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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 31 DECEMBER 2020

The Board of Directors (the “Board”) of Tai Ping Carpets International Limited (the “Company”) hereby presents the interim results announcement and the condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2020 (the “period”), together with the comparative figures for the previous corresponding period. The consolidated interim financial statements of the Group are unaudited while the results announcement comprising these financial statements has been reviewed by the Audit Committee of the Company.

FINANCIAL HIGHLIGHTS

	Six months ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Revenue	220,342	305,233
Operating profit	7,172	13,641
Profit attributable to owners of the Company	5,838	11,377
Profit per share (HK cents)	2.75	5.36

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

The Group’s consolidated turnover for the period was HK\$220 million, down by 28% compared to the HK\$305 million for the same period in 2019. Trading was affected by the on-going COVID-19 outbreak which lasted throughout the year. However, the impact of the pandemic during the reporting period – the second half of 2020 – was less severe than in the first half when turnover was lower at HK\$190 million.

During the period, stringent cost controls were implemented which included negotiation of temporary rent reductions, staff furloughing and voluntary pay reductions. In addition, direct selling and marketing expenditure reduced considerably following the suspension of major trade shows during lockdowns. With cost-saving measures in place, the operating profit for the period was HK\$7 million. The comparative figure in 2019 was HK\$14 million although this benefitted from a one-off income of HK\$11 million relating to the disposal of assets held for sale. The operating result was a significant improvement compared to the operating loss of HK\$30 million recorded in the first half of 2020.

The Group's profit attributable to the equity holders of the Company was HK\$6 million, compared to the profit of HK\$11 million recorded for the same period in 2019.

CARPET OPERATIONS

Sales revenue in carpet operations for the period was HK\$213 million, a 28% decrease compared to the HK\$297 million for the same period in 2019. All three regions recorded double-digit sales decline primarily due to the delays in securing and completing projects caused by government lockdowns in various countries. The uncertainty around international travel also caused customers to temporarily reduce or postpone their purchases.

Gross profit margins across almost all business segments and regions were intact and showed improvements as compared to 2019 due to higher efficiency of the manufacturing operations.

MANUFACTURING OPERATIONS

The performance of the Artisan workshop in Xiamen continues to improve with management remaining focused on delivering further gains in efficiency, productivity and material utilisation. Following the implementation of stringent social distancing guidelines to protect the health and safety of employees, the COVID-19 outbreak had no major impact on manufacturing operations.

The Company's new carpet manufacturing operation in the US, based at its Premier Yarn Dyers ("PYD") facility in Georgia has been fully operational since April 2020. The new manufacturing facility will support long-term growth plans in the US market.

NON-CARPET OPERATIONS

Other operations represent mainly the Company's US based yarn-dyeing subsidiary, PYD, contributing approximately 3% of total sales. Whilst the implementation of streamlining measures further reduced the operating loss in this part of the business, results are expected to improve in future when the spare production capacity is better utilised.

OUTLOOK

The outbreak of the COVID-19 will continue to be the biggest challenge to the recovery of the global economy and Tai Ping's business in the near-term. However, with the global deployment of vaccinations accelerating and societies continuing to adapt to new health and safety norms, we are cautiously hopeful that economic and business activity will gradually return to normal.

Trade frictions between the US and China also remain a concern, particularly as the US is Tai Ping's biggest market while its manufacturing is located in China. Whilst the newly-invested US carpet manufacturing footprint is still in early stages, and will take time to become established, high US tariffs will continue to affect business growth in the US.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the period (2019: Nil).

CAPITAL EXPENDITURE

Capital expenditure in the form of property, plant and equipment and construction in progress incurred by the Group totalled HK\$5 million during the period (2019: HK\$8 million). As at 31 December 2020, the aggregated net book value of the Group's property, plant and equipment, land use rights, construction in progress and intangible assets amounted to HK\$395 million (30 June 2020: HK\$378 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 31 December 2020, the Group had total cash and cash equivalents including short-term fixed deposits (with maturity within 12 months) amounting to HK\$138 million (30 June 2020: HK\$136 million) and had no bank borrowings (30 June 2020: HK\$31 million).

