J. Ying, Mr. David C. L. Tong, Mr. Nelson K. F. Leong, Mrs. Yvette Y. H. Fung and Mr. Roderic N. A. Sage will retire by rotation from office at the forthcoming AGM on 17 May 2019. Mr. Nicholas T. J. Colfer, Mr. John J. Ying, Mr. David C. L. Tong, Mr. Nelson K. F. Leong, Mrs. Yvette Y. H. Fung and Mr. Roderic N. A. Sage, being eligible, offer themselves for re-election at the forthcoming AGM on 17 May 2019.

DIRECTORS' SERVICE CONTRACTS

Mr. Mark S. Worgan, CEO and Executive Director of the Company, has entered into a service agreement with the Company. The agreement has no fixed term and may be terminated by either party by three months' written notice.

None of the Directors who are proposed for re-election at the forthcoming AGM have service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISIONS

At no time during the financial year and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of the Directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

DIRECTORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY

As at 31 December 2018, the interests of the Directors in the shares 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 were as follows:

Ordinary shares of HK$0.10 each in the Company as at 31 December 2018

No. of ordinary shares held (long position)

Name	Personal Interests (held as beneficial owner)	Corporate Interests (interests of controlled corporation)	% of the Issued share capital of the Company
David C. L. Tong	431,910	–	0.204%
Lincoln C. K. Yung	30,000	–	0.014%
Nelson K. F. Leong	700,000	2,182,000[1]	1.358%
John J. Ying	–	32,605,583[2]	15.366%
Aubrey K. S. Li	100,000[3]	–	0.047%

Notes:

1 2,000,000 shares are held by Gainsborough Associates Limited and 182,000 shares are held by Fontana Enterprises Limited, companies in which Mr. Nelson K. F. Leong holds 33.33% and 40% equity interests respectively and have controlling interest.

2 The shares are held by Peak Capital Partners I, L.P. of which Mr. John J. Ying is the sole shareholder of Peak Capital Partners I, L.P., and is deemed to have an 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).

3 The shares are jointly held by Mr. Aubrey K. S. Li and his spouse.

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company (including their spouse and children under 18 years of age) to hold any interests in the shares in, or debentures of, the Company or its specified undertakings or other associated corporation.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO showed that the Company had been notified of the following substantial shareholders' interests, being 5% or more in the issued ordinary share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors.

Name	No. of ordinary shares held in the Company of HK$0.10 each (long position)	% of the Issued share capital of the Company
Acorn Holdings Corporation[1]	40,014,178	18.858%
Bermuda Trust Company Limited[1]	40,014,178	18.858%
Harneys Trustees Limited[1]	77,674,581	36.607%
Lawrencium Holdings Limited[1]	77,674,581	36.607%
The Mikado Private Trust Company Limited[1]	77,674,581	36.607%
The Hon. Sir Michael Kadoorie[1]	77,674,581	36.607%
Peak Capital Partners I, L.P.[2]	32,605,583	15.366%

Notes:

1 Bermuda Trust Company Limited is deemed to be interested in the same 40,014,178 shares in which Acorn Holdings Corporation is interested. The Mikado Private Trust Company Limited and Harneys Trustees Limited are deemed to be interested in the same 77,674,581 shares in which Lawrencium Holdings Limited is interested. For the purpose of the SFO, the spouse of the Hon. Sir Michael Kadoorie has a duty of disclosure in Hong Kong in relation to the 77,674,581 shares. The interest disclosed by the spouse of the Hon. Sir Michael Kadoorie is that of the Hon. Sir Michael Kadoorie attributed to her under the SFO. Except the above, she has no interest, legal or beneficial in those shares.

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS & SUPPLIERS

During the year, the Group sold less than 20% of its goods and services to its five largest customers. Purchase of goods (primarily raw materials and consumables) and services from its largest supplier and the top five suppliers in aggregate were around 39% and around 76%, respectively.

CONNECTED TRANSACTIONS

1. Significant related party transactions entered into by the Group during the year ended 31 December 2018, which did not constitute connected transactions and were not required to be disclosed under the Listing Rules, are disclosed in Note 35 to the consolidated financial statements.

2. Other related party transactions entered into by the Group in 2018 and up to the date of this Directors' Report, which fall under the definition of "connected transactions" or "continuing connected transactions" and not exempted under Rule 14A.31 and Rule 14A.33 of the Listing Rules, are as follows:

   The Company's subsidiaries have been from time to time supplying products, and providing related ancillary services to The Hong Kong and Shanghai Hotels, Limited ("HSH") and its subsidiaries. These transactions fall under the definition of continuing connected transactions under the Listing Rules by virtue of the fact that The Mikado Private Trust Company Limited, a substantial shareholder of the Company, is also interested in more than 30% voting power of HSH. In accordance with the requirements of the Listing Rules, the Company entered into New Products and Services Supply Agreement with HSH on 14 December 2016 (the "Agreement") for the supply of carpets, rugs and all forms of floorcoverings and related installation and transportation services to HSH and its subsidiaries on normal commercial terms for a period of three years from 1 January 2017 to 31 December 2019 subject to an annual cap of HK$10,000,000 for the financial years ended 31 December 2017, 31 December 2018 and year ending 31 December 2019. An announcement in this respect was made on 14 December 2016. For the year ended 31 December 2018, the total order amount and invoiced value of these transactions ("HSH Transactions") amounted to approximatley HK$5,826,000 and HK$5,700,000, respectively.

   The Directors, including all the Independent Non-Executive Directors, have reviewed the HSH Transactions and confirmed that they have been entered into:

   i. in the ordinary and usual course of business of the Group;

   ii. on normal commercial terms or terms better to the Group than terms available to independent third parties; and

   iii. the terms of the Agreement governing them are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor has reported to the Directors in their letter that based on their work performed:

i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors;

ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

iv) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the connected transactions and continuing connected transactions. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the section head "Chairman's Statement" and "Management Discussion & Analysis" on pages 10 to 15 of this annual report. Details of the Group's Financial Risk Management are set out in Note 3 to the consolidated financial statements.

ENVIRONMENTAL PROTECTION AND LEGAL COMPLIANCE

The Company is committed to protecting the environment where it operates and ensuring that it complies with the environmental protection standards applicable to the Group and its business operation from time to time.

The Group obtained the required permits and environmental approvals for its business and production facilities, and complied with such laws, rules and regulations that had a significant impact to the Group, its business and operations.

Please refer to the ESG Report contained in the Annual Report for further information on the work done and efforts made by the Company on environmental protection, legal compliance and other aspects for the sustainable growth and development of the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, the Company has maintained a sufficient public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of its Directors.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming AGM will be held on Friday, 17 May 2019. Notice of the AGM will be published and dispatched to the shareholders together with this report.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' entitlements to attend and vote at the forthcoming AGM on Friday, 17 May 2019, the transfer books and the register of members of the Company will be closed from Tuesday, 14 May 2019 to Friday, 17 May 2019 (both days inclusive). During such period, no transfer of shares will be effected. In order to establish the right to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Friday, 10 May 2019.

AUDITOR

During the year, PricewaterhouseCoopers ("PwC") has resigned as auditor of the Company on 27 November 2018 as the Company and PwC could not reach a consensus on the auditor's remuneration for the financial year ended 31 December 2018. KPMG was appointed as auditor of the Company on 27 November 2018 to fill the casual vacancy.

The consolidated financial statements for the year ended 31 December 2018 have been audited by KPMG, who retire and, being eligible, offer themselves for re-appointment.

By order of the Board
Mark S. Worgan
Chief Executive Officer

Hong Kong, 22 March 2019

Fontenay, *Nord/Sud* by Stéphane Parmentier, La Manufacture Cogolin
Cotton, Wool & Jute, Handknotted Rug

Gulfstream G650ER
Mistral I, Riviera Edition, Edward Fields

Financial Section

Independent Auditor's Report

To the shareholders of Tai Ping Carpets International Limited
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Tai Ping Carpets International Limited ("the Company") and its subsidiaries ("the Group") set out on pages 61 to 142, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (CONTINUED)

Revenue recognition	
Refer to note 5 to the consolidated financial statements and the accounting policy note 2.28.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group's revenue principally comprises sales of carpets. The terms of sales contracts relating to goods acceptance by customers are similar and revenue is generally recognised when the carpets are delivered to the location designated by the customers. We identified the recognition of revenue as a key audit matter because of its significance to the Group and errors in the recognition of revenue could have a material impact on the Group's results. .	Our audit procedures to assess the appropriateness of revenue recognition included the following: • evaluating the design, implementation and operating effectiveness of key internal controls over the existence, accuracy and timing of revenue recognition; • challenging the revenue recognition policies adopted by the Group by making inquiries of management and inspecting a sample of sales contracts to understand the terms of the transactions to assess the Group's revenue recognition with reference to the requirements of the prevailing accounting standards; • on a sample basis inspecting manual adjustments made to revenue during the reporting period, enquiring of management about the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation; • assessing whether revenue had been recognised in the appropriate accounting period and in accordance with the terms of the sales contracts by comparing a sample of sales transactions recorded around the year end with relevant underlying documents, which included delivery notes or documentation indicating the customers' acknowledgement of delivery of the goods sold; and • identifying significant sales returns from the sales ledger after the year end and inspecting the underlying documentation to assess if the related adjustments to revenue had been accounted for in the appropriate reporting period.

KEY AUDIT MATTERS (CONTINUED)

Assessing potential impairment of property, plant and equipment, intangible assets, land use rights and construction in progress

Refer to notes 13, 14 and 15 to the consolidated financial statements and the accounting policy notes 2.6, 2.7, 2.8 and 2.9.

