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TAI PING CARPETS INTERNATIONAL LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 146)



ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors of Tai Ping Carpets International Limited (the “Company”) announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2017, together with the comparative figures for 2016, that have been adjusted to reflect the results of the remaining Artisan business, with the Commercial business classified as “Discontinued operation” as stated in Note 7, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

	Note	2017 HK\$'000	2016 HK\$'000
Revenues	3	446,858	531,185
Cost of sales	4	<u>(233,988)</u>	<u>(238,817)</u>
Gross profit		212,870	292,368
Distribution costs	4	(181,720)	(220,116)
Administrative expenses	4	(197,456)	(180,341)
Other gains – net	5	<u>7,671</u>	<u>12,423</u>
Operating loss		(158,635)	(95,666)
Finance income		1,106	634
Finance costs		<u>(790)</u>	<u>(16)</u>
Finance income – net		<u>316</u>	<u>618</u>
Loss before income tax		(158,319)	(95,048)
Income tax expense	6	<u>(2,760)</u>	<u>(21,328)</u>
Loss for the year from continuing operations		(161,079)	(116,376)
Profit for the year from discontinued operation	7	<u>350,823</u>	<u>78,668</u>
Profit/(loss) for the year		<u>189,744</u>	<u>(37,708)</u>
Profit/(loss) attributable to:			
Owners of the Company		194,251	(33,372)
Non-controlling interests		<u>(4,507)</u>	<u>(4,336)</u>
		<u>189,744</u>	<u>(37,708)</u>
(Losses)/earnings per share attributable to the owners of the Company during the year (expressed in HK cents per share)			
Basic/diluted			
Continuing operations	8	(73.71)	(52.68)
Included discontinued operation		<u>91.55</u>	<u>(15.73)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit/(loss) for the year	189,744	(37,708)
Other comprehensive income:		
Items that will not be reclassified subsequent to profit or loss		
Remeasurement of retirement benefit obligations	–	1,432
Deferred income tax on remeasurement of retirement benefit obligations	–	(286)
Items that may be reclassified to profit or loss		
Disposal of discontinued operation	(163)	–
Exchange reserve released upon disposal of business	(71,778)	–
Currency translation differences	48,097	(18,231)
	<u>(23,844)</u>	<u>(17,085)</u>
Other comprehensive loss for the year, net of tax		
	<u>(23,844)</u>	<u>(17,085)</u>
Total comprehensive income/(loss) for the year	<u>165,900</u>	<u>(54,793)</u>
Attributable to:		
Owners of the Company	168,881	(48,088)
Non-controlling interests	(2,981)	(6,705)
	<u>165,900</u>	<u>(54,793)</u>
Total comprehensive (loss)/income for the year attributable to the owners of the Company arises from:		
Continuing operations	(110,634)	(129,866)
Discontinued operation	279,515	81,778
	<u>168,881</u>	<u>(48,088)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	<i>Note</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Assets			
Non-current assets			
Land use rights		29,090	27,785
Property, plant & equipment		256,297	204,992
Construction in progress		96,728	177,951
Intangible assets		19,560	28,707
Deferred income tax assets		–	7,530
Prepayments	9	16,274	13,570
Pledged bank deposits		–	277
		<u>417,949</u>	<u>460,812</u>
Current assets			
Inventories		92,888	217,072
Trade & other receivables	9	121,467	300,535
Derivative financial instruments		1,248	–
Financial assets at fair value through profit or loss		–	89,220
Current income tax assets		1,443	14,460
Pledged bank deposits		687	2,058
Fixed deposits		–	389
Cash & cash equivalents		264,338	143,746
		482,071	767,480
Non-current asset held for sale	11	<u>17,192</u>	<u>17,192</u>
		<u>499,263</u>	<u>784,672</u>
Total assets		<u>917,212</u>	<u>1,245,484</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	<i>Note</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Equity			
Equity attributable to owners of the Company			
Share capital		21,219	21,219
Reserves		286,963	312,982
Retained earnings:			
Proposed final dividend		–	6,366
Others		176,075	341,894
		<u>484,257</u>	<u>682,461</u>
Non-controlling interests		<u>31,013</u>	<u>34,656</u>
Total equity		<u>515,270</u>	<u>717,117</u>
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		3,399	4,816
Retirement benefit obligations		2,925	28,857
Other long-term liabilities		–	1,200
		<u>6,324</u>	<u>34,873</u>
Current liabilities			
Trade & other payables	<i>10</i>	328,787	358,860
Derivative financial instruments		–	108
Current income tax liabilities		4,831	15,315
Bank borrowings – unsecured		62,000	119,211
		<u>395,618</u>	<u>493,494</u>
Total liabilities		<u>401,942</u>	<u>528,367</u>
Total equity & liabilities		<u>917,212</u>	<u>1,245,484</u>
Net current assets		<u>103,645</u>	<u>291,178</u>
Total assets less current liabilities		<u>521,594</u>	<u>751,990</u>

1. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

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

2. CHANGES IN ACCOUNTING STANDARDS

(a) New and amended standards mandatory for the first time for the financial year beginning 1 January 2017 which have no material impact to the Group

HKFRS 12	Annual Improvements 2014-2016 Cycle (amendments)
HKAS 7	Disclosure Initiative (amendments)
HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses (amendments)

(b) New and amended standards and interpretations which have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted

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

Annual Improvements Project HKFRS 1 and HKAS 28	Annual Improvements 2014-2016 Cycle (amendments) ¹
HKFRS 2	Classification and Measurement of Share-based Payment Transactions (amendments) ¹
HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts (amendments) ¹
HKFRS 9	Financial Instruments (new standard) ¹
HKFRS 15	Revenue from Contracts with Customers (new standard) ¹
HKFRS 15	Clarifications to HKFRS 15 (amendments) ¹
HKAS 40	Transfers of Investment Property (amendments) ¹
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration (new interpretation) ¹
HKFRS 9	Prepayment Features with Negative Compensation (amendments) ²
HKFRS 16	Leases (new standard) ²
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments (new interpretation) ²
HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments) ³

Notes:

¹ Effective for the Group for annual period beginning on 1 January 2018*

² Effective for the Group for annual period beginning on 1 January 2019*

³ Effective date is to be determined

* Management is in the process of quantifying the potential effects of these new standards in its consolidated financial statements.

3. TURNOVER AND 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”), North America.

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

The segment information provided to management for the reportable segments for the years ended 31 December 2017 and 2016 are as follows:

For the year ended 31 December 2017

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

For the year ended 31 December 2016

	Asia HK\$'000	EMEA HK\$'000	North America HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenue from external customers	110,802	177,944	242,439	–	531,185
Cost of production ¹	<u>(59,040)</u>	<u>(81,876)</u>	<u>(105,504)</u>	<u>–</u>	<u>(246,420)</u>
Segment gross margin	<u>51,762</u>	<u>96,068</u>	<u>136,935</u>	<u>–</u>	<u>284,765</u>
Segment results	6,070	(22,525)	(34,411)	–	(50,866)
Unallocated expenses ²					<u>(44,800)</u>
Operating loss					(95,666)
Finance income					634
Finance costs					<u>(16)</u>
Loss before income tax					(95,048)
Income tax expense					<u>(21,328)</u>
Loss for the year from continuing operations					(116,376)
Profit for the year from discontinued operation					<u>78,668</u>
Loss for the year					<u>(37,708)</u>
Non-current assets	417,096	18,859	24,202	655	460,812
Current assets	574,069	61,228	115,984	16,199	767,480
Non-current asset held for sale	<u>–</u>	<u>–</u>	<u>–</u>	<u>17,192</u>	<u>17,192</u>
Total assets					<u>1,245,484</u>
Segment liabilities	<u>248,025</u>	<u>61,992</u>	<u>66,695</u>	<u>151,655</u>	<u>528,367</u>
Capital expenditure	(92,286)	(1,179)	(4,007)	(60)	(97,532)
Depreciation of property, plant & equipment	(11,046)	(3,283)	(6,975)	(116)	(21,420)
Amortisation of land use rights	(632)	–	–	–	(632)
Amortisation of intangible assets	(10,243)	–	(129)	–	(10,372)
Allowance for impairment of inventories	(94)	(769)	(647)	–	(1,510)
Recovery of/(allowance for) impairment of trade receivables – net	438	(624)	(884)	–	(1,070)
Gain on disposal of investment property	–	–	–	13,328	13,328
(Loss)/gain on disposal of property, plant & equipment	(56)	155	–	–	99
Property, plant & equipment written off	<u>(77)</u>	<u>–</u>	<u>(150)</u>	<u>–</u>	<u>(227)</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.

