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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 2022

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 2022 (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	
	2022	2021
	HK\$'000	HK\$'000
Revenue	265,148	236,884
Operating profit	4,407	3,294
Profit attributable to owners of the Company	4,031	2,170
Profit per share (HK cents)	1.90	1.02

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

The Group’s consolidated turnover for the period was HK\$265 million, an increase of 12% compared to HK\$237 million for the same period in 2021. Trading has progressively improved since the resumption of business activities post the COVID-19 pandemic.

First half operating profit was HK\$4 million, compared to HK\$3 million for the same period last year. The improvement was driven though higher sales and operating efficiency.

The Group’s profit attributable to the equity holders of the Company was HK\$4 million, compared to HK\$2 million recorded for the same period in 2021.

CARPET OPERATIONS

Sales revenue in carpet operations for the period was HK\$256 million, a 13% increase compared to the HK\$227 million recorded last year. The growth was driven from the US and EMEA regions offset slightly by Asia, which recorded a decline in revenue linked to sporadic COVID outbreaks which caused a slowdown in business activities. Total revenue benefitted from an improvement in the global logistics situation that enabled faster cash conversion.

Gross profit margins across most business segments and regions remained stable compared to last year. Small changes in each region were attributed to changes in their sales mix.

MANUFACTURING OPERATIONS

The performance of the Artisan workshop in Xiamen continued to improve with gains in efficiency, productivity, and material utilisation. Proactive health and safety management, and employee commitment to vaccination, meant that the pandemic had no major impact on the Group's manufacturing operations.

Additional investment is underway to expand the Company's carpet manufacturing operation in the US, based at its Premier Yarn Dyers ("PYD") facility in Georgia. The increase in capacity will support long-term growth plans for the US market.

NON-CARPET OPERATIONS

Other operations mainly represent the Company's US-based yarn-dyeing subsidiary, PYD, contributing to approximately 3% of total sales. The operating results of PYD are gradually improving supported by the new carpet manufacturing operation.

OUTLOOK

The COVID-19 pandemic, the Ukrainian war, devaluing currency, economic sanctions on Russia and Iran, new strategic alignment, and US-China competition are driving a decline in consumer spending that will impact Tai Ping's business in the near term. The tension between the US and China is of particular concern because the US is Tai Ping's biggest market while its manufacturing is in China.

These concerns notwithstanding, the Group expects to maintain its long-term strategic course including the expansion of its US manufacturing base and building a stronger brand presence in both trade and consumer markets. In the near term, investment priorities will be deployed cautiously to ensure the right balance between growth and profitability.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the period (2021: Nil).

CAPITAL EXPENDITURE

Capital expenditure in the form of property, plant and equipment and construction in progress incurred by the Group totaled HK\$4 million during the period (2021: HK\$4 million). As of 31 December 2022, the aggregate net book value of the Group's property, plant and equipment, investment property, land use right, construction in progress and intangible assets amounted to HK\$330 million (30 June 2022: HK\$352 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 of 31 December 2022, the Group had total cash and cash equivalents and short-term fixed deposits (with maturity within 12 months) amounting to HK\$195 million (30 June 2022: HK\$163 million) and had no bank borrowings (30 June 2022: 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 the end of December 2022 was 731, consistent with the 751 at the end of June 2022.

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 and political uncertainty as well as continuing organisational change.

CONTINGENT LIABILITIES

As at 31 December 2022, the Group's total contingent liabilities amounted to HK\$16 million (30 June 2022: HK\$7 million).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December

		Unaudited	
		2022	2021
	Note	HK\$'000	HK\$'000
Revenue	3	265,148	236,884
Cost of sales		<u>(114,133)</u>	<u>(100,687)</u>
Gross profit		151,015	136,197
Distribution costs	4	(80,714)	(74,191)
Administrative expenses	4	(69,037)	(64,431)
Other gains – net	5	<u>3,143</u>	<u>5,719</u>
Operating profit		4,407	3,294
Finance costs – net	6	<u>(64)</u>	<u>(846)</u>
Profit before income tax		4,343	2,448
Income tax expense	7	<u>(312)</u>	<u>(278)</u>
Profit for the period attributable to the owners of the Company		<u>4,031</u>	<u>2,170</u>
Profit per share attributable to the owners of the Company during the period (expressed in HK cents per share)			
Basic/diluted	9	<u>1.90</u>	<u>1.02</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December