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

Consistent with continuing cost reduction measures, the total number of employees at the end of December 2020 was 670 compared to 740 at the end of June 2020.

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 was maintaining stability and retaining talent through a period of economic uncertainty and continuing organisational change.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group's total contingent liabilities amounted to HK\$8 million (30 June 2020: Nil).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December

		Unaudited	
		2020	2019
	Note	HK\$'000	HK\$'000
Revenue	3	220,342	305,233
Cost of sales		<u>(93,524)</u>	<u>(140,035)</u>
Gross profit		126,818	165,198
Distribution costs	4	(61,768)	(90,188)
Administrative expenses	4	(59,726)	(73,811)
Gain on disposal of non-current asset held for sale	5	–	11,089
Other gains – net	6	<u>1,848</u>	<u>1,353</u>
Operating profit		7,172	13,641
Finance costs – net	7	<u>(1,474)</u>	<u>(1,826)</u>
Profit before income tax		5,698	11,815
Income tax expense	8	<u>(161)</u>	<u>(1,223)</u>
Profit for the period		<u>5,537</u>	<u>10,592</u>
Profit/(loss) attributable to:			
Owners of the Company		5,838	11,377
Non-controlling interests		<u>(301)</u>	<u>(785)</u>
		<u>5,537</u>	<u>10,592</u>
Profit per share attributable to the owners of the Company during the period (expressed in HK cents per share)			
Basic/diluted	10	<u><u>2.75</u></u>	<u><u>5.36</u></u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December

	Unaudited	
	2020	2019
	HK\$'000	HK\$'000
Profit for the period	5,537	10,592
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Release of reserves attributable to the disposal of non-current asset held for sale	–	(14,743)
Currency translation differences	<u>29,942</u>	<u>(7,754)</u>
Other comprehensive income/(loss) for the period – net of tax	<u>29,942</u>	<u>(22,497)</u>
Total comprehensive income/(loss) for the period	<u>35,479</u>	<u>(11,905)</u>
Attributable to:		
Owners of the Company	34,390	(10,798)
Non-controlling interests	<u>1,089</u>	<u>(1,107)</u>
	<u>35,479</u>	<u>(11,905)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 31 Dec 2020	Audited 30 Jun 2020
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
Non-current assets			
Land use rights		26,974	25,148
Property, plant & equipment		347,913	332,747
Construction in progress		–	640
Intangible assets		19,720	19,798
Prepayments	<i>11</i>	2,233	1,369
Other receivable	<i>11</i>	4,887	4,887
Right-of-use assets		102,759	107,195
Lease receivables		<u>276</u>	<u>1,083</u>
		<u>504,762</u>	<u>492,867</u>
Current assets			
Inventories		64,709	68,557
Trade & other receivables	<i>11</i>	52,884	70,931
Lease receivables		1,578	2,186
Derivative financial instruments		332	–
Current income tax assets		3,409	6,228
Pledged bank deposit		404	402
Cash & cash equivalents		<u>137,792</u>	<u>136,036</u>
		<u>261,108</u>	<u>284,340</u>
Total assets		<u><u>765,870</u></u>	<u><u>777,207</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	Unaudited 31 Dec 2020 HK\$'000	Audited 30 Jun 2020 HK\$'000
Equity			
Equity attributable to owners of the Company			
Share capital		21,219	21,219
Reserves		272,827	244,275
Retained earnings		<u>109,849</u>	<u>104,011</u>
		403,895	369,505
Non-controlling interests		<u>18,504</u>	<u>17,415</u>
Total equity		<u>422,399</u>	<u>386,920</u>
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		2,065	2,065
Retirement benefit obligations		4,031	3,719
Lease liabilities		<u>86,872</u>	<u>91,708</u>
		<u>92,968</u>	<u>97,492</u>
Current liabilities			
Trade & other payables	12	124,329	136,982
Contract liabilities – Deposits received in advance		100,230	97,047
Derivative financial instruments		–	93
Current income tax liabilities		2,632	2,284
Bank borrowings – unsecured		–	31,040
Lease liabilities		<u>23,312</u>	<u>25,349</u>
		<u>250,503</u>	<u>292,795</u>
Total liabilities		<u>343,471</u>	<u>390,287</u>
Total equity & liabilities		<u>765,870</u>	<u>777,207</u>
Net current assets/(liabilities)		<u>10,605</u>	<u>(8,455)</u>
Total assets less current liabilities		<u>515,367</u>	<u>484,412</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 31 December 2020 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 eighteen months ended 30 June 2020, 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

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the financial period beginning 1 July 2020 and none of them have impact to the Group. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. 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 assesses the performance in the following geographical areas: Asia, Europe, the Middle East and Africa (“EMEA”) and America.

