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TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 146)



INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The Board of Directors (the “Board”) of Tai Ping Carpets International Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2019 (the “period”), together with the comparative figures for the previous corresponding period. The consolidated interim financial statements of the Group are unaudited and the interim report comprising these consolidated financial statements have been reviewed by the Audit Committee of the Company.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Revenue	242,485	245,380
Operating loss	(18,505)	(23,333)
Loss attributable to owners of the Company	(19,834)	(22,366)
Loss per share (HK cents)	(9.35)	(10.54)

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

The Group’s consolidated turnover for the six months ended 30 June 2019 was HK\$242 million, down 1% over the HK\$245 million reported in the first half of 2018.

Operating loss for the six months ended 30 June 2019 was HK\$19 million, an improvement of HK\$4 million compared to the HK\$23 million incurred for the same period in 2018. This was driven by business recovery in most of our operating locations combined with lower overheads following business streamlining. Non-recurring and one-off costs for first half of 2019 were HK\$3 million, compared to HK\$4 million in 2018.

The Group's loss attributable to the equity holders of the Company was HK\$20 million, compared to HK\$22 million for the same period last year.

CARPET OPERATIONS

Sales revenue in carpet operations for the first half of 2019 was HK\$234 million, a 2% increase compared to the HK\$230 million reported for the same period last year. The increase was greatest in Asia which delivered growth of 20% but this was substantially offset by the drop in sales in the US where some customers have deferred purchasing decisions following the uncertainty around import tariffs and trade tensions between the US and China. Sales revenue for Europe, the Middle East and Africa ("EMEA") increased by 3% from the same period last year.

Gross profit margins across almost all business segments and regions showed encouraging progress in the first half of 2019.

Manufacturing Operations

Output from the new Artisan workshop in Xiamen continues to improve as employee skill levels develop. With output close to plan, management's focus is on delivering continuous improvement in efficiency, productivity and material utilisation.

NON-CARPET OPERATIONS

Other operations comprise mainly Tai Ping's US based yarn-dyeing subsidiary, Premier Yarn Dyers, contributing approximately 3% of total sales. The operation was unprofitable for the first half of the year due to the substantial reduction in sales to a key customer who has discontinued its outsourcing arrangement and taken this business back in-house.

OUTLOOK

We enter the second half of 2019 with an order book that is slightly better than that for the first half of the year, and normal seasonality means that the second six months is typically stronger. It is expected that trading and performance will start to catch up, and we also expect non-recurring and one-off costs to continue to reduce.

The trade climate remains a significant concern as America is Tai Ping's biggest market while its manufacturing is located in China. The higher tariffs will continue to affect business but mitigating measures are being taken, and the Group also continues to explore new markets.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the period (2018: Nil).

CAPITAL EXPENDITURE

Capital expenditure in the form of property, plant and equipment, land use rights and construction in progress incurred by the Group totalled HK\$6 million during the six months ended 30 June 2019 (2018: HK\$33 million). As at 30 June 2019, the aggregate net book value of the Group's property, plant and equipment, land use rights, construction in progress and intangible assets amounted to HK\$407 million (31 December 2018: HK\$417 million).

LIQUIDITY & FINANCIAL RESOURCES

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

As at 30 June 2019, the Group had total cash and cash equivalents including short-term fixed deposits (with maturity within 12 months) amounting to HK\$60 million (31 December 2018: HK\$93 million) and had no unsecured bank borrowings (31 December 2018: Nil).

EXPOSURE TO FOREIGN EXCHANGE RISKS

The Group has overseas operations in the US, Europe and China. The Group treats its investments in these foreign operations as permanent equity, so exchange differences from translating the net investments in these foreign operations do not affect cash flows and are dealt with in the reserves.

The Group's sales are denominated primarily in US dollars and Euro, and to a lesser extent in a variety of other currencies.

HUMAN RESOURCES & REMUNERATION POLICIES

The total number of employees at end of June 2019 was 798 compared to 829 at the end of 2018.

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 maintaining stability and retaining talent through a period of considerable organisational change.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group's total contingent liabilities amounted to HK\$0.3 million (31 December 2018: HK\$0.3 million).