	Unaudited	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	4,031	2,170
Other comprehensive income – net of tax:		
Items that may be reclassified to profit or loss		
Currency translation differences	<u>(16,203)</u>	<u>3,779</u>
Total comprehensive (loss)/income for the period attributable to the owners of the Company	<u>(12,172)</u>	<u>5,949</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	Unaudited 31 Dec 2022 <i>HK\$'000</i>	Audited 30 Jun 2022 <i>HK\$'000</i>
Assets			
Non-current assets			
Land use right		24,209	25,600
Property, plant & equipment		215,398	231,629
Investment property		74,425	78,720
Construction in progress		1,772	545
Intangible assets		14,177	15,572
Right-of-use assets		93,182	98,815
Prepayments	10	4,362	3,823
		427,525	454,704
Current assets			
Inventories		58,132	57,656
Trade & other receivables	10	70,024	74,311
Derivative financial instruments		73	1,783
Financial assets measured at fair value through profit or loss		–	32,941
Current income tax assets		3,517	3,183
Pledged bank deposit		411	413
Fixed deposit		1,679	–
Cash & cash equivalents		193,428	163,018
		327,264	333,305
Total assets		754,789	788,009

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	Unaudited 31 Dec 2022 HK\$'000	Audited 30 Jun 2022 HK\$'000
Equity			
Equity attributable to owners of the Company			
Share capital		21,219	21,219
Reserves		247,037	263,240
Retained earnings:			
Proposed final dividend		–	12,731
Others		<u>135,972</u>	<u>131,941</u>
Total equity		<u>404,228</u>	<u>429,131</u>
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		1,539	1,539
Retirement benefit obligations		3,699	3,623
Lease liabilities		<u>75,708</u>	<u>82,452</u>
		<u>80,946</u>	<u>87,614</u>
Current liabilities			
Trade & other payables	<i>11</i>	124,667	138,147
Contract liabilities – Deposits received in advance		116,062	104,836
Current income tax liabilities		3,590	3,518
Lease liabilities		<u>25,296</u>	<u>24,763</u>
		<u>269,615</u>	<u>271,264</u>
Total liabilities		<u>350,561</u>	<u>358,878</u>
Total equity & liabilities		<u>754,789</u>	<u>788,009</u>
Net current assets		<u>57,649</u>	<u>62,041</u>
Total assets less current liabilities		<u>485,174</u>	<u>516,745</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 2022 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 30 June 2022, 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 amendments to HKFRSs that are first effective for the financial period beginning 1 July 2022 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 2022

Unaudited	Asia HK\$'000	EMEA HK\$'000	America HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenue from external customers	60,283	90,454	114,411	–	265,148
Cost of production ¹	<u>(24,396)</u>	<u>(42,744)</u>	<u>(48,185)</u>	<u>–</u>	<u>(115,325)</u>
Segment gross margin	<u>35,887</u>	<u>47,710</u>	<u>66,226</u>	<u>–</u>	<u>149,823</u>
Segment results	16,463	748	6,282	–	23,493
Unallocated expenses ²					<u>(19,086)</u>
Operating profit					4,407
Finance costs – net					<u>(64)</u>
Profit before income tax					4,343
Income tax expense					<u>(312)</u>
Profit for the period					<u>4,031</u>
Capital expenditure	(271)	(379)	(2,922)	–	(3,572)
Depreciation of right-of-use assets	(4,480)	(3,116)	(5,323)	–	(12,919)
Depreciation of property, plant & equipment	(5,446)	(1,687)	(1,583)	(281)	(8,997)
Amortisation of land use right	(303)	–	–	–	(303)
Amortisation of intangible assets	(101)	(35)	(69)	(1,445)	(1,650)
(Allowance for)/recovery of impairment of trade receivables – net	<u>–</u>	<u>(221)</u>	<u>75</u>	<u>–</u>	<u>(146)</u>

For the six months ended 31 December 2021

Unaudited	Asia HK\$'000	EMEA HK\$'000	America HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenue from external customers	65,397	76,502	94,985	–	236,884
Cost of production ¹	<u>(21,174)</u>	<u>(37,923)</u>	<u>(43,495)</u>	<u>–</u>	<u>(102,592)</u>
Segment gross margin	<u>44,223</u>	<u>38,579</u>	<u>51,490</u>	<u>–</u>	<u>134,292</u>
Segment results	23,757	(8,074)	2,247	–	17,930
Unallocated expenses ²					<u>(14,636)</u>
Operating profit					3,294
Finance costs – net					<u>(846)</u>
Profit before income tax					2,448
Income tax expense					<u>(278)</u>
Profit for the period					<u>2,170</u>
Capital expenditure	(3,415)	(336)	(514)	–	(4,265)
Depreciation of right-of-use assets	(4,398)	(3,980)	(5,259)	–	(13,637)
Depreciation of property, plant & equipment	(7,151)	(1,912)	(1,387)	(138)	(10,588)
Amortisation of land use right	(325)	–	–	–	(325)
Amortisation of intangible assets	–	(34)	(68)	(1,662)	(1,764)
(Allowance for)/recovery of impairment of trade receivables – net	<u>(17)</u>	<u>57</u>	<u>(613)</u>	<u>–</u>	<u>(573)</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	
	2022	2021
	HK\$'000	HK\$'000
Depreciation of right-of-use assets	12,919	13,637
Depreciation of property, plant & equipment	8,997	10,588
Depreciation of investment property	948	1,015
Amortisation of land use right	303	325
Amortisation of intangible assets	1,650	1,764
Allowance for impairment of trade receivables – net	146	573
Allowance for impairment of inventories – net	767	665
Bad debts written off	2	347
	<u>2</u>	<u>347</u>

