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TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 146)



ANNOUNCEMENT OF RESULTS FOR THE EIGHTEEN MONTHS ENDED 30 JUNE 2020

The board of directors (the “Board”) of Tai Ping Carpets International Limited (the “Company”) announced on 19 August 2019 that the financial year end date of the Company will change from 31 December to 30 June.

This change aligns the Company’s financial year end date with that of its major subsidiaries to support efficiency in the preparation of the consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”).

As a consequence of the change, the Board hereby announce the consolidated results of the Company and the Group for the eighteen months ended 30 June 2020, together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED INCOME STATEMENT

		For the eighteen months ended 30 June 2020	For the year ended 31 December 2018#
	<i>Note</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Revenues		738,407	540,932
Cost of sales	5	<u>(340,104)</u>	<u>(247,081)</u>
Gross profit		398,303	293,851
Distribution costs	5	(242,726)	(186,646)
Administrative expenses	5	(207,630)	(158,484)
Gain on disposal of non-current asset held for sale	6	11,089	–
Other gains – net	7	<u>5,875</u>	<u>8,351</u>
Operating loss		<u>(35,089)</u>	<u>(42,928)</u>

		For the eighteen months ended 30 June 2020	For the year ended 31 December 2018 [#]
	<i>Note</i>	HK\$'000	HK\$'000
Finance (costs)/income – net		<u>(5,170)</u>	<u>464</u>
Loss before income tax		(40,259)	(42,464)
Income tax credit/(expense)	8	<u>1,085</u>	<u>(947)</u>
Loss for the period/year		<u>(39,174)</u>	<u>(43,411)</u>
Loss attributable to:			
Owners of the Company		(37,105)	(34,136)
Non-controlling interests		<u>(2,069)</u>	<u>(9,275)</u>
		<u>(39,174)</u>	<u>(43,411)</u>
Losses per share attributable to the owners of the Company during the period/year (expressed in HK cents per share)			
Basic/diluted	9	<u>(17.49)</u>	<u>(16.09)</u>

[#] The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3(a).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the eighteen months ended 30 June 2020 HK\$'000	For the year ended 31 December 2018# HK\$'000
Loss for the period/year	(39,174)	(43,411)
Other comprehensive income:		
Item that will not be reclassified subsequently to profit or loss		
Remeasurement of retirement benefit obligations	(612)	(329)
Items that have been or may be reclassified subsequently to profit or loss		
Release of reserves attributable to the disposal of non-current asset held for sale	(14,743)	–
Currency translation differences	<u>(17,465)</u>	<u>(12,734)</u>
Other comprehensive loss for the period/year, net of tax	<u>(32,820)</u>	<u>(13,063)</u>
Total comprehensive loss for the period/year	<u>(71,994)</u>	<u>(56,474)</u>
Attributable to:		
Owners of the Company	(69,141)	(45,729)
Non-controlling interests	<u>(2,853)</u>	<u>(10,745)</u>
	<u>(71,994)</u>	<u>(56,474)</u>