ASSET HELD FOR SALE

Asset 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 and the transaction was completed in May 2019. Following this sale, PCMC will be closed and the proceeds distributed to shareholders, which is expected to happen within the next 12 months.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2019	2018
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
			<i>(Note 2)</i>
Revenue	3	242,485	245,380
Cost of sales		<u>(108,644)</u>	<u>(109,532)</u>
Gross profit		133,841	135,848
Distribution costs	4	(86,846)	(88,496)
Administrative expenses	4	(66,543)	(84,470)
Other gains – net	5	<u>1,043</u>	<u>13,785</u>
Operating loss		<u>(18,505)</u>	<u>(23,333)</u>
Finance income		20	423
Finance costs		<u>(2,071)</u>	<u>(6)</u>
Finance (costs)/income – net	6	<u>(2,051)</u>	<u>417</u>
Loss before income tax		(20,556)	(22,916)
Income tax expense	7	<u>(14)</u>	<u>(2,418)</u>
Loss for the period		<u>(20,570)</u>	<u>(25,334)</u>
Loss attributable to:			
Owners of the Company		(19,834)	(22,366)
Non-controlling interests		<u>(736)</u>	<u>(2,968)</u>
		<u>(20,570)</u>	<u>(25,334)</u>
Loss per share attributable to the owners of the Company during the period (expressed in HK cents per share)			
Basic/diluted	9	<u>(9.35)</u>	<u>(10.54)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
		(Note 2)
Loss for the period	(20,570)	(25,334)
Other comprehensive income:		
Item that may be reclassified to profit or loss		
Currency translation differences	<u>(2,124)</u>	<u>(1,562)</u>
Other comprehensive loss for the period, net of tax	<u>(2,124)</u>	<u>(1,562)</u>
Total comprehensive loss for the period	<u>(22,694)</u>	<u>(26,896)</u>
Attributable to:		
Owners of the Company	(21,875)	(23,747)
Non-controlling interests	<u>(819)</u>	<u>(3,149)</u>
	<u>(22,694)</u>	<u>(26,896)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 Jun 2019 HK\$'000	Audited 31 Dec 2018 HK\$'000 (Note 2)
	<i>Note</i>		
Assets			
Non-current assets			
Land use rights		26,725	27,138
Property, plant & equipment		259,733	267,574
Construction in progress		108,139	107,893
Intangible assets		12,855	15,064
Prepayments	10	5,351	5,816
Right-of-use assets		83,846	–
Lease receivables		3,285	–
		499,934	423,485
Current assets			
Inventories		91,277	83,646
Trade & other receivables	10	95,481	111,936
Lease receivables		4,102	–
Current income tax assets		3,776	3,787
Pledged bank deposits		393	393
Cash & cash equivalents		60,094	93,008
		255,123	292,770
Non-current asset held for sale		17,192	17,192
		272,315	309,962
Total assets		772,249	733,447

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	Unaudited 30 Jun 2019 HK\$'000	Audited 31 Dec 2018 HK\$'000 <i>(Note 2)</i>
Equity			
Equity attributable to owners of the Company			
Share capital		21,219	21,219
Reserves		273,658	275,699
Retained earnings		<u>121,851</u>	<u>141,669</u>
		416,728	438,587
Non-controlling interests		<u>19,449</u>	<u>20,268</u>
Total equity		<u>436,177</u>	<u>458,855</u>
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		2,225	2,225
Retirement benefit obligations		3,412	3,460
Lease liabilities		<u>62,977</u>	<u>–</u>
		68,614	5,685
Current liabilities			
Trade & other payables	<i>11</i>	135,005	183,687
Contract liabilities – Deposits received in advance		97,428	83,164
Derivative financial instruments		4	251
Current income tax liabilities		1,460	1,805
Lease liabilities		<u>33,561</u>	<u>–</u>
		267,458	268,907
Total liabilities		<u>336,072</u>	<u>274,592</u>
Total equity & liabilities		<u>772,249</u>	<u>733,447</u>
Net current assets		<u>4,857</u>	<u>41,055</u>
Total assets less current liabilities		<u>504,791</u>	<u>464,540</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The condensed consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss, which are carried at fair value.