4. EXPENSES BY NATURE

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations		
Raw materials & consumables used	79,610	81,943
Amortisation of intangible assets	10,461	10,372
Amortisation of land use rights	620	632
Depreciation of property, plant & equipment	23,685	21,420
Employee benefit expenses	225,733	292,801
Operating lease charges in respect of		
– Land & buildings	36,836	43,345
– Other assets	12	682
Allowance for impairment of inventories	3,755	1,510
Inventories directly written off	1,268	–
Allowance for impairment of trade receivables – net	1,791	1,070
Bad debts directly written off	1,194	393
Auditor's remuneration		
– Audit services	3,501	4,043
– Non-audit services	896	1,127
Legal and professional fees	5,429	17,319

5. OTHER GAINS – NET

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations		
Gain on disposal of property, plant & equipment	–	99
Gain on disposal of investment properties	–	13,328
Property, plant & equipment written off	(734)	(227)
Gain on change in fair value of derivative financial instruments	1,248	–
Net foreign exchange gain/(loss)	6,685	(2,724)
Refund of unvested benefits of defined contribution plan	68	440
Others	404	1,507

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Continuing operations		
Current income tax		
Hong Kong	6,227	1,114
Overseas	3,615	3,484
(Over)/under-provision in prior years	(5,665)	7,560
Withholding tax	–	10,353
Deferred income tax credit	(1,417)	(1,183)
	<u>2,760</u>	<u>21,328</u>
Income tax expense	<u>2,760</u>	<u>21,328</u>

7. DISCONTINUED OPERATION

During the year, the Group completed the disposal of its Commercial Business (“the disposed business”). Accordingly, the financial results of the disposed business are presented in the consolidated income statement and consolidated statement of cash flows as “Discontinued Operation” in accordance with HKFRS 5 “Non-current Assets Held for Sales and Discontinued Operation” issued by the HKICPA. Comparative figures have been restated.

Details of the profit for the year from discontinued operation are as follows:

	For the period from 1 January 2017 to 30 September 2017 <i>HK\$'000</i>	For the year ended 31 December 2016 <i>HK\$'000</i>
Profit after tax from discontinued operation (<i>Note (a)</i>)	7,927	78,668
Gain on disposal (<i>Note (b)</i>)	342,896	–
	<u>350,823</u>	<u>78,668</u>
Profit for the year from discontinued operation	<u>350,823</u>	<u>78,668</u>

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

	For the period from 1 January 2017 to 30 September 2017 <i>HK\$'000</i>	For the year ended 31 December 2016 <i>HK\$'000</i>
Revenues	434,700	789,103
Cost of sales	<u>(266,582)</u>	<u>(489,157)</u>
Gross profit	168,118	299,946
Other gains – net	4,403	1,430
Distribution and administrative expenses	<u>(157,653)</u>	<u>(204,839)</u>
Operating profit from discontinued operation	14,868	96,537
Finance costs – net	<u>(1)</u>	<u>(5)</u>
Profit before income tax from discontinued operation	14,867	96,532
Income tax expense	<u>(6,940)</u>	<u>(17,864)</u>
Profit after tax from discontinued operation	7,927	78,668
Share of non-controlling interests	<u>(179)</u>	<u>(262)</u>
Profit after tax from discontinued operation attributable to the owners of the Company	<u>7,748</u>	<u>78,406</u>