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3(a).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020	31 December 2018#
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
Non-current assets			
Land use rights		25,148	27,138
Property, plant & equipment		332,747	267,574
Construction in progress		640	107,893
Intangible assets		19,798	15,064
Right-of-use assets		107,195	–
Prepayments	10	1,369	5,816
Other receivable	6	4,887	–
Lease receivables		<u>1,083</u>	<u>–</u>
		<u>492,867</u>	<u>423,485</u>
Current assets			
Inventories		68,557	83,646
Trade & other receivables	10	70,931	111,936
Lease receivables		2,186	–
Current income tax recoverable		6,228	3,787
Pledged bank deposit		402	393
Cash & cash equivalents		<u>136,036</u>	<u>93,008</u>
		<u>284,340</u>	<u>292,770</u>
Non-current asset held for sale		<u>–</u>	<u>17,192</u>
		<u>284,340</u>	<u>309,962</u>
Total assets		<u><u>777,207</u></u>	<u><u>733,447</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	30 June 2020	31 December 2018 [#]
		HK\$'000	HK\$'000
Equity			
Equity attributable to owners of the Company			
Share capital		21,219	21,219
Reserves		244,275	275,699
Retained earnings:			
Proposed dividend		–	–
Others		104,011	141,669
		<u>369,505</u>	<u>438,587</u>
Non-controlling interests		<u>17,415</u>	<u>20,268</u>
Total equity		<u>386,920</u>	<u>458,855</u>
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		2,065	2,225
Retirement benefit obligations		3,719	3,460
Lease liabilities		91,708	–
		<u>97,492</u>	<u>5,685</u>
Current liabilities			
Trade & other payables	<i>11</i>	136,982	183,687
Contract liabilities – Deposits received in advance	<i>12</i>	97,047	83,164
Derivative financial instruments		93	251
Current income tax liabilities		2,284	1,805
Bank borrowings – unsecured		31,040	–
Lease liabilities		25,349	–
		<u>292,795</u>	<u>268,907</u>
Total liabilities		<u>390,287</u>	<u>274,592</u>
Total equity & liabilities		<u>777,207</u>	<u>733,447</u>
Net current (liabilities)/assets		<u>(8,455)</u>	<u>41,055</u>
Total assets less current liabilities		<u>484,412</u>	<u>464,540</u>

[#] The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3(a).

1. GENERAL INFORMATION

On 19 August 2019, the board of directors (the “Board”) of the Company resolved to change the financial year end date of the Company from 31 December to 30 June. The change is to align the Company’s financial year end date with that of certain major subsidiaries of the Company, in order to facilitate the preparation of the consolidated financial statements of the Group. Accordingly, the current financial period covers an eighteen months period from 1 January 2019 to 30 June 2020 with the comparative financial period from 1 January 2018 to 31 December 2018. Consequently, the comparable amount of the consolidated income statement, the consolidated statement of comprehensive income and related notes are not comparable in so far as they relate to a shorter period than the current period.

2. 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.

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

3. CHANGES IN ACCOUNTING STANDARDS

(a) New and amended standards mandatory for the first time for the financial period beginning 1 January 2019

HKFRS 16 “Leases” (new standard and amendment)

HKFRS 16 replaces HKAS 17 “Leases” and the related interpretations, HK(IFRIC) 4 “Determining whether an arrangement contains a lease”, HK(SIC) 15 “Operating leases – incentives”, and HK(SIC) 27 “Evaluating the substance of transactions involving the legal form of a lease”. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 from 1 January 2019. The Group has elected to use the modified retrospective approach to measure the right-of-use assets at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Therefore, the adoption of HKFRS 16 does not result in an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Upon adoption of HKFRS 16 on 1 January 2019, the Group recognised right-of-use assets of HK\$100 million and current and non-current lease liabilities amounting to HK\$34 million and HK\$80 million, respectively.

(b) New and amended standards and interpretations which have been issued but are not effective for the financial period ended 30 June 2020 and have not been early adopted

The Group has not early adopted the following amendments that may be relevant to the Group. These amendments have been issued but not yet effective:

HKFRS 3	Business Combinations (amendments) ¹
HKAS 1	Presentation of Financial Statements (amendments) ¹
HKFRS 8	Accounting Policies, Changes in Account Estimates and Errors (amendments) ¹

Note:

¹ Effective for the Group from 1 July 2020

4. REVENUES AND SEGMENT INFORMATION

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

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

The segment information provided to management for the reportable segments for the eighteen months ended 30 June 2020 and year ended 31 December 2018 are as follows:

For the eighteen months ended 30 June 2020

	Asia HK\$'000	EMEA HK\$'000	America HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenue from external customers	147,562	296,344	294,501	–	738,407
Cost of production ¹	<u>(68,479)</u>	<u>(136,434)</u>	<u>(130,123)</u>	–	<u>(335,036)</u>
Segment gross margin	<u>79,083</u>	<u>159,910</u>	<u>164,378</u>	<u>–</u>	<u>403,371</u>
Segment results	17,468	2,101	(8,185)	–	11,384
Gain on disposal of non-current asset held for sale					11,089
Unallocated expenses ²					<u>(57,562)</u>
Operating loss					(35,089)
Finance costs – net					<u>(5,170)</u>
Loss before income tax					(40,259)
Income tax credit					<u>1,085</u>
Loss for the period					<u>(39,174)</u>
Non-current assets	347,769	76,964	62,606	5,528	492,867
Current assets	<u>127,467</u>	<u>82,800</u>	<u>67,701</u>	<u>6,372</u>	<u>284,340</u>
Total assets					<u>777,207</u>
Segment liabilities	<u>99,571</u>	<u>148,227</u>	<u>102,802</u>	<u>39,687</u>	<u>390,287</u>
Capital expenditure	(7,490)	(3,196)	(6,344)	–	(17,030)
Amortisation of intangible assets	(147)	–	(194)	(6,641)	(6,982)
Depreciation of property, plant & equipment	(23,747)	(4,013)	(6,304)	(929)	(34,993)
Depreciation of other right-of-use assets	(11,746)	(18,612)	(16,554)	–	(46,912)
Amortisation of land use rights	(911)	–	–	–	(911)
Allowance for impairment of inventories – net	(3,390)	(977)	(430)	–	(4,797)
Inventories written off	(4,556)	(1,916)	(106)	–	(6,578)
(Allowance for)/recovery of impairment of trade receivables – net	(223)	1,006	(371)	–	412
Property, plant & equipment written off	<u>(1,055)</u>	<u>–</u>	<u>(43)</u>	<u>–</u>	<u>(1,098)</u>

For the year ended 31 December 2018

	Asia HK\$'000	EMEA HK\$'000	America HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenue from external customers	96,181	202,042	242,709	–	540,932
Cost of production ¹	<u>(47,555)</u>	<u>(96,335)</u>	<u>(114,704)</u>	<u>–</u>	<u>(258,594)</u>
Segment gross margin	<u>48,626</u>	<u>105,707</u>	<u>128,005</u>	<u>–</u>	<u>282,338</u>
Segment results	13,155	4,394	(1,349)	–	16,200
Unallocated expenses ²					<u>(59,128)</u>
Operating loss					(42,928)
Finance income – net					<u>464</u>
Loss before income tax					(42,464)
Income tax expense					<u>(947)</u>
Loss for the year					<u>(43,411)</u>
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	<u>–</u>	<u>–</u>	<u>–</u>	<u>17,192</u>	<u>17,192</u>
Total assets					<u>733,447</u>
Segment liabilities	<u>90,687</u>	<u>81,569</u>	<u>55,507</u>	<u>46,829</u>	<u>274,592</u>
Capital expenditure	(54,329)	(1,558)	(2,456)	–	(58,343)
Amortisation of intangible assets	(4,203)	–	(130)	–	(4,333)
Depreciation of property, plant & equipment	(13,687)	(2,750)	(4,514)	(66)	(21,017)
Amortisation of land use rights	(640)	–	–	–	(640)
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	<u>(1,033)</u>	<u>(9)</u>	<u>–</u>	<u>(5)</u>	<u>(1,047)</u>

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.

³ The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3(a).