2. CHANGES IN ACCOUNTING STANDARDS

Except as described below, accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2018, as described in those annual consolidated financial statements.

The HKICPA has issued a new HKFRS, HKFRS 16 “Leases” and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16 “Leases”, none of the developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this consolidated interim financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 “Leases”

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.

3. 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 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 the effects of income/expenditure which are considered relevant in assessing the segment’s performance.

For the six months ended 30 June 2019

	Asia <i>HK\$’000</i>	EMEA <i>HK\$’000</i>	America <i>HK\$’000</i>	Unallocated <i>HK\$’000</i>	Group <i>HK\$’000</i>
Revenue from external customers	46,890	102,430	93,165	–	242,485
Cost of production ¹	<u>(17,090)</u>	<u>(48,136)</u>	<u>(42,689)</u>	<u>–</u>	<u>(107,915)</u>
Segment gross margin	<u>29,800</u>	<u>54,294</u>	<u>50,476</u>	<u>–</u>	<u>134,570</u>
Segment results	9,966	368	(10,830)	–	(496)
Unallocated expenses ²					<u>(18,009)</u>
Operating loss					(18,505)
Finance income					20
Finance costs					<u>(2,071)</u>
Loss before income tax					(20,556)
Income tax expense					<u>(14)</u>
Loss for the period					<u>(20,570)</u>
Capital expenditure	(4,273)	(997)	(677)	–	(5,947)
Depreciation of property, plant & equipment	(6,376)	(1,356)	(2,076)	(2,331)	(12,139)
Amortisation of land use rights	(312)	–	–	–	(312)
Amortisation of intangible assets	(2,102)	–	(65)	–	(2,167)
Recovery of impairment of trade receivables	<u>–</u>	<u>1,696</u>	<u>99</u>	<u>–</u>	<u>1,795</u>

For the six months ended 30 June 2018

	Asia <i>HK\$'000</i>	EMEA <i>HK\$'000</i>	America <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Group <i>HK\$'000</i>
Revenue from external customers	39,083	99,532	106,765	–	245,380
Cost of production ¹	<u>(17,186)</u>	<u>(45,654)</u>	<u>(49,126)</u>	<u>–</u>	<u>(111,966)</u>
Segment gross margin	<u>21,897</u>	<u>53,878</u>	<u>57,639</u>	<u>–</u>	<u>133,414</u>
Segment results	(10,036)	2,687	(3,267)	–	(10,616)
Unallocated expenses ²					<u>(12,717)</u>
Operating loss					(23,333)
Finance income					423
Finance costs					<u>(6)</u>
Loss before income tax					(22,916)
Income tax expense					<u>(2,418)</u>
Loss for the period					<u>(25,334)</u>
Capital expenditure	(31,692)	(428)	(1,300)	–	(33,420)
Depreciation of property, plant & equipment	(7,102)	(1,328)	(2,413)	(35)	(10,878)
Amortisation of land use rights	(331)	–	–	–	(331)
Amortisation of intangible assets	(2,101)	–	(65)	–	(2,166)
Recovery of/(allowance for) impairment of trade receivables, net	<u>–</u>	<u>305</u>	<u>(315)</u>	<u>–</u>	<u>(10)</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 condensed consolidated income statement.

² Unallocated expenses include corporate expenses and income of the Group.

4. EXPENSES BY NATURE

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
		(Note 2)
Depreciation of right-of-use assets	15,792	–
Depreciation of property, plant & equipment	12,139	10,878
Amortisation of land use rights	312	331
Amortisation of intangible assets	2,167	2,166
(Recovery of)/allowance for impairment of trade receivables, net	(1,795)	10
Allowance for impairment of inventories	718	476
Bad debts written off	593	114

5. OTHER GAINS – NET

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
		(Note 2)
Gain from derecognition of right-of-use assets	1,263	–
Net foreign exchange gain/(loss)	400	(2,163)
Gain on change in fair value of derivative financial instruments	45	1,092
Property, plant and equipment written off	–	(686)
Loss on disposal of property, plant & equipment	–	(31)
Government subsidy	–	1,269
IT service income	–	3,306
Income received in relation to disposal of Commercial business	–	5,959
Others	(665)	5,039