The Key Audit Matter	How the matter was addressed in our audit
The Group's non-current assets relating to its manufacturing operations include property, plant and equipment, intangible assets, land use rights and construction in progress (the "manufacturing assets"). As at 31 December 2018, the carrying amount of the Group's manufacturing assets in total was approximately HK$418 million. The Group has recorded a loss before tax of approximately HK$42 million from its operations for the year ended 31 December 2018. As the Group has recorded a net loss in recent years, management considered that indicators of potential impairment of the Group's manufacturing assets existed and performed an assessment to determine the recoverable amounts of the related assets as at that date. Management estimated the recoverable amounts of the manufacturing assets using the value in use model by preparing discounted cash flow forecasts for the separately identifiable cash-generating unit ("CGU") to which the manufacturing assets had been allocated and comparing the net present value with the carrying values of the manufacturing assets to determine whether provision for impairment was required.	Our audit procedures to assess potential impairment of the manufacturing assets included the following: • evaluating management's processes and procedures for the identification of indicators of potential impairment of the manufacturing assets; • evaluating management's identification of CGUs and the allocation of assets to each CGU and management's methodology adopted in the preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards; • evaluating the historical accuracy of management's value in use calculations by comparing the forecast at the end of the previous financial year for revenue, operating costs and the growth rate with the actual outcomes in the current year and investigating reasons for any significant differences between the forecasts and actual results; • assessing the reasonableness of discount rates used by comparing them with the discount rate of other companies in the same industry;

KEY AUDIT MATTERS (CONTINUED)

Assessing potential impairment of property, plant and equipment, intangible assets, land use rights and construction in progress (continued)

Refer to notes 13, 14 and 15 to the consolidated financial statements and the accounting policy notes 2.6, 2.7, 2.8 and 2.9.

The Key Audit Matter	How the matter was addressed in our audit
The preparation of discounted cash flow forecasts involves the exercise of significant management judgement, in particular in forecasting revenue growth rates and profit margin ratios and in determining appropriate discount rates. We identified assessing potential impairment of the Group's manufacturing assets as a key audit matter because of the inherent uncertainty involved in forecasting future cash flows, in particular in respect of revenue growth rates, profit margin ratios, and the discount rates applied, which could be subject to potential management bias.	• evaluating the key assumptions adopted by management in their preparation of the discounted cash flow forecasts, including revenue growth rates and profit margin ratios, by comparing with the approved financial budgets, our understanding, experience and knowledge of the Group's businesses and future business plans; and • performing sensitivity analyses of the key assumptions adopted in the discounted cash flow forecasts, including the revenue growth rates, profit margin ratios, and the discount rates, to evaluate the impact on the headroom for each CGU and assessing the impact of changes in the key assumptions to the conclusions reached and whether there are any indicators of management bias.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The Directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group’s financial reporting process.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yau Ngai Lun, Alan.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Hong Kong, 22 March 2019

Consolidated Income Statement

For the year ended 31 December

	Note	2018 HK$'000	2017 HK$'000
Continuing operations			
Revenues	5	**540,932**	446,858
Cost of sales	6	**(247,081)**	(233,988)
Gross profit		**293,851**	212,870
Distribution costs	6	**(186,646)**	(181,720)
Administrative expenses	6	**(158,484)**	(197,456)
Other gains – net	8	**8,351**	7,671
Operating loss		**(42,928)**	(158,635)
Finance income	9	**507**	1,106
Finance costs	9	**(43)**	(790)
Finance income – net	9	**464**	316
Loss before income tax		**(42,464)**	(158,319)
Income tax expense	10	**(947)**	(2,760)
Loss for the year from continuing operations		**(43,411)**	(161,079)
Profit for the year from Discontinued operation	23	**–**	350,823
(Loss)/profit for the year		**(43,411)**	189,744
(Loss)/profit attributable to:			
Owners of the Company		**(34,136)**	194,251
Non-controlling interests		**(9,275)**	(4,507)
		(43,411)	189,744
(Losses)/earnings per share attributable to the owners of the Company during the year (expressed in HK cents per share)			
Basic/diluted			
Continuing operations	11	**(16.09)**	(73.71)
Discontinued operation	11	**–**	165.26
Included Discontinued operation	11	**(16.09)**	91.55

The notes on pages 68 to 142 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	2018 HK$'000	2017 HK$'000
(Loss)/profit for the year	**(43,411)**	189,744
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of retirement benefit obligations	**(329)**	–
Items that have been or may be reclassified subsequently to profit or loss		
Remeasurement of retirement benefit obligations, net of tax, in relation to Discontinued operation	**–**	649
Non-controlling interests in relation to Discontinued operation	**–**	(812)
Exchange reserve released upon disposal of business	**–**	(71,778)
Currency translation differences	**(12,734)**	48,097
Other comprehensive loss for the year, net of tax	**(13,063)**	(23,844)
Total comprehensive (loss)/income for the year	**(56,474)**	165,900
Attributable to:		
Owners of the Company	**(45,729)**	168,881
Non-controlling interests	**(10,745)**	(2,981)
	(56,474)	165,900
Total comprehensive (loss)/income for the year attributable to the owners of the Company arises from:		
Continuing operations	**(45,729)**	(110,634)
Discontinued operation	**–**	279,515
Total – Included Discontinued operation	**(45,729)**	168,881

The notes on pages 68 to 142 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December

	Note	2018 HK$'000	2017 HK$'000
Assets			
Non-current assets			
Land use rights	13	**27,138**	29,090
Property, plant & equipment	14	**267,574**	256,297
Construction in progress	14	**107,893**	96,728
Intangible assets	15	**15,064**	19,560
Prepayments	19	**5,816**	16,274
		423,485	417,949
Current assets			
Inventories	18	**83,646**	92,888
Trade & other receivables	19	**111,936**	121,467
Derivative financial instruments	20	**–**	1,248
Current income tax assets		**3,787**	1,443
Pledged bank deposits	21	**393**	687
Cash & cash equivalents	22	**93,008**	264,338
		292,770	482,071
Non-current asset held for sale	17	**17,192**	17,192
		309,962	499,263
Total assets		**733,447**	917,212

The notes on pages 68 to 142 are an integral part of these consolidated financial statements.

	Note	2018 HK$'000	2017 HK$'000
Equity			
Equity attributable to owners of the Company			
Share capital	24	**21,219**	21,219
Reserves	25	**275,699**	286,963
Retained earnings:			
Proposed final dividend	12	**–**	–
Others		**141,669**	176,075
		438,587	484,257
Non-controlling interests		**20,268**	31,013
Total equity		**458,855**	515,270
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	26	**2,225**	3,399
Retirement benefit obligations	27	**3,460**	2,925
		5,685	6,324
Current liabilities			
Trade & other payables	28	**183,687**	328,787
Contract liabilities - Deposits received in advance	29	**83,164**	–
Derivative financial instruments	20	**251**	–
Current income tax liabilities		**1,805**	4,831
Bank borrowings - unsecured	30	**–**	62,000
		268,907	395,618
Total liabilities		**274,592**	401,942
Total equity & liabilities		**733,447**	917,212
Net current assets		**41,055**	103,645
Total assets less current liabilities		**464,540**	521,594

The financial statements on pages 61 to 142 were authorised for issue by the Board of Directors on 22 March 2019 and were signed on its behalf.

Nicholas T. J. Colfer
Chairman

Mark S. Worgan
Executive Director

The notes on pages 68 to 142 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2017	21,219	189,699	123,283	348,260	682,461	34,656	717,117
Comprehensive income							
Profit/(loss) for the year	–	–	–	194,251	194,251	(4,507)	189,744
Other comprehensive income for the year							
Remeasurement of retirement benefit obligations, net of tax, in relation to Discontinued operation	–	–	–	649	649	–	649
Non-controlling interests in relation to Discontinued operation	–	–	–	–	–	(812)	(812)
Exchange reserve released upon disposal of business	–	–	(71,778)	–	(71,778)	–	(71,778)
Currency translation differences	–	–	45,759	–	45,759	2,338	48,097
Total other comprehensive (loss)/income for the year, net of tax	–	–	(26,019)	649	(25,370)	1,526	(23,844)
Total comprehensive (loss)/income for the year	–	–	(26,019)	194,900	168,881	(2,981)	165,900
Total contributions by and distributions to the owners of the Company, recognised directly in equity							
Dividend for 2016	–	–	–	(6,366)	(6,366)	–	(6,366)
Special dividend	–	–	–	(360,719)	(360,719)	–	(360,719)
Dividend paid to non-controlling interests	–	–	–	–	–	(662)	(662)
Total transactions with owners	–	–	–	(367,085)	(367,085)	(662)	(367,747)
Balance at 31 December 2017	21,219	189,699	97,264	176,075	484,257	31,013	515,270

The notes on pages 68 to 142 are an integral part of these consolidated financial statements.

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2018	21,219	189,699	97,264	176,075	484,257	31,013	515,270
Comprehensive income							
Loss for the year	–	–	–	(34,136)	(34,136)	(9,275)	(43,411)
Other comprehensive income for the year							
Remeasurement of retirement benefit obligations	–	–	–	(329)	(329)	–	(329)
Currency translation differences	–	–	(11,264)	–	(11,264)	(1,470)	(12,734)
Total other comprehensive loss for the year, net of tax	–	–	(11,264)	(329)	(11,593)	(1,470)	(13,063)
Total comprehensive loss for the year	–	–	(11,264)	(34,465)	(45,729)	(10,745)	(56,474)
Total contributions by and distributions to the owners of the Company, recognised directly in equity							
Dividend forfeited	–	–	–	59	59	–	59
Balance at 31 December 2018	21,219	189,699	86,000	141,669	438,587	20,268	458,855

The notes on pages 68 to 142 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	31a	**9,334**	(216,019)
Retirement benefit paid		**–**	(394)
Income tax (paid)/refunded		**(13,101)**	1,301
Interest paid		**(814)**	(4,038)
Net cash generated from operating activities from Discontinued operation		**–**	90,582
Net cash used in operating activities		**(4,581)**	(128,568)
Cash flows from investing activities			
Purchases of property, plant & equipment and construction in progress		**(52,748)**	(103,642)
Acquisition of intangible assets		**(12)**	(4,178)
Proceeds from disposal of property, plant & equipment		**166**	2,897
Decrease in financial derivative instruments		**1,992**	–
Decrease in fixed deposits		**–**	389
Interest received		**507**	1,106
Net cash (used in)/generated from investing activities from Discontinued operation	23c	**(52,182)**	765,062
Net cash (used in)/generated from investing activities		**(102,277)**	661,634
Cash flows from financing activities			
Proceeds from borrowings		**46,780**	116,250
Repayments of borrowings		**(108,780)**	(170,500)
Decrease in pledged bank deposits		**294**	1,648
Dividend paid to the Company's shareholders		**(596)**	(367,084)
Fund transfer from Discontinued operation		**–**	287,666
Net cash used in financing activities from Discontinued operation		**–**	(288,145)
Net cash used in financing activities		**(62,302)**	(420,165)
Net (decrease)/increase in cash & cash equivalents		**(169,160)**	112,901
Cash & cash equivalents at beginning of year		**264,338**	143,746
Exchange (losses)/gains on cash & cash equivalents		**(2,170)**	7,691
Cash & cash equivalents at end of year	22	**93,008**	264,338

The notes on pages 68 to 142 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Tai Ping Carpets International Limited ("the Company") and its subsidiaries (together "the Group") are principally engaged in design, manufacture, import, export and sale of carpets, manufacture and sale of yarns and sale of leather.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM EX, Bermuda. The principal office in Hong Kong is located at Units 1801-1804,18th Floor, 909 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon, Hong Kong.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 22 March 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

Non-current assets and non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

In August 2017, the Group entered into a sale and purchase agreement with an independent third party to dispose of Group's commercial business at a consideration of US$94,000,000 (equivalent to approximately HK$728,500,000). The transaction was completed during the year ended 31 December 2017. According, the financial results of the Commercial Business was presented as "Discontinued operation" in the consolidated income statement and consolidated statement of cash flows for the year ended 31 December 2017.