5. EXPENSES BY NATURE

	For the eighteen months ended 30 June 2020 HK\$'000	For the year ended 31 December 2018# HK\$'000
Raw materials & consumables used	72,719	61,496
Amortisation of intangible assets	6,982	4,333
Depreciation of property, plant & equipment	34,993	21,017
Depreciation/amortisation of right-of-use assets by class of underlay assets		
– Buildings and properties	46,471	–
– Other assets	441	–
– Land use rights	911	640
Employee benefit expenses	273,552	202,420
Expenses relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	1,889	–
Variable lease payments not included in the measurement of lease liabilities	17	–
Operating lease charges in respect of		
– Land & buildings	–	35,532
– Other assets	–	15
Allowance for/(recovery of) impairment of inventories – net	4,797	(4,351)
Inventories directly written off	6,578	411
(Recovery of)/allowance for impairment of trade receivables – net	(412)	1,735
Bad debts directly written off	82	402
Auditor's remuneration		
– Audit services	2,617	2,128
– Non-audit services	1,029	78
Legal and professional fees	<u>15,117</u>	<u>14,335</u>

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3(a).

6. GAIN ON DISPOSAL OF NON-CURRENT ASSET HELD FOR SALE

On 13 December 2013, the Directors approved the disposal of the Group's investment in 33% equity 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.

In February 2019 PCMC entered into a sale and purchase agreement to dispose of its principal property asset in Manila (the "disposal"), and the transaction was completed in May 2019. In December 2019 PCMC distributed the first installment of the proceeds after the transaction was finalised. The balance of the proceeds should be distributed after PCMC has received all tax clearances for the disposal. As the transaction has been substantially concluded, the Group recorded its share of the gain on disposal of HK\$11,089,000 in this financial period. The balance of the outstanding proceeds of HK\$4,887,000 was recorded as long-term other receivable as at 30 June 2020.

The gain on disposal of non-current asset held for sale is as follows:

	For the eighteen months ended 30 June 2020 HK\$'000
Consideration of the disposal	34,256
Less: Direct expenses in relation to the disposal	<u>(20,718)</u>
Net consideration	13,538
Less: Carrying value of the non-current asset held for sale	(17,192)
Add: Release of reserves attributable to the disposal of non-current asset held for sale	<u>14,743</u>
Gain on disposal	<u><u>11,089</u></u>

7. OTHER GAINS – NET

	For the eighteen months ended 30 June 2020 HK\$'000	For the year ended 31 December 2018# HK\$'000
Gain from derecognition of right-of-use assets	1,263	–
Gain on change in fair value of derivative financial instruments	428	493
Net foreign exchange gain	2,255	297
Refund of unvested benefits of defined contribution plan	–	148
Property, plant & equipment written off	(1,098)	(1,047)
Loss on disposal of property, plant and equipment	(681)	–
Others	<u>3,708</u>	<u>8,460</u>
	<u><u>5,875</u></u>	<u><u>8,351</u></u>

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3(a).

8. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (for the year ended 31 December 2018: 16.5%) on the estimated assessable profits for the eighteen months ended 30 June 2020. Taxation on overseas profits has been calculated on the estimated assessable profits for the eighteen months ended 30 June 2020 and year ended 31 December 2018 at the rates of taxation prevailing in the countries in which the Group operates.

	For the eighteen months ended 30 June 2020 HK\$'000	For the year ended 31 December 2018 HK\$'000
Current income tax		
Hong Kong	333	1,732
Overseas	1,312	2,984
Tax refund/over-provision in prior years	(2,570)	(2,595)
Deferred income tax credit	<u>(160)</u>	<u>(1,174)</u>
Income tax (credit)/expense	<u><u>(1,085)</u></u>	<u><u>947</u></u>

9. LOSSES PER SHARE

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

	For the eighteen months ended 30 June 2020	For the year ended 31 December 2018
Loss attributable to owners of the Company (HK\$'000)	<u>(37,105)</u>	<u>(34,136)</u>
Weighted average number of ordinary shares in issue (thousands)	<u>212,187</u>	<u>212,187</u>
Basic losses per share (HK cents)	<u><u>(17.49)</u></u>	<u><u>(16.09)</u></u>

The Group had no dilutive potential shares outstanding during the eighteen months ended 30 June 2020 and the year ended 31 December 2018.