The Board assesses 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 the effects of gain/loss and income/expenditure which are considered relevant in assessing the segment’s performance.

For the six months ended 31 December 2020

Unaudited	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	41,834	79,245	99,263	–	220,342
Cost of production ¹	<u>(18,022)</u>	<u>(33,072)</u>	<u>(41,752)</u>	–	<u>(92,846)</u>
Segment gross margin	<u>23,812</u>	<u>46,173</u>	<u>57,511</u>	<u>–</u>	<u>127,496</u>
Segment results	5,289	199	11,618	–	17,106
Unallocated expenses ²					<u>(9,934)</u>
Operating profit					7,172
Finance costs – net					<u>(1,474)</u>
Profit before income tax					5,698
Income tax expense					<u>(161)</u>
Profit for the period					<u>5,537</u>
Capital expenditure	(2,087)	(2,497)	(198)	–	(4,782)
Depreciation of right-of-use assets	(3,923)	(5,588)	(5,232)	–	(14,743)
Depreciation of property, plant & equipment	(9,216)	(1,824)	(1,928)	(313)	(13,281)
Amortisation of land use rights	(305)	–	–	–	(305)
Amortisation of intangible assets	–	–	(66)	(2,166)	(2,232)
Recovery of impairment of trade receivables – net	<u>130</u>	<u>474</u>	<u>31</u>	<u>–</u>	<u>635</u>

For the six months ended 31 December 2019

Unaudited	Asia HK\$'000	EMEA HK\$'000	America HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenue from external customers	65,316	107,322	132,595	–	305,233
Cost of production ¹	<u>(35,666)</u>	<u>(46,394)</u>	<u>(54,587)</u>	<u>–</u>	<u>(136,647)</u>
Segment gross margin	<u>29,650</u>	<u>60,928</u>	<u>78,008</u>	<u>–</u>	<u>168,586</u>
Segment results	5,570	4,958	16,523	–	27,051
Unallocated expenses ²					<u>(13,410)</u>
Operating profit					13,641
Finance costs – net					<u>(1,826)</u>
Profit before income tax					11,815
Income tax expense					<u>(1,223)</u>
Profit for the period					<u>10,592</u>
Capital expenditure	(1,669)	(1,985)	(3,932)	–	(7,586)
Depreciation of right-of-use assets	(4,592)	(6,008)	(5,564)	–	(16,164)
Depreciation of property, plant & equipment	(5,501)	(1,619)	(2,128)	(2,334)	(11,582)
Amortisation of land use rights	(301)	–	–	–	(301)
Amortisation of intangible assets	(2,102)	–	(65)	–	(2,167)
(Allowance for)/recovery of impairment of trade receivables – net	<u>(118)</u>	<u>649</u>	<u>(427)</u>	<u>–</u>	<u>104</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 31 December	
	2020	2019
	HK\$'000	HK\$'000
Depreciation of right-of-use assets	14,743	16,164
Depreciation of property, plant & equipment	13,281	11,582
Amortisation of land use rights	305	301
Amortisation of intangible assets	2,232	2,167
Recovery of impairment of trade receivables – net	(635)	(104)
Allowance for impairment of inventories – net	2,021	2,365
Bad debts written off	309	1,034

5. 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 interest 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 gain on disposal 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 Company recorded its share of the gain on disposal of HK\$11 million in December 2019. The balance of the outstanding proceeds of HK\$5 million was recorded as long-term other receivable as at 31 December 2019 and 2020.