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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.2 Changes in accounting standards

(a) New and amended standards mandatory for the first time for the financial year beginning 1 January 2018 which have no material impact to the Group

HKFRS 9	Financial Instruments (new standard)
HKFRS 15	Revenue from Contracts with Customers (new standard)

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting standards (Continued)

(a) New and amended standards mandatory for the first time for the financial year beginning 1 January 2018 which have no material impact to the Group (Continued)

HKFRS 9 "Financial Instruments" (Continued)

HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

HKFRS 9 introduces a new model for the recognition of impairment losses — the expected credit losses ("ECL") model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting standards (Continued)

(a) New and amended standards mandatory for the first time for the financial year beginning 1 January 2018 which have no material impact to the Group (Continued)

HKFRS 9 "Financial Instruments" (Continued)

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. Comparative information continues to be reported under HKAS 39. The Group considered there is no significant impact of transition to HKFRS 9.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The new standard permits either a full retrospective or a modified retrospective approach for the adoption.

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach:

(1) Identify the contract(s) with customer;

(2) Identify separate performance obligations in a contract;

(3) Determine the transaction price;

(4) Allocate transaction price to performance obligations; and

(5) Recognise revenue when performance obligation is satisfied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting standards (Continued)

(a) New and amended standards mandatory for the first time for the financial year beginning 1 January 2018 which have no material impact to the Group (Continued)

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

The core principle is that the Group should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an "earnings processes to an "asset-liability" approach" based on transfer of control.

Currently, revenue from sales of goods and services are recognised in the consolidated income statement when the goods are delivered to customers, title of the goods has passed, or when installation services are rendered, and collectability of the related receivables is reasonably assured.

The Group is impacted on transition to HKFRS 15 on the presentation of liabilities.

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the company recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

To reflect these changes in presentation, the Group has reclassified deposits received in advance amounting to approximately HK$86,930,000 from trade and other payables to contract liabilities at 1 January 2018.

The Group has elected to use the cumulative effect transition method and considered there is no impact of initial application to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting standards (Continued)

(b) New and amended standards and interpretations which have been issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted

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

HKFRS 9	Prepayment Features with Negative Compensation (amendments)[1]
HKFRS 16	Leases (new standard)[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments (new interpretation)[1]
HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments)[1]

Note:

1 Effective for the Group for annual period beginning on 1 January 2019

HKFRS 16 "Leases"

HKFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 "Leases", and related interpretations.

Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. Management is in the process of quantifying the potential effects of this new standard in its consolidated financial statements.

The standard is mandatory for financial years commencing on or after 1 January 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition related costs are expensed as incurred.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Transactions between group companies, balances and related unrealised gains and losses are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group account policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries (Continued)

(a) Consolidation (Continued)

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries (Continued)

(a) Consolidation (Continued)

(iv) Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the consolidated profit and loss account, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors which makes strategic decisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation

(a) Functional & presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$'000, which is the Company's functional and the Group's presentation currency.

(b) Transactions & balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "Finance income" or "Finance costs". All other foreign exchange gains and losses are presented in the consolidated income statement within "Other gains – net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (Continued)

(c) Group companies (Continued)

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity in respect of that operation attributable to the owners of the Company are recognised in the consolidated income statement as part of the gain or loss on disposal.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant & equipment

Buildings comprise mainly factories, retail outlets and offices. They are stated at cost or valuation less accumulated depreciation and impairment losses. Certain buildings were stated at valuation which was carried out prior to 30 September 1995. Under transitional provision in paragraph 80AA of HKAS 16, the Group is not required to make regular revaluations in accordance with paragraphs 31 and 36 of HKAS 16.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	2%-18%
Machinery	8%-20%
Leasehold improvements	Shorter of lease term or useful life
Furniture, fixtures & equipment	6%-25%
Motor vehicles	18%-20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognised within "Other gains – net" in the consolidated income statement.

2.7 Construction in progress

Construction in progress represents machinery and furniture, fixtures and equipment to be installed, and buildings of which construction work has not been completed. Construction in progress is stated at cost, which includes construction expenditures incurred and other costs directly attributable to the construction capitalised during the construction period, less accumulated impairment losses. No depreciation is provided in respect of construction in progress until the construction work is completed. Upon completion, the construction in progress will be transferred to appropriate categories of property, plant and equipment and depreciated in accordance with the policy stated in Note 2.6.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 30 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

2.9 Intangible assets

(a) Vendor relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The vendor relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of 5 years.

(b) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the costs attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets (Continued)

(b) Computer software (Continued)

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in the subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives of 5 to 7 years.

(c) Brands

Brands acquired in a business combination are initially recognised at fair value at acquisition date. Brands with indefinite useful life are not amortised and are reviewed for impairment on an annual basis.

(d) Design library and other intangible assets

Design library and other intangible assets (which include web-based applications) with finite useful life are stated at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the respective lives of the assets, ranging from 3 to 16 years.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying amounts are to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (or disposal groups), except for certain assets as explained below, are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

2.12 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: fair value through profit or loss ("FVPL") and loans and receivables at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Policy applicable from 1 January 2018

Financial assets (including derivatives) are classified as FVPL unless they are not held for trading purposes and on initial recognition the Group makes an irrevocable election to designate the financial assets at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an asset-by-asset basis, but may only be made if the financial asset meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the financial asset is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial assets (Continued)

(a) Classification (Continued)

(i) Financial assets at fair value through profit or loss (Continued)

Policy applicable prior to 1 January 2018

Financial assets FVPL were financial assets held for trading. A financial asset was classified in this category if acquired principally for the purpose of selling in the short term. Derivatives were also categorised as held for trading unless they were designated as hedges. Assets in this category were classified as current assets if expected to be settled within 12 months; otherwise, they were classified as non-current.

(ii) Loans & receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

(b) Recognition & measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial assets (Continued)

(b) Recognition & measurement (Continued)

Gains or losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "Other gains – net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

The method of recognition and measurement do not differ significantly upon the adoption of HKFRS 9.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.14 Credit losses and impairment of financial assets

Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses ("ECLs") on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables); and

– contract assets as defined in HKFRS 15 (see note 2.2);

Financial assets measured at fair value, including derivative financial assets, are not subject to the ECL assessment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Credit losses and impairment of financial assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivable; and

– loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date;

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Credit losses and impairment of financial assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Credit losses and impairment of financial assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk (Continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Credit losses and impairment of financial assets (Continued)

Policy applicable prior to 1 January 2018

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Evidence of impairment might include indications that the debtors or a group of debtors was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganisation, and where observable data indicate that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss was recognised in the consolidated income statement. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group might measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of work-in-progress and finished goods comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 Trade & other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2.14).

2.17 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Subsequent changes in the fair value of these derivatives are recognised immediately in the consolidated income statement.

2.18 Cash & cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are assessed for expected credit losses in accordance with the policy set out in note 2.14.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Share capital

Ordinary shares are classified as equity.

2.20 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.21 Contract liabilities

A contract liability is recognised as deposits received when the customer pays non-refundable consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

2.22 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Current & deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax assets is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Current & deferred income tax (Continued)

(b) Deferred income tax (Continued)

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.25 Employee benefits

Pension obligations

A defined contribution plan is a pension plan under which the Group pays contributions to publicly or privately administrated pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of services and compensation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Employee benefits (Continued)

Pension obligations (Continued)

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognised in the consolidated income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when i) the Group has a present legal or constructive obligation as a result of past events; ii) it is probable that an outflow of resources will be required to settle the obligation; and iii) the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.27 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow of economic resources occurs so that outflow is probable, the contingent liability will then be recognised as a provision.

2.28 Revenue recognition

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Revenue recognition (Continued)

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

(a) Revenue from sale of carpets, yarns, underlays and interior furnishings

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

In the comparative period, revenue from sale of carpets, yarns, underlays and interior furnishings was recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when the goods were delivered to customers and title had passed. There was no material impact upon the change of accounting policy and therefore no adjustment was made to the opening balance as at 1 January 2018.

(b) Revenue from installation of carpets

Revenue from installation of carpets is recognised in the accounting period in which the installation services are rendered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Revenue recognition (Continued)

(c) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.29 Research and development costs

Research costs are expensed as incurred.

Development costs are recognised as intangible assets when the following criteria are met:

– It is technically feasible to complete the intangible asset so that it will be available for use or sale;

– Management intends to complete the intangible asset and use or sell it;

– There is an ability to use or sell the intangible asset;

– It can be demonstrated how the intangible asset will generate probable future economic benefits;

– Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

– The costs attributable to the intangible asset during its development can be reliably measured.

Development costs that do not meet these criteria are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Leases

Leases in which a significant portion of the risks and rewards of ownership of the leased asset are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Leases by which substantially all the risks and rewards incidental to the ownership of the leased asset are transferred by the lessor to the lessee are classified as finance leases.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.32 Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.32 Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, price risk, liquidity risk and cash flow and fair value interest rate risk.

Risk management is carried out by a central finance team led by the CFO. CFO identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides guidance for overall risk management.