10. TRADE & OTHER RECEIVABLES

	30 June 2020 HK\$'000	31 December 2018 HK\$'000
Trade receivables	46,637	71,986
Less: allowance for impairment of trade receivables	<u>(5,005)</u>	<u>(9,448)</u>
Trade receivables – net	41,632	62,538
Prepayments	9,228	11,934
Value added tax receivables	3,001	23,630
Rental deposits	6,724	5,645
Other receivables	<u>16,602</u>	<u>14,005</u>
	<u>77,187</u>	<u>117,752</u>
Less: Non-current portion prepayments	(1,369)	(5,816)
Less: Non-current portion other receivable (<i>Note 6</i>)	<u>(4,887)</u>	<u>–</u>
Current portion	<u><u>70,931</u></u>	<u><u>111,936</u></u>

The carrying amounts of trade receivables approximate their fair values as at 30 June 2020 and 31 December 2018. 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 period/year, the ageing analysis of the trade receivables based on invoice date is as follows:

	30 June 2020 <i>HK\$'000</i>	31 December 2018 <i>HK\$'000</i>
0 to 30 days	23,828	36,197
31 to 60 days	6,231	7,070
61 to 90 days	1,030	4,305
91 to 365 days	8,937	14,608
More than 365 days	6,611	9,806
	<u>46,637</u>	<u>71,986</u>

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

	30 June 2020 <i>HK\$'000</i>	31 December 2018 <i>HK\$'000</i>
At 1 January	9,448	8,214
(Recovery of)/allowance for impairment of trade receivables – net	(412)	1,735
Receivables written off as uncollectible	(3,969)	(213)
Currency translation difference	(62)	(288)
	<u>5,005</u>	<u>9,448</u>
At 30 June/31 December	<u>5,005</u>	<u>9,448</u>

11. TRADE & OTHER PAYABLES

	30 June 2020 HK\$'000	31 December 2018 HK\$'000
Trade payables	27,330	42,301
Deposits received in advance	97,047	83,164
Accrual for expenses	59,017	78,082
Other payables	<u>50,635</u>	<u>63,304</u>
	<u>234,029</u>	<u>266,851</u>
Less: Contract liabilities – Deposits received in advance	<u>(97,047)</u>	<u>(83,164)</u>
	<u><u>136,982</u></u>	<u><u>183,687</u></u>

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

	30 June 2020 HK\$'000	31 December 2018 HK\$'000
0 to 30 days	15,615	12,526
31 days to 60 days	6,988	15,278
61 days to 90 days	1,603	5,021
More than 90 days	<u>3,124</u>	<u>9,476</u>
	<u><u>27,330</u></u>	<u><u>42,301</u></u>

12. CONTRACT LIABILITIES – DEPOSITS RECEIVED IN ADVANCE

During the financial period, movement in contract liabilities included increase in deposits received in advance amounting to approximately HK\$495,495,000 (for the year ended 31 December 2018: HK\$323,611,000), net off by a decrease of approximately HK\$481,612,000 (for the year ended 31 December 2018: HK\$327,377,000) as a result of recognising revenues.

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 the customers.

CHAIRMAN'S STATEMENT

Tai Ping is pleased to announce its first annual report after the change in the Company's financial year from December to June. This report covers an 18 months period from 1 January 2019 to 30 June 2020.

During the 18 months period ending 30 June 2020, the total turnover for the Group was HK\$738 million and the operating loss was HK\$35 million. In the preceding financial year of 2018 the total turnover for the Group was HK\$541 million and the operating loss was HK\$43 million.

During the period, management achieved good progress in further reducing operating costs through the streamlining of sales and distribution activities, and also delivered productivity gains in the manufacturing operation. These improvements, coupled with the one-off gain on disposal of the non-current asset held for sale amounting to HK\$11 million, led to a much smaller operating loss of HK\$5 million in calendar year 2019, a significant improvement over the operating loss of HK\$43 million in the previous year.