	For the period from 1 January 2017 to 30 September 2017 HK\$'000	For the year ended 31 December 2016 HK\$'000
Profit after tax from discontinued operation	<u>7,927</u>	<u>78,668</u>
Gain on disposal	<u>342,896</u>	<u>–</u>
Other comprehensive (loss)/income from discontinued operation:		
Items that will not be reclassified subsequent to profit or loss		
Remeasurement of retirement benefit obligations	–	1,432
Deferred income tax on remeasurement of retirement benefit obligations	–	(286)
Items that may be reclassified to profit or loss		
Disposal of discontinued operation	(163)	–
Exchange reserve released upon disposal of business	(71,778)	–
Currency translation differences	<u>–</u>	<u>2,273</u>
Other comprehensive (loss)/income for the year, net of tax¹	<u>(71,941)</u>	<u>3,419</u>
Total comprehensive income for the year	<u><u>278,882</u></u>	<u><u>82,087</u></u>
Attributable to:		
Owners of the Company	279,515	81,778
Non-controlling interests	<u>(633)</u>	<u>309</u>
	<u><u>278,882</u></u>	<u><u>82,087</u></u>

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

	2017
	HK\$'000
Cash consideration	728,500
Less: direct expenses	<u>(195,428)</u>
	533,072
Less: net assets disposed of:	
Property, plant and equipment	(100,979)
Construction in progress	(8,492)
Deferred income tax assets	(9,466)
Inventories	(155,878)
Trade receivables and other receivables	(112,566)
Financial assets at fair value through profit or loss	(31,991)
Current income tax assets	(38)
Cash and cash equivalents	(13,722)
Retirement benefit obligations	30,252
Trade payables & other payables	127,959
Current income tax liabilities	5,165
Bank borrowings – unsecured	1,806
Derivative financial instruments	256
Amount due to Remaining Artisan business	5,372
Other comprehensive income	(649)
Exchange reserve released upon disposal of business	71,778
Non-controlling interests	<u>1,017</u>
Gain on disposal	<u><u>342,896</u></u>

8. (LOSSES)/EARNINGS PER SHARE

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

	2017	2016
(Loss)/profit attributable to owners of the Company (<i>HK\$'000</i>)		
– arising from continuing operations	(156,393)	(111,778)
– arising from discontinued operation	<u>350,644</u>	<u>78,406</u>
Weighted average number of ordinary shares in issue (<i>thousands</i>)	<u>212,187</u>	212,187
Basic (losses)/earnings per share (<i>HK cents</i>)		
– from continuing operations	(73.71)	(52.68)
– including discontinued operation	<u>91.55</u>	<u>(15.73)</u>

The Group had no dilutive potential shares outstanding during the years ended 31 December 2017 and 2016.

9. TRADE & OTHER RECEIVABLES

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	62,824	228,365
Less: allowance for impairment of trade receivables	<u>(8,214)</u>	<u>(7,242)</u>
Trade receivables – net	54,610	221,123
Prepayments	17,354	27,133
Value added tax receivables	29,720	22,764
Rental deposits	7,712	7,150
Other receivables	<u>28,345</u>	<u>35,935</u>
	<u>137,741</u>	314,105
Less: Non-current portion prepayments	<u>(16,274)</u>	<u>(13,570)</u>
Current portion	<u>121,467</u>	<u>300,535</u>

Prepayments included in non-current assets amounted to HK\$16,274,000 (2016: HK\$13,570,000).