6. FINANCE (COSTS)/INCOME – NET

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
		(Note 2)
Finance income – interest income from banks	20	423
Finance costs – interest expenses for leases, net	(2,071)	–
Finance costs – interests on bank loans & overdrafts wholly repayable within five years	–	(6)

Finance (costs)/income – net	<u>(2,051)</u>	<u>417</u>
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7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Current income tax		
PRC & overseas	14	2,115
Under-provision in prior years	<u>—</u>	<u>303</u>
Income tax expense	<u><u>14</u></u>	<u><u>2,418</u></u>

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the period. At the Board meeting held on 22 March 2019, the Board resolved not to declare any dividend for the year end 31 December 2018.

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2019	2018
Loss attributable to owners of the Company (HK\$'000)	<u>(19,834)</u>	<u>(22,366)</u>
Weighted average number of ordinary shares in issue (thousands)	<u>212,187</u>	<u>212,187</u>
Basic loss per share (HK cents)	<u><u>(9.35)</u></u>	<u><u>(10.54)</u></u>

The Group had no dilutive potential shares outstanding during the period ended 30 June 2019 and 2018.

10. TRADE & OTHER RECEIVABLES

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Trade receivables	56,724	71,986
Less: allowance for impairment of trade receivables	<u>(5,634)</u>	<u>(9,448)</u>
Trade receivables – net	51,090	62,538
Prepayments	15,487	11,934
Value added tax receivables	17,268	23,630
Rental deposits	5,545	5,645
Other receivables	<u>11,442</u>	<u>14,005</u>
	<u>100,832</u>	<u>117,752</u>
Less: Non-current portion prepayments	<u>(5,351)</u>	<u>(5,816)</u>
	<u>95,481</u>	<u>111,936</u>

Other receivables included non-current portion of prepayments amounted to HK\$5,351,000 (31 December 2018: HK\$5,816,000).

The carrying amounts of trade receivables approximate their fair values as at 30 June 2019 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, the ageing analysis of the trade receivables based on invoice date is as follows:

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
0 to 30 days	23,732	36,197
31 to 60 days	7,755	7,070
61 to 90 days	3,876	4,305
91 to 365 days	15,798	14,608
More than 365 days	<u>5,563</u>	<u>9,806</u>
	<u>56,724</u>	<u>71,986</u>

11. TRADE & OTHER PAYABLES

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Trade payables	20,939	42,301
Accrued expenses	59,380	78,082
Other payables	54,686	63,304
	135,005	183,687

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

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
0 to 30 days	6,465	12,526
31 days to 60 days	4,211	15,278
61 days to 90 days	1,985	5,021
More than 90 days	8,278	9,476
	20,939	42,301

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”) during the six months ended 30 June 2019, 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 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 the shareholders.

Due to other business engagement, Mr. Roderic N. A. Sage and Mr. Aubrey K. S. Li, Independent Non-Executive Directors of the Company, did not attend the annual general meeting of the Company 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 during the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2019. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the period.

AUDIT COMMITTEE

The Company has set up an Audit Committee on 23 September 2005 and the terms of reference of the 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 controls.

The Audit Committee, together with the management of the Company, has reviewed the accounting principles and practices adopted by the Company as well as the internal control procedures of the Company, and discussed financial reporting matters, including the review of interim financial information for the six months ended 30 June 2019.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the period.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.taipingcarpets.com). The Interim Report 2019 of the Company containing all 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 T. J. Colfer

Chairman

Mark S. Worgan

Chief Executive Officer

Hong Kong, 16 August 2019

As at the date of this announcement, the Directors of the Company are: Chairman and Non-executive Director – Mr. Nicholas T. J. Colfer; Chief Executive Officer and Executive Director – Mr. Mark S. Worgan; Independent Non-executive Directors – Mrs. Yvette Y. H. Fung, Mr. Roderic N. A. Sage, Mr. Lincoln C. K. Yung, Mr. Aubrey K. S. Li, Mr. Daniel G. Green; Non-executive Directors – Mr. David C. L. Tong, Mr. John J. Ying, Mr. Nelson K. F. Leong, Mr. Andrew C. W. Brandler.