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US$"), Chinese Reminbi ("RMB") and Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Management considers the foreign exchange risk with respect to US$ is not significant as HK$ is pegged to US$.

The Group's principal net foreign currency exposure arises from the US$ denominated financial assets/liabilities in the Group's operations covering Europe, the People's Republic of China (the "PRC") and the United Kingdom whose functional currencies are the local currency of the respective operations.

To manage this exposure, the Group takes advantage of any natural offsets of the Group's foreign currency revenues and expenses and may use foreign currency forward contracts from time to time to manage the risk arising from foreign currency transactions.

At 31 December 2018, if US$ had strengthened/weakened by 5% (2017: 5%) against Euro with all other variables held constant, pre-tax loss for the year would have been lower/higher by approximately HK$562,000 (2017: higher/lower by HK$883,000), mainly as a result of foreign exchange gains/losses on translation of US$ denominated assets and liabilities in entities whose functional currency is Euro.

At 31 December 2018, if US$ had strengthened/weakened by 5% (2017: 5%) against British pounds with all other variables held constant, pre-tax loss for the year would have been higher/lower by approximately HK$111,000 (2017: lower/higher HK$617,000), mainly as a result of foreign exchange losses/gains on translation of US$ denominated assets and liabilities in entities whose functional currency is British pounds.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Foreign exchange risk (Continued)

At 31 December 2018, if US$ had strengthened/weakened by 5% (2017: 5%) against RMB with all other variables held constant, pre-tax loss for the year would have been higher/ lower by approximately HK$1,629,000 (2017: HK$1,639,000), mainly as a result of foreign exchange losses/gains on translation of US$ denominated assets and liabilities in entities whose functional currency is RMB.

At 31 December 2018, if RMB had strengthened/weakened by 5% (2017: 5%) against HK$ with all other variables held constant, pre-tax loss for the year would have been lower/ higher by approximately HK$1,133,000 (2017: HK$7,717,000), mainly as a result of foreign exchange gains/losses on translation of RMB denominated assets and liabilities in entities whose functional currency is HK$.

At 31 December 2018, if Euro had strengthened/weakened by 5% (2017: 5%) against HK$ with all other variables held constant, pre-tax loss for the year would have been lower/ higher by approximately HK$926,000 (2017: HK$967,000), mainly as a result of foreign exchange gains/losses on translation of RMB denominated assets and liabilities in entities whose functional currency is HK$.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk of the Group mainly arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers including trade receivables, amounts due from related companies and other receivables. The carrying amounts of these balances in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group's bank deposits are placed in major international banks and financial institutions. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past.

The Group has no significant concentrations of credit risk as the Group has a large number of customers, internationally dispersed. Sales to retail customers are made in cash or via major credit cards. For project sales, the Group will request the customers for initial deposits and will accept orders only from those customers with an appropriate credit standing or history. The Group also performs periodic assessment of the trade receivables and believes that adequate provision for uncollectible receivables has been made. Due to the short duration of trade receivables and the business model adopted by the Group, the ECL allowance is not considered significant.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

As at 31 December 2018, the Group had total banking facilities of approximately HK$499,229,000 (2017: HK$614,208,000), of which HK$nil (2017: HK$62,000,000) was drawn down as bank borrowings and approximately HK$3,093,000 (2017: HK$20,130,000) was utilised for trade facilities. The Group's banking facilities are granted by several banks and they are subject to annual review.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group Treasury. Group Treasury invests surplus cash in time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the end of the financial year, the Group held cash and cash equivalents of approximately HK$93,008,000 (2017: HK$264,338,000) (Note 22) ready to meet liquidity needs.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows:

2018	Repayable on demand	Less than 1 year	Total
	HK$'000	HK$'000	HK$'000
Trade & other payables	–	83,075	83,075

2017	Repayable on demand	Less than 1 year	Total
	HK$'000	HK$'000	HK$'000
Trade & other payables	–	164,819	164,819
Bank borrowings – unsecured	62,109	–	62,109
	62,109	164,819	226,928

All of the Group's non-trading gross settled derivative financial instruments (Note 20) are due to settle within 12 months of the consolidated statement of financial position date. These contracts require undiscounted contractual cash inflows of approximately HK$3,672,000 (2017: HK$63,858,000) and undiscounted contractual cash outflows of approximately HK$3,890,000 (2017: HK$62,000,000).

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(d) Cash flow & fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At 31 December 2017, the Group's bank borrowings primarily represent short-term bank loans and outstanding trust receipt loans. If market interest rate had increased/decreased by 100 basis points with all other variables held constant, pre-tax profit for the year would have been lower/higher by HK$620,000. The Group did not hold any short-term bank loans and outstanding trust receipt loans as at 31 December 2018.

The Group also holds cash at banks and bank deposits which carry interest at market rates, the Group has no significant interest-bearing assets. As the interest income and expenses derived therefrom are relatively insignificant to the Group's operations, its income and operating cash flows are substantially independent of changes in market interest rates. Accordingly, the directors are of the opinion that the Group does not have significant cash flow and fair value interest rate risk and no sensitivity analysis is performed.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure under the policy of prudent financial management. In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Management of the Group monitors the utilisation of borrowings and ensures full compliance with loan covenants during the year and at the end of each reporting period.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

The Group analyses the financial instruments carried at fair value as at 31 December 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);

- inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following tables present the Group's assets and liabilities that are measured at fair value at 31 December 2018 and 2017. The fair value measurements of the Group's foreign currency forward contracts, which are presented in the statement of financial position as derivative financial instruments, as at 31 December 2018 and 2017 are categorised into Level 2.

	2018 **HK'000**	2017 HK'000
Liabilities		
Derivative financial intruments:		
Foreign currency forward contracts	**(251)**	–
Assets		
Derivative financial intruments:		
Foreign currency forward contracts	**–**	1,248

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

4. CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Impairment of property, plant & equipment, land use rights, construction in progress and intangible assets

Property, plant and equipment, land use rights, construction in progress and intangible assets are assessed for indication of impairment at the end of each reporting period, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If any such indication exists, management shall estimate the recoverable amount of the assets. The recoverable amounts are determined based on higher of assets' fair value less costs of disposal and value in use. The impairment assessment requires the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing:

(i) whether an event has occurred that may indicate that the related asset values may not be recoverable;

(ii) whether the carrying value of an asset can be supported by its recoverable amount, being the higher of fair value less costs of disposal and value in use; and

(iii) appropriate key assumptions to be applied in preparing cash flow projections in determining the recoverable amount.

Changing the assumptions selected by management in assessing the recoverable amount, including discount rates or growth rate assumptions in the cash flow projections, could impact the impairment assessment results.

4. CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS (CONTINUED)

4.2 Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at the end of each reporting period.

4.3 Trade & other receivables

The Group's management determines the allowance for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the allowance at the end of each reporting period.

5. REVENUES & SEGMENT INFORMATION

(a) Revenue from contracts with customers within the scope of HKFRS 15

Continuing operations	2018 HK$'000	2017 HK$'000
Sale of carpets	**466,535**	363,242
Sale of underlays	**3,293**	6,845
Installation of carpets	**13,327**	21,195
Interior furnishings	**36,459**	29,792
Sale of yarns	**21,318**	25,728
Others	**–**	56
	540,932	446,858

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors which are used to assess performance and allocate resources. The Board of Directors assesses the performance in the following geographical areas: Asia, Europe, the Middle East and Africa ("EMEA") and North America.

The Board of Directors assesses the performance of the operating segments based on a measure of segment results. Segment results represent the operating profit/loss of each business segment and effects of gain/loss and income/expenditure which are considered relevant in assessing the segment's performance.

5. REVENUES & SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

The segment information provided to management for the reportable segments for the years ended 31 December 2018 and 2017 are as follows:

For the year ended 31 December 2018

	Asia	EMEA	North America	Unallocated	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenues from external customers	96,181	202,042	242,709	–	540,932
Cost of production[1]	(47,555)	(96,335)	(114,704)	–	(258,594)
Segment gross margin	48,626	105,707	128,005	–	282,338
Segment results	13,155	4,394	(1,349)	–	16,200
Unallocated expenses[2]					(59,128)
Operating loss					(42,928)
Finance income					507
Finance costs					(43)
Loss before income tax					(42,464)
Income tax expense					(947)
Loss for the year from continuing operations					(43,411)
Non-current assets	376,096	18,600	21,725	7,064	423,485
Current assets	134,369	83,720	51,267	23,414	292,770
Non-current asset held for sale	–	–	–	17,192	17,192
Total assets					733,447
Segment liabilities	90,687	81,569	55,507	46,829	274,592
Capital expenditure	(54,329)	(1,558)	(2,456)	–	(58,343)
Depreciation of property, plant & equipment	(13,687)	(2,750)	(4,514)	(66)	(21,017)
Amortisation of land use rights (Note 13)	(640)	–	–	–	(640)
Amortisation of intangible assets (Note 15)	(4,203)	–	(130)	–	(4,333)
Recovery of/(allowance for) impairment of inventories – net	4,844	(820)	327	–	4,351
Inventories written off	(50)	(361)	–	–	(411)
Allowance for impairment of trade receivables – net	–	(880)	(855)	–	(1,735)
Property, plant & equipment written off (Note 14)	(1,033)	(9)	–	(5)	(1,047)

5. REVENUES & SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

For the year ended 31 December 2017

	Asia HK$'000	EMEA HK$'000	North America HK$'000	Unallocated HK$'000	Group HK$'000
Revenues from external customers	96,076	156,461	194,321	–	446,858
Cost of production[1]	(63,862)	(88,160)	(93,509)	–	(245,531)
Segment gross margin	32,214	68,301	100,812	–	201,327
Segment results	(9,973)	(63,366)	(51,749)	–	(125,088)
Unallocated expenses[2]					(33,547)
Operating loss					(158,635)
Finance income					1,106
Finance costs					(790)
Loss before income tax					(158,319)
Income tax expense					(2,760)
Loss for the year from continuing operations					(161,079)
Profit for the year from Discontinued operation					350,823
Profit for the year					189,744
Non-current assets	373,728	20,641	23,455	125	417,949
Current assets	349,489	68,013	45,394	19,175	482,071
Non-current asset held for sale	–	–	–	17,192	17,192
Total assets					917,212
Segment liabilities	155,571	91,169	63,816	91,386	401,942
Capital expenditure	(112,805)	(1,926)	(8,554)	–	(123,285)
Depreciation of property, plant & equipment	(14,555)	(2,910)	(6,141)	(79)	(23,685)
Amortisation of land use rights (Note 13)	(620)	–	–	–	(620)
Amortisation of intangible assets (Note15)	(10,332)	–	(129)	–	(10,461)
Allowance for impairment of inventories	(342)	(1,189)	(2,224)	–	(3,755)
Inventories written off	(189)	(1,079)	–	–	(1,268)
Recovery of/(allowance for) impairment of trade receivables – net	76	(2,644)	777	–	(1,791)
Property, plant & equipment written off (Note 14)	(285)	–	(449)	–	(734)

5. REVENUES & SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

Notes:

[1] Cost of production comprises cost of sales, transportation and administrative expenses of the factories, which are classified as distribution costs and administrative expenses in the consolidated income statement.