The carrying amounts of trade receivables approximate their fair values as at 31 December 2017 and 2016. The credit terms of the Group range from 0 to 90 days, depending on the credit status and repayment history of customers. At the end of the financial year, the ageing analysis of the trade receivables based on invoice date is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
0 to 30 days	19,478	163,280
31 to 60 days	8,565	28,136
61 to 90 days	3,595	14,642
91 to 365 days	20,249	16,012
More than 365 days	10,937	6,295
	<u>62,824</u>	<u>228,365</u>

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Amounts past due but not impaired:		
Less than 30 days past due	10,193	78,872
31 to 60 days past due	17,326	13,399
61 to 90 days past due	2,875	6,170
91 to 365 days past due	3,934	10,259
More than 365 days past due	6,719	957
	<u>41,047</u>	<u>109,657</u>

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

As at 31 December 2017, trade receivables of approximately HK\$41,047,000 (2016: HK\$109,657,000) were past due but not impaired. The balances were related to a number of customers that have a good track record with the Group. Based on past experience, management estimates that the carrying amounts should be fully recovered.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
At 1 January	7,242	6,499
Allowance for impairment of trade receivables	6,866	2,723
Recovery of impairment previously recognised	(4,276)	(1,139)
Receivables written off as uncollectible	(86)	(161)
Currency translation difference	468	(680)
Discontinued operation	(2,000)	—
At 31 December	<u>8,214</u>	<u>7,242</u>

10. TRADE & OTHER PAYABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade payables	33,361	82,570
Deposits received in advance	86,930	98,636
Accrual for expenses	64,819	105,450
Other payables	<u>143,677</u>	<u>72,204</u>
	<u>328,787</u>	<u>358,860</u>

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
0 to 30 days	10,621	69,661
31 days to 60 days	7,292	10,191
61 days to 90 days	1,230	1,747
More than 90 days	<u>14,218</u>	<u>971</u>
	<u>33,361</u>	<u>82,570</u>

11. NON-CURRENT ASSET HELD FOR SALE

On 13 December 2013, the Directors approved the disposal of the Group's investment in Philippine Carpet Manufacturing Corporation ("PCMC"). Accordingly, management reclassified all the Group's investment in PCMC as non-current asset held for sale as at 31 December 2013, as the carrying amount would be recovered principally through sale, the investment is available for immediate sale at their present conditions and such sale is considered highly probable. The Group was in the process of engaging a third party adviser to handle the disposal as at 31 December 2017.

CHAIRMAN'S STATEMENT

2017 was one of the most significant years in the Company's 62-year history, as its Commercial machine-made carpet operations were sold, marking Tai Ping's return to its roots as a premier Artisan carpet producer.

In recent years it had become evident to the Board that it would be increasingly difficult in future to manage both the Commercial and Artisan operations, as these were two very distinct businesses, each with different characteristics, customer groups and distribution channels, and for a company of Tai Ping's size it would become ever-more challenging to allocate the requisite financial and management resources to both.

Therefore, in November 2016 we announced a strategic review of the Commercial business, as a result of which a number of offers to acquire this business were received, as announced in May 2017. Negotiations with these parties resulted in terms being agreed with a potential purchaser, as disclosed to shareholders in our 3 August 2017 announcement. Shareholders approved this disposal at a price of US\$94 million (HK\$729 million) on 13 September 2017, and the transaction was completed at the end of that month. There was a gain on disposal of HK\$343 million, and a special dividend was paid to shareholders of HK\$361 million in November 2017.

As noted in last year's Annual Report, the other major organisational change has been the transfer of all hand-made operations from the Nanhai factory, which operated successfully for some 25 years, to the new Xiamen facility. This process was substantially completed by year-end with approval of the final phase, and this provides the capacity to meet future sales growth demand without significant additional outlay.

As would be expected, a year of such dramatic transition has not been straightforward, with resources very stretched in executing the sale of the Commercial business, managing the transfer of assets and personnel, reorganising and streamlining the remaining organisation, and completing the manufacturing relocation at accelerated speed. Inevitably this created uncertainty among both employees and customers, which contributed to challenging trading during the year, in what was already a complex and dynamic macro-economic climate.