The first six months of 2020 began well with strategic deployment on track, and foundations in place for growth. Unfortunately, however, the COVID-19 pandemic has interrupted this progress in all regions. In response, Tai Ping's vertical integration has been a key strength. The Company's control of its own manufacturing, design, sales and distribution has allowed for swift damage control. With no dependency on an external supply-chain, production in China was resumed rapidly and without compromise to the health of our employees, while working hours were quickly flexed in all other areas to match the reduced demand. Stringent controls were put in place in all regions and departments to maintain financial liquidity, support day-to-day operations, and minimise losses.

These rapid actions minimised damage in the first half of 2020, but nevertheless the HK\$5 million operating loss of the first 12 months increased to a figure of HK\$35 million in the full 18 months period to 30 June 2020.

In sales and marketing, Tai Ping continued to participate in global design events throughout 2019, introducing a number of outstanding new design collections developed in-house and in collaboration with renowned external partners. Sadly, most of the design events and industry trade shows have been cancelled in 2020, but the Company has launched its new brand and heritage book to much acclaim, and also broadened its online presence through social media. Promotion of its key attributes including design leadership, heritage, craftsmanship, social responsibility and environmental stewardship has driven brand recognition, evidenced by a significant increase in on-line followers.

To reduce business risk and support growth in our United States ("US") market, a carpet manufacturing operation has been established and is now fully operational in Adairsville, Georgia. While its rationale was to serve US customers in the private aviation and residential markets, the facility will also mitigate the effect of increased US import tariffs.

Looking to the year ahead, our priorities begin with the health and safety of our employees, and management are continuing to monitor the human and economic impact of the pandemic. In the event that the outbreak extends through the winter the Company will take whatever steps are necessary to secure its short-term and long-term position.

Global trade frictions between America and China also remain a concern as the former is Tai Ping's biggest market, whereas the latter its primary source of supply. However, Tai Ping's new US manufacturing footprint creates a natural hedge and its expansion, alongside other options, remains under review.

On behalf of all the members of the Board, I would like to thank Tai Ping management and staff who, in a difficult period made worse by COVID-19, have executed significant change in the business to improve its resilience and support future growth. I would also like to thank the Directors for their continued advice and support.

MANAGEMENT DISCUSSION & ANALYSIS

CHANGE OF FINANCIAL YEAR END

The Board of the Company announced on 19 August 2019 that the financial year end of the Company has been changed from 31 December to 30 June.

This change supports efficiency in the preparation of the consolidated financial statements of the Group.

As a consequence of the change, this set of consolidated financial statements covers an 18 months period from the 1 January 2019 to the 30 June 2020, together with the comparative figures for the financial year 2018.

BUSINESS REVIEW

The Group's consolidated turnover for the 18 months period ending 30 June 2020 was HK\$738 million, compared to HK\$541 million for the year 2018.

During the 2019 calendar year, the Group's consolidated turnover was HK\$548 million, up 1% from 2018, while its operating loss of HK\$5 million was HK\$38 million lower than the previous year. The improvement was primarily driven by productivity gains in the Company's manufacturing operation, and lower overheads resulting from business streamlining across sales and distribution activities. Further progress was held back by weak sales in the United States that were linked to the significant increase in import tariffs implemented there at the start of 2019. Non-recurring and one-off costs for the period were HK\$7 million compared to HK\$22 million in 2018. During the period, the Company recorded a one-off gain on disposal of HK\$11 million in relation to the disposal of the asset held for sale.

Throughout the first half of 2020, the Group's business has been heavily impacted by the COVID-19 pandemic. Business operations have been interrupted by government lock downs in most major cities around the world, while the Xiamen manufacturing facility was closed for an extended period following Chinese New Year, leading to shipment delays. The consolidated turnover for the Group for the first half of 2020 was HK\$190 million, a decline of HK\$52 million or 21% compared to the same period in 2019. To mitigate the impact of the outbreak, stringent control of operating expenses has been maintained through a range of actions including the negotiation of temporary rent reductions, staff furloughing and voluntary pay reductions (as permitted under the relevant local regulations). The operating loss for this particularly challenging six months period was HK\$30 million.