[2] Unallocated expenses include corporate expenses of the Group.

No single external customer accounted for more than 10% of the Group's revenues for the years ended 31 December 2018 and 2017.

6. EXPENSES BY NATURE

Continuing operations	2018 HK$'000	2017 HK$'000
Raw materials & consumables used	**61,496**	79,610
Amortisation of intangible assets (Note 15)	**4,333**	10,461
Amortisation of land use rights (Note 13)	**640**	620
Depreciation of property, plant & equipment	**21,017**	23,685
Employee benefit expenses (Note 7)	**202,420**	225,733
Operating lease charges in respect of		
– Land & buildings	**35,532**	36,836
– Other assets	**15**	12
(Recovery of)/allowance for impairment of inventories – net	**(4,351)**	3,755
Inventories directly written off	**411**	1,268
Allowance for impairment of trade receivables – net	**1,735**	1,791
Bad debts directly written off	**402**	1,194
Auditor's remuneration		
– Audit services	**2,128**	3,501
– Non-audit services	**78**	1,186
Legal and professional fees	**14,335**	5,429

7. EMPLOYEE BENEFIT EXPENSES

Continuing operations	2018 HK$'000	2017 HK$'000
Wages & salaries (including Directors' emoluments)	199,007	222,125
Pension costs – defined benefit plans	335	(38)
Retirement benefit costs – defined contribution schemes	3,078	3,646
	202,420	225,733

(a) Retirement benefit costs – defined contribution schemes

Unvested benefits totaling approximately HK$148,000 (2017: HK$410,000) were used during the year to reduce future contributions and refund to the Group. As at 31 December 2018 and 2017, no unvested benefits were available for use by the Group to reduce future contributions.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2017: one) director whose emoluments were reflected in the analysis presented in Note 37. The emoluments payable to the remaining four (2017: four) individuals during the year are as follows:

	2018 HK$'000	2017 HK$'000
Basic salaries, bonus, housing and other allowances	13,163	14,937
Retirement benefit costs	302	786
	13,465	15,723

The emoluments fell within the following bands:

	No. of individuals	
	2018	2017
Emolument bands		
HK$2,500,001 – HK$3,000,000	2	1
HK$3,000,001 – HK$3,500,000	–	1
HK$3,500,001 – HK$4,000,000	1	–
HK$4,000,001 – HK$4,500,000	1	1
HK$4,500,001 – HK$5,000,000	–	–
HK$5,000,001 – HK$5,500,000	–	–
HK$5,500,001 – HK$6,000,000	–	1

8. OTHER GAINS – NET

Continuing operations	2018 HK$'000	2017 HK$'000
Property, plant & equipment written off	(1,047)	(734)
Gain on change in fair value of derivative financial instruments	493	1,248
Net foreign exchange gain	297	6,685
Refund of unvested benefits of defined contribution plan	148	68
Others	8,460	404
	8,351	7,671

9. FINANCE INCOME – NET

Continuing operations	2018 HK$'000	2017 HK$'000
Finance income – interest income from banks	507	1,106
Finance costs – Interests on bank loans & overdrafts wholly repayable within five years	(43)	(790)
Finance income – net	464	316

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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.

Continuing operations	2018 HK$'000	2017 HK$'000
Current income tax		
Hong Kong	1,732	6,227
Overseas	2,984	3,615
Over-provision in prior years	(2,595)	(5,665)
Deferred income tax credit	(1,174)	(1,417)
Income tax expense	947	2,760

(a) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% during the year (2017: 16.5%).

10. INCOME TAX EXPENSE (CONTINUED)

(b) PRC enterprise income tax

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law was effective from 1 January 2008. Pursuant to detailed measures of the new CIT Law, the enterprise income tax rate of both domestic enterprise and foreign investment enterprise is 25% from 1 January 2008 onwards.

(c) United States corporate tax

Subsidiaries established in the United States are subject to United States corporate tax at a rate of 28% for the year ended 31 December 2018 (2017: 34%).

The tax on the continuing operations' loss before income tax differs from the theoretical amount that would have arisen using the weighted average tax rate applicable to profits or losses of the consolidated continuing operations entities due to the following:

	2018 HK$'000	2017 HK$'000
Loss before income tax	(42,464)	(158,319)
Tax calculated at domestic tax rates applicable to profits in the respective countries	(12,740)	(56,696)
Income not subject to tax	(25,614)	(10,135)
Expenses not deductible for tax purposes	18,564	20,529
Utilisation of previously unrecognised tax losses	(6,256)	–
Tax losses for which no deferred income tax asset was recognised	29,873	54,050
Over-provision in prior years	(2,595)	(5,665)
Others	(285)	677
Income tax expense	947	2,760

The weighted average applicable tax rate was 30% (2017: 35.8%).

11. (LOSSES)/EARNINGS PER SHARE

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

	2018	2017
(Loss)/profit attributable to owners of the Company (HK$'000)		
arising from continuing operations	**(34,136)**	(156,393)
arising from Discontinued operation	**–**	350,644
Weighted average number of ordinary shares in issue (thousands)	**212,187**	212,187
Basic (losses)/earnings per share (HK cents)		
from continuing operations	**(16.09)**	(73.71)
from Discontinued operation	**–**	165.26
Total	**(16.09)**	91.55

The Group had no dilutive potential shares outstanding during the years ended 31 December 2018 and 2017.

12. DIVIDEND

	2018	2017
	HK$'000	HK$'000
Proposed final dividend of HK$nil per share (2017: Nil)	**–**	–
Special dividend paid of HK$nil per share (2017: HK$1.70)	**–**	360,719

No interim dividend was paid during the year (2017: Nil).

At the Board meeting held on 22 March 2019, the Board has resolved not to declare any dividend for the year ended 31 December 2018 (2017: Nil).

On 9 October 2017, the Board declared a special dividend of HK$1.70 per share, amounting to a total of HK$360,719,000 and was paid on 7 November 2017.

13. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their carrying amounts are analysed as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	29,090	27,785
Amortisation of land use rights (Note 6)	(640)	(620)
Exchange differences	(1,312)	1,925
At 31 December	27,138	29,090

14. PROPERTY, PLANT & EQUIPMENT AND CONSTRUCTION IN PROGRESS

	Property, plant & equipment						
	Buildings HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Furniture, fixtures & equipment HK$'000	Motor vehicles HK$'000	Property, plant & equipment total HK$'000	Construction in progress HK$'000
At 1 January 2017							
Cost or valuation	152,528	97,578	556,282	119,283	10,683	936,354	177,951
Accumulated depreciation	(106,753)	(73,162)	(452,298)	(90,605)	(8,544)	(731,362)	–
Net book amount	45,775	24,416	103,984	28,678	2,139	204,992	177,951
At 1 January 2017							
Opening net book amount	45,775	24,416	103,984	28,678	2,139	204,992	177,951
Additions	5,171	6,330	1,893	6,168	170	19,732	99,375
Transfer from construction in progress	170,323	–	7,780	480	–	178,583	(178,583)
Disposals	–	–	(3,811)	(15)	–	(3,826)	–
Disposals of Discontinued operation	(34,727)	(75)	(55,338)	(10,057)	(782)	(100,979)	(8,492)
Assets written off	–	(470)	(124)	(140)	–	(734)	(895)
Assets written off from Discontinued operation	–	(2,866)	(5,642)	(2,966)	(224)	(11,698)	(1,500)
Impairment	–	–	(7,396)	(86)	–	(7,482)	–
Depreciation	(4,402)	(8,513)	(21,033)	(7,857)	(696)	(42,501)	–
Exchange differences	10,426	2,016	6,208	1,442	118	20,210	8,872
Closing net book amount	192,566	20,838	26,521	15,647	725	256,297	96,728
At 31 December 2017							
Cost or valuation	227,803	78,145	152,742	54,051	2,153	514,894	96,728
Accumulated depreciation	(35,237)	(57,307)	(126,221)	(38,404)	(1,428)	(258,597)	–
Net book amount	192,566	20,838	26,521	15,647	725	256,297	96,728

14. PROPERTY, PLANT & EQUIPMENT AND CONSTRUCTION IN PROGRESS (CONTINUED)

	Property, plant & equipment						
	Buildings	Leasehold improvements	Machinery	Furniture, fixtures & equipment	Motor vehicles	Property, plant & equipment total	Construction in progress
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018							
Opening net book amount	192,566	20,838	26,521	15,647	725	256,297	96,728
Additions	876	3,718	9,482	5,024	569	19,669	38,674
Transfer from construction in progress	–	40	22,790	724	–	23,554	(23,554)
Disposals	–	–	(71)	(95)	–	(166)	–
Assets written off	–	(939)	–	(104)	(4)	(1,047)	–
Depreciation	(5,228)	(481)	(6,772)	(8,284)	(252)	(21,017)	–
Exchange differences	(8,326)	(681)	(625)	(70)	(14)	(9,716)	(3,955)
Closing net book amount	179,888	22,495	51,325	12,842	1,024	267,574	107,893
At 31 December 2018							
Cost or valuation	218,471	70,461	181,773	57,950	2,633	531,288	107,893
Accumulated depreciation	(38,583)	(47,966)	(130,448)	(45,108)	(1,609)	(263,714)	-
Net book amount	179,888	22,495	51,325	12,842	1,024	267,574	107,893

In continuing operations, depreciation expenses of approximately HK$13,427,000 (2017: HK$12,065,000) and approximately HK$7,590,000 (2017: HK$11,620,000) have been charged to cost of sales and administrative expenses, respectively.