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

	Unaudited 2019 HK\$'000
Consideration of the disposal	34,256
Less: Direct expenses in relation to the disposal	<u>(20,718)</u>
Net consideration	13,538
Carrying value of the non-current asset held for sale	(17,192)
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>

6. OTHER GAINS – NET

	Six months ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Net foreign exchange gain	1,154	1,124
Gain/(loss) on change in fair value of derivative financial instruments	678	(142)
Property, plant and equipment written off	(1,273)	(1,169)
Gain/(loss) on disposal of property, plant & equipment	5	(587)
Others	1,284	2,127
	<u>1,848</u>	<u>1,353</u>

7. FINANCE COSTS – NET

	Six months ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Finance income – interest income from banks	289	61
Finance costs – interest expenses for leases – net	(1,629)	(1,791)
Finance costs – interests on bank loans & overdrafts wholly repayable within five years	(134)	(96)
	<u>(1,474)</u>	<u>(1,826)</u>

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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 31 December	
	2020	2019
	HK\$'000	HK\$'000
Current income tax		
Hong Kong	–	148
PRC & overseas	161	870
Deferred income tax expense	–	205
	<u>161</u>	<u>1,223</u>

9. DIVIDEND

The Board does not recommend the payment of an interim dividend for the period. At the Board meeting held on 26 February 2021, the Board resolved not to declare any dividend for the six months ended 31 December 2020 (2019: Nil).

10. PROFIT PER SHARE

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

	Six months ended 31 December	
	2020	2019
Profit attributable to owners of the Company (HK\$'000)	<u>5,838</u>	<u>11,377</u>
Weighted average number of ordinary shares in issue (thousands)	<u>212,187</u>	<u>212,187</u>
Basic profit per share (HK cents)	<u><u>2.75</u></u>	<u><u>5.36</u></u>

The Group had no dilutive potential shares outstanding during the six months ended 31 December 2020 and 2019.

11. TRADE & OTHER RECEIVABLES

	Unaudited	Audited
	31 Dec 2020	30 Jun 2020
	HK\$'000	HK\$'000
Trade receivables	19,418	46,637
Less: allowance for impairment of trade receivables	<u>(4,464)</u>	<u>(5,005)</u>
Trade receivables – net	14,954	41,632
Prepayments	15,664	9,228
Value added tax receivables	1,122	3,001
Rental deposits	8,333	6,724
Other receivables	<u>19,931</u>	<u>16,602</u>
	<u>60,004</u>	<u>77,187</u>
Less: Non-current portion prepayments	(2,233)	(1,369)
Less: Non-current portion other receivable	<u>(4,887)</u>	<u>(4,887)</u>
	<u><u>52,884</u></u>	<u><u>70,931</u></u>

The carrying amounts of trade receivables approximate their fair values as at 31 December 2020 and 30 June 2020. 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:

	Unaudited 31 Dec 2020 <i>HK\$'000</i>	Audited 30 Jun 2020 <i>HK\$'000</i>
0 to 30 days	7,817	23,828
31 to 60 days	3,412	6,231
61 to 90 days	894	1,030
91 to 365 days	3,476	8,937
More than 365 days	<u>3,819</u>	<u>6,611</u>
	<u>19,418</u>	<u>46,637</u>

12. TRADE & OTHER PAYABLES

	Unaudited 31 Dec 2020 <i>HK\$'000</i>	Audited 30 Jun 2020 <i>HK\$'000</i>
Trade payables	15,107	27,330
Accrued expenses	65,386	59,017
Other payables	<u>43,836</u>	<u>50,635</u>
	<u>124,329</u>	<u>136,982</u>

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

	Unaudited 31 Dec 2020 <i>HK\$'000</i>	Audited 30 Jun 2020 <i>HK\$'000</i>
0 to 30 days	11,034	15,615
31 days to 60 days	2,675	6,988
61 days to 90 days	431	1,603
More than 90 days	<u>967</u>	<u>3,124</u>
	<u>15,107</u>	<u>27,330</u>

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 31 December 2020, except 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.

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 31 December 2020.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 31 December 2020. 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 31 December 2020.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2020.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND THE 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 2020/21 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 Timothy James Colfer
Chairman

Mark Stuart Worgan
Chief Executive Officer

Hong Kong, 26 February 2021

As at the date of this announcement, the Directors of the Company 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.