In total, the operating loss for the 18 months ending 30 June 2020 was HK\$35 million, compared to an operating loss of HK\$43 million in the twelve months of 2018.

The Group's net loss attributable to the equity holders of the Company for the 18 months period ending 30 June 2020 was HK\$37 million, compared to the HK\$34 million loss reported in year 2018.

Management continues to monitor the Group's performance in the context of the uncertainty around the COVID-19 pandemic. Further cost reductions will be considered should the economic downturn extend for a more prolonged period.

CARPET OPERATIONS

For the 18 months period ending 30 June 2020, turnover in the Group's carpet operations was HK\$716 million, compared to HK\$520 million in the twelve months of 2018.

For calendar year 2019, sales revenue was HK\$531 million, a 2% increase compared to the HK\$520 million in 2018. The increase was greatest in Asia which delivered a growth of 17%, but this was substantially offset by a drop in sales in the United States resulting from the trade dispute between the United States and China. Sales revenue for Europe, the Middle East and Africa ("EMEA") increased by 4% from 2018.

Sales revenue in all regions experienced a decline during the first half of 2020 due to the business interruptions caused by the COVID-19 outbreak.

Overall gross margin for the 18 months period was 54%, matching 2018. Improved gross margins through the first 12 months linked to sales mix and efficiency improvement in manufacturing operations were offset by deterioration during the COVID-19 outbreak driven by the temporary closure of the Xiamen facility and the reduction in sales volume.

Gain on Disposal of Non-Current Asset Held for Sale

The Group's minority shareholding in the Philippine Carpet Manufacturing Corporation ("PCMC") had been a non-current asset held for sale for throughout the previous reporting periods. In February 2019 PCMC entered a sale and purchase agreement to dispose of its principal property asset in Manila, and the transaction was completed in May 2019. In December 2019 PCMC distributed the first installment of the proceeds after the gain on disposal was confirmed. With the transaction substantially concluded, the Company recorded its share of the gain on disposal of HK\$11 million in December 2019. The balance of the proceeds will be distributed by PCMC once all associated taxes have been settled.

Manufacturing Operations

The performance of the Xiamen workshop continues to improve with management remaining focused on delivering further gains in efficiency, productivity and material utilisation. Although the COVID-19 pandemic caused an extended closure after the 2020 Chinese New Year, production was restored shortly after the domestic travel restriction was lifted in March. Resumption was possible through careful adherence to the medical supervision guidelines imposed by the local government, and with the health and safety of employees secured, the factory order book was back to normal within two months.

The Company continued to invest in a new carpet manufacturing operation in the US during the period. Located at its Premier Yarn Dyers (“PYD”) facility in Georgia, the unit is now fully operational supported by the pre-existing yarn dyeing facility. The new manufacturing facility has been established to support long-term growth plans in the local market.

Total headcount for manufacturing operations as of the 30 June 2020 was 580, compared to 663 at the end of 2018.

The termination of the former joint venture at Nanhai in Southern China is progressing. Final closure will be subject to approval from the relevant government authorities.

Human Resources

The number of employees at the end of June 2020 was 740, a reduction of 11% from 829 at the end of 2018, which was the result of business streamlining and productivity improvement at the manufacturing operations.

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 period has been in establishing stability and retaining talent through continued organisational change.

A special taskforce led by the Chief Executive Officer has monitored the COVID-19 outbreak, deploying policies and protocols in all regions to protect the health and safety of employees.

Information Technology

Since the Datatex factory ERP system went live in 2018, the focus has shifted to its integration with the Oracle system used in sales and distribution. The current focus is on establishing improved communication, reporting and business efficiency.

Oracle ERP has also been extended to incorporate the new US manufacturing unit and system enhancement projects are currently being deployed to improve control and support productivity improvement and cost reduction.