In 2017, depreciation expenses for discontinued operation of approximately HK$13,921,000 and approximately HK$4,895,000 have been charged to cost of sales and administrative expenses, respectively.

Construction in progress as at 31 December 2018 comprised mainly the new manufacturing factory under construction in Xiamen and approximately HK$36,391,000 (2017: HK$88,832,000) of the additions for the year were attributable to Xiamen. Costs capitalised include costs of construction materials, costs of machinery and equipment acquired pending installation, salary and employee benefits of the project teams and borrowing costs.

During the year, the Group has capitalised borrowing costs amounting to approximately HK$771,000 (2017: HK$3,246,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 2.5% per annum ("p.a") (2017: 2.5% p.a.).

Certain of the Group's buildings were revalued on an open market basis at 31 December 1989 by independent professional valuers, Jones Lang Wootton (now Jones Lang LaSalle) and W. Lamar Pinson, Inc. The revaluation was carried out prior to 30 September 1995. Under transitional provisions in paragraph 80AA of HKAS 16, the Group is not required to make regular revaluations in accordance with paragraphs 31 and 36 of HKAS 16. The Group did not revalue the buildings at 31 December 2018, and the buildings were stated at cost less accumulated depreciation.

15. INTANGIBLE ASSETS

	Vendor relationships HK$'000	Computer software HK$'000	Brands HK$'000	Design library HK$'000	Other intangible assets HK$'000	Total HK$'000
At 1 January 2017						
Cost	7,169	69,037	1,950	1,937	2,768	82,861
Accumulated amortisation & impairment	(7,169)	(44,034)	–	(1,163)	(1,788)	(54,154)
Net book amount	–	25,003	1,950	774	980	28,707
At 1 January 2017						
Opening net book amount	–	25,003	1,950	774	980	28,707
Additions	–	4,178	–	–	–	4,178
Amortisation (Note 6)	–	(10,183)	–	(129)	(149)	(10,461)
Impairment	–	(3,284)	–	–	–	(3,284)
Exchange differences	–	2	300	–	118	420
Closing net book amount	–	15,716	2,250	645	949	19,560
At 31 December 2017						
Cost	7,169	69,946	2,250	1,937	3,013	84,315
Accumulated amortisation & impairment	(7,169)	(54,230)	–	(1,292)	(2,064)	(64,755)
Net book amount	–	15,716	2,250	645	949	19,560
At 1 January 2018						
Opening net book amount	–	**15,716**	**2,250**	**645**	**949**	**19,560**
Additions	–	**12**	–	–	–	**12**
Amortisation (Note 6)	–	**(4,203)**	–	**(130)**	–	**(4,333)**
Write off	–	**(39)**	–	–	–	**(39)**
Exchange differences	–	**(3)**	**(98)**	**4**	**(39)**	**(136)**
Closing net book amount	–	**11,483**	**2,152**	**519**	**910**	**15,064**
At 31 December 2018						
Cost	**7,197**	**69,543**	**2,152**	**1,945**	**2,880**	**83,717**
Accumulated amortisation & impairment	**(7,197)**	**(58,060)**	–	**(1,426)**	**(1,970)**	**(68,653)**
Net book amount	–	**11,483**	**2,152**	**519**	**910**	**15,064**

Other intangible assets include customer relationships and non-competition agreements.

Amortisation expenses of approximately HK$4,333,000 (2017: HK$10,461,000) have been charged to administrative expenses.

16. SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2018:

Name of subsidiaries	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of Issued share capital	Percentage of interest held
Shares held indirectly:				
Tai Ping Carpets (Xiamen) Company Limited	PRC, limited liability company	Carpet manufacturing in PRC	US$45,000,000	100%
Premier Yarn Dyers, Inc.	United States of America, limited liability company	Yarn dyeing in United States of America	1,100 shares of US$100 each	100%
Tai Ping Carpets Americas, Inc.	United States of America, limited liability company	Carpet trading in United States of America	220,900 shares of US$1 each	100%
Tai Ping Carpets Europe	France, limited liability company	Carpet trading in France	EUR4,500,000	100%
Tai Ping Carpets Interieur GmbH	Germany, limited liability company	Carpet trading in Germany	EUR511,292	100%
Tai Ping Carpets UK Limited	United Kingdom, limited liability company	Carpet trading in United Kingdom	GBP5,400,464	100%
Tai Ping Carpets Limited	Hong Kong, limited liability company	Carpet trading in Hong Kong	HK$20,000,000	100%
Tai Ping Carpets International Trading (Shanghai) Company Limited	PRC, limited liability company	Carpet trading in PRC	US$200,000	100%
Manufacture des Tapis de Cogolin SAS	France, limited liability company	Carpet trading in France	EUR200,000	100%
Foshan Nanhai Tai Ping Carpets Company Limited[1]	PRC, limited liability company	Carpet manufacturing in PRC	US$5,000,000	80%

Notes:

1 Registered as foreign equity joint ventures under PRC Law

2 None of the subsidiaries had issued any debt securities at the end of the year.

17. NON-CURRENT ASSET HELD FOR SALE

On 13 December 2013, the Directors approved the disposal of the Group's investment in Philippine Carpet Manufacturing Corporation ("PCMC"). Accordingly, management reclassified all the Group's investment in PCMC as non-current asset held for sale as at 31 December 2013, as the carrying amount would be recovered principally through sale, the investment is available for immediate sale at their present conditions and such sale is considered highly probable. The Group was in the process of engaging a third party adviser to handle the disposal as at 31 December 2018.

In February 2019, PCMC entered into a sales and purchase agreement to dispose of its principal property asset in Manila, with completion scheduled to follow shortly. Following this sale, PCMC will be closed and proceeds distributed to shareholders, which is expected to happen within the next 12 months.

18. INVENTORIES

	2018 **HK$'000**	2017 HK$'000
Raw materials	**51,914**	59,473
Work in progress	**11,076**	7,862
Finished goods	**31,702**	35,502
Consumable stores	**419**	5,752
	95,111	108,589
Less: allowance for impairment of inventories	**(11,465)**	(15,701)
	83,646	92,888

The cost of inventories recognised as expense and included in cost of sales amounted to HK$61,496,000 (2017: HK$79,610,000).

Movements on the Group's allowance for impairment of inventories are as follows:

	2018 **HK$'000**	2017 HK$'000
At 1 January	**15,701**	22,493
Allowance for impairment of inventories	**1,599**	12,356
Recovery of impairment previously recognised	**(5,950)**	(1,144)
Inventories written off	**–**	(2,111)
Less: Discontinued operation	**–**	(17,271)
Exchange differences	**115**	1,378
At 31 December	**11,465**	15,701

19. TRADE & OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	71,986	62,824
Less: allowance for impairment of trade receivables	(9,448)	(8,214)
Trade receivables – net	62,538	54,610
Prepayments	11,934	17,354
Value added tax receivables	23,630	29,720
Rental deposits	5,645	7,712
Other receivables	14,005	28,345
	117,752	137,741
Less: Non-current portion prepayments	(5,816)	(16,274)
Current portion	111,936	121,467

Prepayments included in non-current assets amounted to approximately HK$5,816,000 (2017: HK$16,274,000).

The carrying amounts of trade receivables approximate their fair values as at 31 December 2018 and 2017. The credit terms of the Group range from 0 to 90 days, depending on the credit status and repayment history of customers. At the end of the financial year, the ageing analysis of the trade receivables based on invoice date is as follows:

	2018 HK$'000	2017 HK$'000
0 to 30 days	36,197	19,478
31 to 60 days	7,070	8,565
61 to 90 days	4,305	3,595
91 to 365 days	14,608	20,249
More than 365 days	9,806	10,937
	71,986	62,824

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

	2018 HK$'000	2017 HK$'000
Amounts past due but not impaired:		
Less than 30 days past due	18,691	10,193
31 to 60 days past due	5,466	17,326
61 to 90 days past due	3,068	2,875
91 to 365 days past due	11,897	3,934
More than 365 days past due	1,941	6,719
	41,063	41,047

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

19. TRADE & OTHER RECEIVABLES (CONTINUED)

As at 31 December 2018, trade receivables of approximately HK$41,063,000 (2017: HK$41,047,000) 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 past experience, management estimates that the carrying amounts should be fully recoverable.

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

	2018 HK$'000	2017 HK$'000
At 1 January	8,214	7,242
Allowance for impairment of trade receivables	3,148	6,866
Recovery of impairment previously recognised	(1,413)	(4,276)
Receivables written off as uncollectible	(213)	(86)
Currency translation difference	(288)	468
Less: Discontinued operation	–	(2,000)
At 31 December	9,448	8,214

Any impairment of trade receivables is included in administrative expenses in the consolidated income statement. When there is no expectation of recovery, the receivable balance is written off against the allowance for impairment.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
US$	47,789	55,110
Chinese Renminbi	31,959	44,667
Thai baht	–	189
Euro	31,134	24,912
HK$	4,298	5,284
British pounds	2,484	2,352
Others	88	5,227
	117,752	137,741

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 HK$'000	2017 HK$'000
Financial assets		
Foreign currency forward contracts	–	1,248
Financial liabilities		
Foreign currency forward contracts	(251)	–
	(251)	1,248

The notional principal amount of outstanding forward foreign exchange contracts of financial liabilities at 31 December 2018 was US$500,000 (approximately HK$3,890,000) (2017: US$8,000,000 (approximately HK$62,000,000)).

Management purchased these forward contracts to manage the foreign currency exposure of Chinese Renminbi to US$. Changes in fair value of these forward contracts are recognised in the consolidated income statement. These contracts generally mature within 12 months from the date of purchase.

21. PLEDGED BANK DEPOSITS

Pledged bank deposits of approximately HK$393,000 (2017: HK$687,000) represented deposits made to a bank for the performance guarantees issued by the bank to the Group's customers, and to pledge for utilities of factory in the US.

As at 31 December 2018, the effective interest rate on the Group's pledged bank deposits was 0.18% p.a. (2017: 0.81% p.a.) and these deposits on average will mature 129 days (2017: 295 days).

The carrying amounts of the Group's pledged bank deposit is denominated in US$.