5. OTHER GAINS – NET

	Six months ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Net foreign exchange gain	1,032	980
(Loss)/gain on change in fair value of derivative financial instruments	(435)	2,807
Gain/(loss) on disposal of property, plant & equipment	127	(30)
Rental income	1,768	1,206
Others	651	756
	<u>651</u>	<u>756</u>
	<u>3,143</u>	<u>5,719</u>

6. FINANCE COSTS – NET

	Six months ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Finance income – interest income from banks	1,455	597
Finance costs – interest expenses for leases – net	(1,519)	(1,430)
Finance costs – interests on bank loans & overdrafts wholly repayable within five years	–	(13)
	<u>–</u>	<u>(13)</u>
Finance costs – net	<u>(64)</u>	<u>(846)</u>

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 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	
	2022	2021
	HK\$'000	HK\$'000
Current income tax		
Hong Kong	–	–
PRC & overseas	312	278
Deferred income tax expense	–	–
Income tax expense	<u>312</u>	<u>278</u>

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the period. At the Board meeting held on 15 February 2023, the Board resolved not to declare any dividend for the six months ended 31 December 2022 (2021: Nil).

Distributable reserves of the Company as at 31 December 2022, calculated under the Companies Act 1981 of Bermuda (as amended) amounted to approximately HK\$550,902,000 (2021: HK\$573,336,000).

9. 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	
	2022	2021
Profit attributable to owners of the Company (HK\$'000)	<u>4,031</u>	<u>2,170</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>1.90</u>	<u>1.02</u>

The Group had no dilutive potential shares outstanding during the six months ended 31 December 2022 and 2021.

10. TRADE & OTHER RECEIVABLES

	Unaudited 31 Dec 2022 <i>HK\$'000</i>	Audited 30 Jun 2022 <i>HK\$'000</i>
Trade receivables	46,957	54,284
Less: allowance for impairment of trade receivables	<u>(5,398)</u>	<u>(5,215)</u>
Trade receivables – net	41,559	49,069
Prepayments	13,704	12,669
Value added tax receivables	1,874	985
Rental deposits	4,940	4,002
Other receivables	<u>12,309</u>	<u>11,409</u>
	<u>74,386</u>	<u>78,134</u>
Less: Non-current portion prepayments	<u>(4,362)</u>	<u>(3,823)</u>
	<u>70,024</u>	<u>74,311</u>

The carrying amounts of trade receivables approximate their fair values as at 31 December 2022 and 30 June 2022. 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 2022 <i>HK\$'000</i>	Audited 30 Jun 2022 <i>HK\$'000</i>
0 to 30 days	18,600	28,288
31 to 60 days	7,383	10,361
61 to 90 days	4,398	1,567
91 to 365 days	12,955	10,893
More than 365 days	<u>3,621</u>	<u>3,175</u>
	<u>46,957</u>	<u>54,284</u>

11. TRADE & OTHER PAYABLES

	Unaudited 31 Dec 2022 <i>HK\$'000</i>	Audited 30 Jun 2022 <i>HK\$'000</i>
Trade payables	26,215	31,348
Accrued expenses	57,428	70,778
Other payables	41,024	36,021
	<u>124,667</u>	<u>138,147</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 2022 <i>HK\$'000</i>	Audited 30 Jun 2022 <i>HK\$'000</i>
0 to 30 days	18,917	26,734
31 days to 60 days	4,994	1,001
61 days to 90 days	538	2,752
More than 90 days	1,766	861
	<u>26,215</u>	<u>31,348</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 2022, except the following:

The Company’s Non-Executive Directors are not appointed for specific terms. 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 code provision B.2.2 of the CG Code.

Mr. Roderic Noel Anthony Sage, former Independent Non-Executive Director and chairman of Audit Committee of the Company (retired upon the conclusion of the annual general meeting of the Company (the “AGM”) on 9 December 2022) did not attend the AGM on 9 December 2022 as required by code provisions C.1.6 and F.2.2 of the CG Code due to his other engagement. However, all other members of the Board and the Audit Committee of the Company attended the AGM on 9 December 2022 to answer the questions in the AGM.

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 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 2022.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

The Company has not redeemed any of its shares during the six months ended 31 December 2022. 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 2022.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2022.

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 2022/23 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, 15 February 2023

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; Non-executive Directors – Mr. Tong Chi Leung David, Mr. John Jeffrey Ying, Mr. Leong Kwok Fai Nelson, Mr. Andrew Clifford Winawer Brandler; Independent Non-executive Directors – Mrs. Fung Yeh Yi Hao Yvette, Mr. Yung Lincoln Chu Kuen, Mr. Daniel George Green, Mr. Nicholas James Debnam.