Design and Marketing

During this financial period, Tai Ping has continued to maintain its position as a creative leader through design and marketing.

In terms of design, the Company has introduced new collections including *Tides*, inspired by the mystery and magnificence of our planet's most essential and enigmatic force of nature; *Atelier by FANG*, which embodied the ancient art of origami; *Raw*, created in collaboration with the well-known international designer Noé Duchaufour-Lawrance; the *Taxonomy* edition, introduced by Edward Fields in collaboration with well-known lighting designer, Bec Brittain; and *Botanical Rugs*, launched by La Manufacture Cogolin in collaboration with Glithero co-founders and designers Tim Simpson and Sara van Gameren.

On the marketing side, Tai Ping's brand messages of craftsmanship, heritage and responsibility were reinforced with the much acclaimed launch and distribution of its new book combined with a significantly increased focus on social media. Additionally, new products at new price-points and supported by tailored promotional plans were deployed into carefully targeted clients and sectors. The next year will see continued targeting of new opportunities supported by an updated website and increased leverage of digital media and channels.

NON CARPET OPERATIONS

The Company's other operations comprise mainly its US based yarn-dyeing subsidiary, PYD which contributes approximately 3% of total sales. The operation was unprofitable for the period due to a weakening of sales linked to a major customer who decided to take their business back in-house. The new carpet manufacturing facility located at PYD will absorb some of the dyeing capacity that this has released.

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\$136 million (2018: HK\$93 million) and unsecured bank borrowings of HK\$31 million (2018: Nil).

DIVIDEND

No interim dividend was paid during the period (for the year ended 31 December 2018: Nil). The Board has resolved not to declare any dividend for the eighteen months ended 30 June 2020 (for the year ended 31 December 2018: Nil).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' entitlements to attend and vote at the forthcoming annual general meeting of the Company (the "AGM") on Friday, 27 November 2020, the transfer books and the register of members of the Company will be closed from Tuesday, 24 November 2020 to Friday, 27 November 2020 (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, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Monday, 23 November 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

CORPORATE GOVERNANCE

The Board and Management are committed to promoting good corporate governance to safeguard the interests of shareholders. The Company has complied with the applicable code provisions 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 eighteen months ended 30 June 2020 (the "Period"), except the following:

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 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.

Due to other business engagements, Mr. Roderic Noel Anthony Sage, Independent Non-Executive Director and Mr. Li Kwok Sing Aubrey, former Independent Non-Executive Director of the Company, did not attend the AGM held on 17 May 2019.

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 of all the 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 Period.

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 Period, the Audit Committee held five 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 report, risk management and internal control.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The financial figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, and the related notes thereto for the eighteen months ended 30 June 2020 as set out in the preliminary announcement have been reviewed by the Audited Committee and have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the Period and the amounts were found to be in agreement. The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Company and they are not aware of any events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The work performed by KPMG in respect of the preliminary announcement did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.taipingcarpets.com). The 2019/20 Annual Report of the Company containing the information required by the Listing Rules will be dispatched to the shareholders and made available on the same websites in due course.

By order of the Board

Nicholas Timothy James Colfer
Chairman

Mark Stuart Worgan
Chief Executive Officer

Hong Kong, 25 September 2020

The names of Directors as at the date hereof are: Chairman and Non-executive Director – Mr. Nicholas Timothy James Colfer; Chief Executive Officer and Executive Director – Mr. Mark Stuart Worgan; Independent Non-executive Directors – Mrs. Fung Yeh Yi Hao Yvette, Mr. Roderic Noel Anthony Sage, Mr. Yung Lincoln Chu Kuen, Mr. Daniel George Green; Non-executive Directors – Mr. Tong Chi Leung David, Mr. John Jeffrey Ying, Mr. Leong Kwok Fai Nelson, Mr. Andrew Clifford Winawer Brandler.