22. CASH & CASH EQUIVALENTS

The carrying amounts of the Group's cash and cash equivalents approximate to their respective fair values and are denominated in the following currencies:

	2018	2017
	HK$'000	HK$'000
Chinese Renminbi	**23,941**	31,828
US$	**17,645**	173,277
Euro	**40,340**	25,577
HK$	**2,068**	19,409
British pounds	**6,644**	12,995
Argentine pesos	**1,407**	278
Singapore dollars	**23**	23
Macau patacas	**143**	–
Others	**797**	951
	93,008	264,338

As at 31 December 2018, the Group's cash and bank balances included approximately HK$12,588,000 (2017: HK$36,845,000) placed with certain banks in the PRC by certain subsidiaries of the Group. These balances are subject to exchange controls.

23. DISCONTINUED OPERATION

During 2017, the Group completed the disposal of its Commercial Business ("the Disposal"). Accordingly, the financial results of the Disposal were presented in the consolidated income statement and consolidated statement of cash flows as "Discontinued operation" in accordance with HKFRS 5 "Non-current Assets Held for Sales and Discontinued Operation".

Details of the profit for the period ended 30 September 2017 from Discontinued operation are as follows:

	For the period from 1 January 2017 to 30 September 2017
	HK$'000
Profit after tax from Discontinued operation (Note (a))	7,927
Gain on disposal (Note (b))	342,896
Profit for the year from Discontinued operation	350,823

23. DISCONTINUED OPERATION (CONTINUED)

(a) An analysis of profit after tax from Discontinued operation is set out below:

	For the period from 1 January 2017 to 30 September 2017 HK$'000
Revenues	434,700
Cost of sales	(266,582)
Gross profit	168,118
Other gains – net	4,403
Distribution and administrative expenses	(157,653)
Operating profit from Discontinued operation	14,868
Finance costs – net	(1)
Profit before income tax from Discontinued operation	14,867
Income tax expense	(6,940)
Profit after tax from Discontinued operation	7,927
Share of non-controlling interests	(179)
Profit after tax from Discontinued operation attributable to the owners of the Company	7,748

23. DISCONTINUED OPERATION (CONTINUED)

(a) An analysis of profit after tax from Discontinued operation is set out below: (Continued)

	For the period from 1 January 2017 to 30 September 2017 HK$'000
Profit after tax from Discontinued operation	7,927
Gain on disposal	342,896
Other comprehensive (loss)/income from Discontinued operation:	
Items that may be reclassified to profit or loss	
Remeasurement of retirement benefit obligations, net of tax, in relation to Discontinued operation	649
Non-controlling interests in relation to Discontinued operation	(812)
Exchange reserve released upon disposal of business	(71,778)
Other comprehensive loss for the year, net of tax	(71,941)
Total comprehensive income for the year	278,882
Attributable to:	
Owners of the Company	279,515
Non-controlling interests	(633)
	278,882

23. DISCONTINUED OPERATION (CONTINUED)

(b) An analysis of gain on the disposal is as follows:

	2017 HK$'000
Cash consideration	728,500
Less: direct expenses	(195,428)
	533,072
Less: net assets disposed of:	
Property, plant and equipment	(100,979)
Construction in progress	(8,492)
Deferred income tax assets	(9,466)
Inventories	(155,878)
Trade receivables and other receivables	(112,566)
Financial assets at fair value through profit or loss	(31,991)
Current income tax assets	(38)
Cash and cash equivalents	(13,722)
Retirement benefit obligations	29,603
Trade payables & other payables	127,959
Current income tax liabilities	5,165
Bank borrowings – unsecured	1,806
Derivative financial instruments	256
Amount due to continuing operations	5,372
Exchange reserve released upon disposal of business	71,778
Non-controlling interests	1,017
Gain on disposal	342,896

(c) An analysis of the cash (outflows)/inflows of the Discontinued operation is as follows:

	2018 HK$'000	For the period from 1 January 2017 to 30 September 2017 HK$'000
Net cash generated from operation activities	–	90,582
Net cash (used in)/generated from investing activities, including Proceeds from the Disposal	(52,182)	765,062
Net cash used in financing activities	–	(288,145)
Total cash (outflows)/inflows	(52,182)	567,499

24. SHARE CAPITAL

	No. of shares	HK$'000
Authorised – Ordinary shares of HK$0.10 each:		
At 31 December 2017 & 2018	**400,000,000**	40,000
Issued and fully paid – Ordinary shares of HK$0.10 each:		
At 31 December 2017 & 2018	**212,187,488**	21,219

25. SHARE PREMIUM & OTHER RESERVES

	Share premium HK$'000	Capital reserve HK$'000	Properties revaluation reserve HK$'000	General reserve HK$'000	Currency translation reserve HK$'000	Total HK$'000
Balance at 1 January 2017	189,699	55,928	4,161	8,000	55,194	312,982
Exchange reserve released upon disposal of business	–	–	–	–	(71,778)	(71,778)
Currency translation differences	–	–	–	–	45,759	45,759
Balance at 31 December 2017	189,699	55,928	4,161	8,000	29,175	286,963
Balance at 1 January 2018	**189,699**	**55,928**	**4,161**	**8,000**	**29,175**	**286,963**
Currency translation differences	**–**	**–**	**–**	**–**	**(11,264)**	**(11,264)**
Balance at 31 December 2018	**189,699**	**55,928**	**4,161**	**8,000**	**17,911**	**275,699**

26. DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2018 HK$'000	2017 HK$'000
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after 12 months	(2,225)	(3,399)

The gross movements on the Group's deferred income tax account are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	(3,399)	2,714
Credited to the consolidated income statement	1,174	3,213
Discontinued operation	–	(9,466)
Exchange differences	–	140
At 31 December	(2,225)	(3,399)

26. DEFERRED INCOME TAX (CONTINUED)

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same taxation jurisdiction, are as follows:

Deferred tax assets

	Impairment of assets		Tax losses		Others		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**–**	274	**–**	434	**–**	6,822	**–**	7,530
(Charged)/credited to the consolidated income statement	**–**	(1)	**–**	–	**–**	1,797	**–**	1,796
Discontinued operation	**–**	(250)	**–**	(365)	**–**	(8,851)	**–**	(9,466)
Exchange differences	**–**	(23)	**–**	(69)	**–**	232	**–**	(140)
At 31 December	**–**	–	**–**	–	**–**	–	**–**	–

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately HK$148,683,000 (2017: HK$216,510,000) in respect of tax losses of approximately HK$571,158,000 (2017: HK$692,181,000) that can be carried forward against future taxable income, of which tax losses of approximately HK$159,646,000 (2017: HK$201,081,000) are not subject to expiry. The expiry dates of the remaining tax losses of approximately HK$411,512,000 (2017: HK$491,100,000) range from 2019 to 2038 (2017: 2018 to 2037).

Deferred tax liabilities

	Accelerated tax depreciation allowance		Unremitted service fees		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**2,202**	3,619	**1,197**	1,197	**3,399**	4,816
Credited to the consolidated income statement	**(1,174)**	(1,417)	**–**	–	**(1,174)**	(1,417)
At 31 December	**1,028**	2,202	**1,197**	1,197	**2,225**	3,399

27. RETIREMENT BENEFIT OBLIGATIONS

	2018 HK$'000	2017 HK$'000
Consolidated financial position obligations for:		
Pension benefits plans	3,460	2,925

As at 31 December 2018, the Group operates defined benefit pension plan in France. The defined benefit plans are final salary defined plans in France, which are valued by qualified actuaries using the project unit credit method. The defined benefit plans were valued at 31 December 2018 by SPAC Actuaries in France.

Pension benefits

The Group operates defined benefit pension plans in France based on employee pensionable remuneration and length of service. These plans are unfunded. These amounts recognised in the consolidated statement of financial position are determined as follows:

	2018 HK$'000	2017 HK$'000
Present value of unfunded obligations	3,460	2,925

The movements in defined benefit obligations are as follows:

	2018 HK$'000	2017 HK$'000
As 1 January	2,925	28,857
Actuarial loss on remeasurement	329	–
Current service costs	296	2,259
Interest costs	39	576
Exchange differences	(129)	2,273
Benefit paid	–	(788)
Less: Discontinued operation	–	(30,252)
At 31 December	3,460	2,925

27. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Pension benefits (Continued)

Continuing operations	2018 HK$'000	2017 HK$'000
The amounts recognised in the consolidated income statements are as follows:		
Current service costs included in employee benefit expenses	296	(38)
Interest costs	39	–
	335	(38)

The principal actuarial assumptions were as follows:

	2018	2017
Discount rate	1.50% – 2.75%	1.50% – 2.75%
Inflation rate	2%	2%
Expected return on plan assets	N/A	N/A
Salary growth	2% – 4%	2% – 4%
Turnover rate	0% – 20%	0% – 20%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in France. Mortality assumptions for France is based on post-retirement mortality tables and INSEE TD/TV 2012-2014.

28. TRADE & OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	42,301	33,361
Deposits received in advance	83,164	86,930
Accrual for expenses	78,082	64,819
Other payables	63,304	143,677
	266,851	328,787
Less: Contract liabilities - Deposits received in advance (Note 29)	(83,164)	–
	183,687	328,787

Contract liabilities are recognised when considerations from customers are received, or the Group has the rights to an amount of consideration that is unconditional before the Group performs a service or delivery of carpets to customers.

28. TRADE & OTHER PAYABLES (CONTINUED)

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

	2018 HK$'000	2017 HK$'000
0 to 30 days	12,526	10,621
31 days to 60 days	15,278	7,292
61 days to 90 days	5,021	1,230
More than 90 days	9,476	14,218
	42,301	33,361

The carrying amounts of the Group's and Company's trade and other payables and contract liabilities are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
Chinese Renminbi	57,896	61,297
US$	71,316	109,438
HK$	61,053	93,748
Euro	68,269	42,209
British pounds	7,063	5,421
Others	1,254	16,674
	266,851	328,787

29. CONTRACT LIABILITIES

	31 December 2018 HK$'000	1 January 2018[1] HK$'000	31 December 2017 HK$'000
Customer deposits			
– Deposits received in advance	83,164	86,930	–

Note:

[1] The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

During the year, movement in contract liabilities included increase in deposits received in advance amounting to approximately HK$323,611,000, net off by a decrease of approximately HK$327,377,000 as a result of recognising revenues.