Thus, uncertainty ahead of the disposal, together with disruptions to production during the factory transition, had an impact on the first half of the year, while the sale, employee transfer and internal restructuring held back what is normally the strongest sales period in the second half. All of this, together with significant non-recurring expenses, combined to deliver a weaker operating performance compared to 2016.

However, from early October, streamlining of the remaining business was initiated, with overheads reduced and a simplified regional organisation established, and Artisan performance improved.

With the transition phase now largely complete, the Company is well positioned for the future. It is financially stable, less diverse and focused solely on the high-margin Artisan sector, in which Tai Ping is the leading brand globally, respected for its unrivalled design and manufacturing competence, and underpinned by the new state-of-the-art Xiamen facility.

A new management team has been established as of 1 January 2018 under the leadership of Mr. Mark S. Worgan, the former Chief Operating Officer, who has succeeded Mr. James H. Kaplan as Chief Executive Officer. Their 2018 priority is to ensure that the Company is right-sized to service its addressable sector effectively and profitably. Going forward, the emphasis is on keeping things simple, continuing to drive efficiencies, and investing in sales and distribution to strengthen links with existing and new customers in our chosen markets and sectors.

I should like to pay particular tribute to our previous Chief Executive Officer Mr. James H. Kaplan, who stepped down at the end of the year. During his 14 years at the helm the Company was fundamentally transformed: it grew significantly, its position as global leader was firmly established, and major challenges were overcome, such as the 2011 Bangkok factory flood. In particular, the twin Artisan and Commercial platforms were firmly established, laying the foundations for both the sales transaction last year and the remaining Artisan business as the Company's future platform.

I should also like to pay tribute to Tai Ping's management and staff who, in an extraordinarily challenging year, embraced and executed unprecedented change in the business and their working environment. They served us exceptionally well in meeting these challenges, and this gives the Board confidence for the future.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

As reported in the Chairman's Statement, 2017 was dominated by two significant non-recurring events – the very substantial disposal of the Company's Commercial activities and the relocation of manufacturing operations from Nanhai to Xiamen. Both events inevitably caused uncertainty and disruption to operations which, together with associated one-off expenses, had a material affect on trading results.

Against this backdrop, for the retained on-going business turnover for the year was HK\$447 million, 16% lower than prior year on a comparable basis.

Gross margin was also lower at 48%, compared to prior year 55% on a comparable basis.

Distribution costs decreased in line with sales, but both margin and administrative expenses were impacted by one-off severance costs incurred as part of the manufacturing relocation.

Non-recurring expenses relating to Nanhai closure, Xiamen construction and business streamlining amounted to HK\$59 million in 2017, a similar level to the prior year figure of HK\$58 million.

As a result, there was an operating loss of HK\$159 million, but after the gain on disposal of the Commercial business the Group's net profit attributable to shareholders was HK\$194 million, compared to a net loss of HK\$33 million in 2016.

Turnover in the Americas was HK\$194 million, down 20% from prior year, principally due to the instability referred to above. EMEA and Asia were less affected, and sales decreased by 13% year over year in each region to HK\$156 million and HK\$96 million, respectively.

Manufacturing Operations

2017 marked a major milestone in the commissioning of Tai Ping's new Xiamen manufacturing workshop with Phase One fully operational in the second half.

Investment in training began to pay off with employee skill levels improving and headcount growing. Improvement was supported by the transfer of experienced staff from the former facility in Guangdong. The Administration building became operational mid-year with all support functions including customer services, design, and purchasing on site by December.

Construction of Phase Two was completed on schedule at the end of the year and this will allow for capacity to double as the business grows. The transfer of all remaining operations to Xiamen will complete in the second quarter of 2018.

The company's other factory, in Bangkok Thailand, was sold as part of the Commercial business divestment, while the former workshop in Nanhai, Guangdong will be fully closed after the transfer to Xiamen is completed.

Total headcount for manufacturing operations at the end of the year was 664.

Human Resources

As at 31 December 2017, the overall number of employees across the business had decreased from 2,773 to 893 as a result of the disposal of the Commercial business. The reduction also includes some streamlining of headcount in the remaining Artisan business in the last quarter of the year.

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

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

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

Information Technology

Deployment of the final Oracle ERP modules across Europe was completed in quarter three, and training continues to raise skill levels and improve the accuracy of usage.

Implementation of the Datatex factory ERP system was rescheduled as key staff members were redeployed to accelerate manufacturing relocation, the project went live in the first quarter of 2018.

Design and Marketing

In 2017, the House of Tai Ping continued to establish itself as a creative leader through the launch of innovative new collections across its brands.

The primary Tai Ping launches were: “Blur”, an ambitious hand-knotted collection inspired by vintage photography; “Scenematic”, a second collaboration with renowned Hong Kong designer André Fu inspired by scenic silhouettes of urban life; and “Reform”, a geometric rug created to be adaptable to different spaces and usages, developed in conjunction with rising stars Lim & Lu.

Edward Fields launched “Reverence”, a ground-breaking collaboration with Fernando Mastrangelo, a bright, new and extremely gifted design talent based in Brooklyn, New York.

Lastly, the Manufacture Cogolins launched “Isotopie”, a fresh, playful collection of bright, graphic motifs, and “Four corners”, a cooperation with designer Jason Miller that draws inspiration from Navajo blankets.

NON CARPET OPERATIONS

Premier Yarn Dyers, the Group’s US yarn-dyeing operation saw revenues drop of 6% due to a capacity limitation to meet the shift in product mix. The end result was a marginal loss in 2017 due to the cost for essential maintenance and repairs that will secure the businesses future.

The minority shareholding in Philippine Carpet Manufacturing Corporation continues to be classified as an asset held for sale. Property assets in Manila are being marketed for sale, after which Tai Ping will sell or otherwise unwind its shareholding. This is expected to complete within the next 12 months.

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 2017, the Group had: total cash and bank balances amounting to HK\$264 million (2016: HK\$144 million); unsecured bank borrowings of HK\$62 million (2016: HK\$119 million); financial assets at fair value through profit or loss of HK\$nil (2016: HK\$89 million).

DIVIDEND

No interim dividend was paid during the year. The Board has resolved not to declare any dividend for the year ended 31 December 2017.

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 18 May 2018, the transfer books and the register of members of the Company will be closed from Tuesday, 15 May 2018 to Friday, 18 May 2018 (both days inclusive). During such period, no transfer of shares will be effected. In order to establish the right to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Monday, 14 May 2018.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

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

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 year ended 31 December 2017, 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 as contained in Appendix 14 to the Listing Rules 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 engagement, Mr. David T. L. Tong and Mr. John J. Ying, Non-Executive Directors, did not attend the AGM held on 19 May 2017 while Mr. Andrew C. W. Brander, a Non-Executive Director, and Mr. Roderic N. A. Sage, an Independent Non-Executive Director, did not attend the special general meeting of the Company held on 13 September 2017.

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 year ended 31 December 2017.

AUDIT COMMITTEE

The Company has set up an Audit Committee on 23 September 2005 and the terms of reference of Audit Committee are aligned with the CG Code. Under these terms of reference, the responsibilities of the Audit Committee include overseeing the relationship with the Company's external auditor (including making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and approving the audit fee and reviewing the audit scope), review of financial information of the Group, oversight of the Group's financial reporting system, risk management and internal control systems. Detailed terms of reference of Audit Committee are accessible on the Company's website.

During the year under review, the Audit Committee held three meetings with management and the representatives of the external auditor for reviewing the interim and annual reports before submission to the Board for consideration and approval, reviewing the annual audit plan and scope of work of both external auditor and internal auditor, and discussing issues arising from the audits including financial report, risk management and internal control.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company for the year ended 31 December 2017 have been reviewed by the Audit Committee and agreed by the external auditor, PricewaterhouseCoopers. 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.

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 2017 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 T. J. Colfer

Chairman

Mark S. Worgan

Chief Executive Officer

Hong Kong, 23 March 2018

The names of Directors as at the date hereof 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.