30. BANK BORROWINGS – UNSECURED

	2018 HK$'000	2017 HK$'000
Current		
Short-term bank borrowings	–	62,000

The Group did not have any outstanding bank borrowing as at 31 December 2018.

As at 31 December 2018, the Group had total banking facilities of approximately HK$499,229,000 (2017: HK$614,208,000), of which HK$nil (2017: HK$62,000,000) was drawn down as bank borrowings and approximately HK$3,093,000 (2017: HK$20,130,000) was utilised for trade facilities. The Group's banking facilities are granted by several banks and they are subject to annual review.

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
US$	–	31,000
HK$	–	31,000
	–	62,000

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from/(used in) operations

Continuing operations	2018 HK$'000	2017 HK$'000
Loss before income tax	(42,464)	(158,319)
Adjustments for:		
Amortisation of intangible assets	4,333	10,461
Amortisation of land use rights	640	620
Allowance for impairment of trade receivables – net	1,735	1,791
Intangible assets written off	39	–
Bad debts directly written off	402	1,194
Inventory directly written off	411	1,268
Retirement benefit obligations	335	(38)
Depreciation of property, plant & equipment	21,017	23,685
Property, plant & equipment written off	1,047	734
Construction in progress written off	–	895
(Recovery of)/allowance for impairment of inventories – net	(4,351)	3,755
Gain on change in fair value of derivative financial instruments	(493)	(1,248)
Finance costs	43	790
Finance income	(507)	(1,106)
Operating loss before changes in working capital	(17,813)	(115,518)
Inventories	17,040	(28,432)
Trade & other receivables	9,749	(10,541)
Trade & other payables	(10,100)	(58,824)
Prepayments – non-current	10,458	(2,704)
Cash generated from/(used in) in operations	9,334	(216,019)

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities

This section sets out an analysis of changes in liabilities arising from financing activities for the year ended 31 December 2018.

Net cash	2018 HK$'000
Cash and cash equivalents	93,008
Bank borrowings	–
Net cash	93,008

	Cash HK$'000	Bank borrowings HK$'000	Total HK$'000
As at 1 January 2018	264,338	(62,000)	202,338
Cash flows	(169,160)	62,000	(107,160)
Foreign exchange adjustments	(2,170)	–	(2,170)
As at 31 December 2018	93,008	–	93,008

32. OPERATING LEASE COMMITMENTS

The Group has entered into a number of operating lease agreements on property, plant and equipment. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018		2017	
	Property HK$'000	Other assets HK$'000	Property HK$'000	Other assets HK$'000
Not later than one year	38,371	624	37,754	741
Later than one year and not later than five years	65,911	568	91,129	742
Later than five years	23,534	–	87,237	–
	127,816	1,192	216,120	1,483

33. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Authorised but not contracted for in respect of property, plant & equipment	7,176	35,914
Contracted but not provided for in respect of property, plant & equipment	1,963	35,406
	9,139	71,320

34. CONTINGENCIES

Contingent liabilities

	2018 HK$'000	2017 HK$'000
Performance bonds issued by banks	300	15,220

35. RELATED PARTY TRANSACTIONS

(a) Subsidiaries

Interests in subsidiaries are set out in note 16.

(b) Transactions with other related parties

The Mikado Private Trust Company Limited ("MPTCL") is a major substantial shareholder of the Company and MPTCL is also deemed to be interested in more than 30% of the voting power of The Hongkong and Shanghai Hotels, Limited.

Sale of goods and services

	2018 HK$'000	2017 HK$'000
Sale of carpets and services:		
The Hongkong and Shanghai Hotels, Limited ("HSH")[1]	5,700	7,013

Note:

1 By virtue of the fact that HSH is under common control with the Company, the transactions of the Company's subsidiaries with HSH and its subsidiaries are related party transactions.

35. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year-end balances arising from sale of goods and services

	2018 HK$'000	2017 HK$'000
Trade receivables from related party:		
HSH	–	57

(d) Key management compensation

Key management includes Chairman, Executive Director and senior management. The compensation paid or payable to key management for employee service is shown below:

	2018 HK$'000	2017 HK$'000
Salaries & other short-term employee benefits	23,086	40,583

36. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

As at 31 December

	Note	2018 HK$'000	2017 HK$'000
Assets			
Non-current assets			
Investments in subsidiaries	16	**367,787**	367,787
Current assets			
Other receivables		**175**	6
Amounts due from subsidiaries		**321,768**	317,143
Cash & cash equivalents		**585**	2,846
		322,528	319,995
Total assets		**690,315**	687,782
Equity			
Equity attributable to owners of the Company			
Share capital	24	**21,219**	21,219
Reserves		**277,467**	277,467
Retained earnings:			
Proposed final dividend		**–**	–
Others		**312,154**	308,464
Total equity		**610,840**	607,150
Liabilities			
Current liabilities			
Amounts due to subsidiaries		**77,500**	77,500
Other payables		**1,975**	3,132
Total liabilities		**79,475**	80,632
Total equity & liabilities		**690,315**	687,782
Net current assets		**243,053**	239,363
Total assets less current liabilities		**610,840**	607,150

The Statement of financial position was approved by the Board of Directors on 22 March 2019 and were signed on its behalf:

Nicholas T. J. Colfer
Chairman

Mark S. Worgan
Executive Director

36. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

	Share premium HK$'000	Contributed Surplus HK$'000	Retained earnings HK$'000
At 1 January 2017	189,699	87,768	150,674
Profit for the year	–	–	524,875
Dividend for 2016	–	–	(6,366)
Special dividend for 2017	–	–	(360,719)
At 31 December 2017	189,699	87,768	308,464
At 1 January 2018	**189,699**	**87,768**	**308,464**
Profit for the year	**–**	**–**	**3,631**
Dividend forfeited	**–**	**–**	**59**
At 31 December 2018	**189,699**	**87,768**	**312,154**

37. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each director of the Company was set out below:

	Emoluments paid or receivable in respect of a person's services as a director of the Company:						
	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Housing allowance HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2018							
Nicholas T. J. Colfer	120	–	–	–	–	–	120
Nelson K. F. Leong	110	–	–	–	–	–	110
David C. L. Tong	150	–	–	–	–	–	150
John J. Ying	170	–	–	–	–	–	170
Andrew C. W. Brandler	100	–	–	–	–	–	100
Yvette Y. H. Fung	150	–	–	–	–	–	150
Roderic N. A. Sage	200	–	–	–	–	–	200
Lincoln C. K. Yung	110	–	–	–	–	–	110
Aubrey K. S. Li	160	–	–	–	–	–	160
Daniel G. Green[1]	97	–	–	–	–	–	97
Mark S. Worgan[2]	–	3,000	1,750	1,200	360	700	7,010
	1,367	3,000	1,750	1,200	360	700	8,377

Note:

1 Mr. Daniel G. Green was appointed as Independent Non-Executive Director of the Company on 17 January 2018.

2 Mr. Mark. S. Worgan was appointed as Executive Director of the Company on 17 January 2018.

37. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (Continued)

	Emoluments paid or receivable in respect of a person's services as a director of the Company:						
	Fees	Salaries	Discretionary bonuses	Housing allowance	Employer's contribution to a retirement benefit scheme	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2017							
Nicholas T. J. Colfer	120	–	–	–	–	–	120
Nelson K. F. Leong	110	–	–	–	–	–	110
David C. L. Tong	150	–	–	–	–	–	150
John J. Ying	170	–	–	–	–	–	170
Andrew C. W. Brandler	100	–	–	–	–	–	100
Yvette Y. H. Fung	150	–	–	–	–	–	150
Roderic N. A. Sage	200	–	–	–	–	–	200
Lincoln C. K. Yung	110	–	–	–	–	–	110
Aubrey K. S. Li	160	–	–	–	–	–	160
James H. Kaplan[1]	–	5,862	11,625	–	124	390	18,001
	1,270	5,862	11,625	–	124	390	19,271

Note:

1 Mr. James H. Kaplan retired as Executive Director of the Company with effect from 1 January 2018.

(b) Directors' retirement benefits and termination benefits

The director did not receive any retirement or termination benefits for the year ended 31 December 2018 (2017: Nil).

(c) Consideration provided to third parties for making available directors' services

The Company did not pay any consideration to any third party for making available director's services for the year ended 31 December 2018 (2017: Nil).

37. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(d) Information about loans, quasi-loans and other dealings in favour of the director controlled bodies corporate by and connected entities with such director

No loans, quasi-loans and other dealings were made available in favour of the directors, controlled bodies corporate by and connected entities with such director subsisted at the end of the year or at any time during the year 31 December 2018 (2017: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which the director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year 31 December 2018 (2017: Nil).

Senior Management

Name	Position held	Age[1]	Joined Group	Business experience
Ms. Mersine P. Defterios[3]	Global Managing Director, Aviation, Yacht & Boutique store	50	2011	Sales & business development
Mr. Shawn D. Hiltz[2]	Chief Strategy Officer	51	2018	Business strategy
Mr. Chi Sing Alex Lung	Chief Financial Officer and Company Secretary	47	2016	Financial management
Mr. Mason W. Morjikian	Managing Director – Americas	53	2012	Sales & business development
Ms. Catherine Vergez	Global Strategic Director	56	2000	Sales & business development
Ms. Yuk Sim Celia Yeung	Managing Director – Asia	50	2008	Sales & business development

Notes:
1 Age as of 22 March 2019
2 Senior management since 2018
3 Senior management left during the year

Remuneration to senior management

The remuneration to senior management fell within the following band

	No. of Individuals	
	2018	2017
Remuneration bands		
HK$500,001 – HK$1,000,000	**1**	–
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**1**	–
HK$2,000,001 – HK$2,500,000	**1**	3
HK$2,500,001 – HK$3,000,000	**2**	1
HK$3,000,001 – HK$3,500,000	**–**	1
HK$3,500,001 – HK$4,000,000	**1**	–
HK$4,000,001 – HK$4,500,000	**–**	1
HK$4,500,001 – HK$5,000,000	**–**	–
HK$5,000,001 – HK$5,500,000	**–**	–
HK$5,500,001 – HK$6,000,000	**–**	1

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Company Secretary
Chi Sing Alex Lung

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