



Tai Ping Carpets International Limited  
Interim Report 2011

## Table of Contents

Management Discussion & Analysis	2
Corporate Governance & Other Information	5
Condensed Consolidated Income Statement	8
Condensed Consolidated Statement of Comprehensive Income	9
Condensed Consolidated Statement of Financial Position	10
Condensed Consolidated Statement of Changes in Equity	12
Condensed Consolidated Statement of Cash Flows	13
Notes to the Condensed Consolidated Financial Statements	14

## Management Discussion & Analysis

The Directors of Tai Ping Carpets International Limited (the “Company”) are pleased to present the Interim Report and condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2011. The condensed consolidated income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity of the Group for the six months ended 30 June 2011, and the condensed consolidated statement of financial position as at 30 June 2011, along with selected explanatory notes, all of which are unaudited and reviewed by the Audit Committee of the Company, can be found on pages 8 to 28 of this report.

We are pleased to report that the Group strengthened its position in the market place and that its financial position remains strong. Following weak demand in 2010, turnover grew considerably in the first half of 2011 and results improved. While some companies in our key sectors are struggling financially, the Group had no external borrowings and net cash reserves of HK\$157 million at the end of the reporting period.

The Group’s consolidated turnover for the six months ended 30 June 2011 was HK\$590 million, a period on period increase of 16%, or HK\$81 million. Virtually all markets and sectors contributed to the increase. Demand for our products and services remain robust in Asia and Europe, while turnover in the Americas recovered strongly after turnover declined in 2010 as a result of the impact of the global recession.

Turnover of carpet operations increased by 16% period on period, while the turnover of non-carpet operations showed an increase of 18%. Overall gross margin decreased from 42% to 39%, mainly due to a strong increase in the costs of key raw materials like wool and silk, which was only partly passed on to our customers.

The Group recorded an operating loss of HK\$34 million for the first six months compared with HK\$40 million for the corresponding period in 2010. The Group’s loss attributable to owners was HK\$31 million, a reduction of HK\$15 million from the previous period. The share of profits from jointly controlled entities decreased by 59% to HK\$4 million.

### Carpet Operations

The increase in turnover in Carpet operations was due to the Commercial and Residential Boutique Contract (“RBC”) businesses, which increased by 18% and 13% respectively. Our RBC business, which continues to be our key strategic focus area, continued its successful track record and turnover increased by 13%, led by strong sales in the United States (“U.S.”) and Europe. We revamped our RBC business in Asia through the launch of a product range designed by well renowned Asian designer, André Fu, which was very well received by the Asian design community and early results are positive.

Total sales of the Commercial business recovered from the decline in 2010 and sales increased by 18%, or HK\$56 million, period on period. Turnover in Thailand and the rest of Asia grew by 13% or HK\$31 million.

Total sales of the RBC business grew by 13%, or HK\$22 million, period on period. The increase was driven by our key markets in Europe and the U.S. Margins were lower because of product mix and the impact of raw material cost increases, partly offset by the positive impact of currency movements, with the Euro and Pound strengthening versus the U.S. dollar compared to the same period in the prior year.

We have restructured our Wholesale business, which comprises our U.S.-based subsidiary J.S.L. Carpet Corporation and integrated it fully into our RBC operations. The subsidiary has been transformed into an internal supplier of high-end hand knotted carpets. Operating expenses have been reduced substantially. Going forward we will report the results of the Wholesale business as part of RBC as third party sales have become immaterial for the Group.

After significant increases in the prior year, factory operating expenses remained well under control. Labour costs in the People's Republic of China ("PRC") continued to increase and labour shortages in the Pearl River Delta continue, but pressures have eased somewhat and our retention rates are high. Both our factories in Nanhai and Bangkok managed to improve their operating results, through cost containment and productivity improvements.

We continue to manage our operating expenses carefully. Operating expenses totaled HK\$227 million, an increase of 6% from the same period in the prior year.

### **Other Operations**

Other operations comprises mainly our Group's U.S.-based yarn-dyeing subsidiary and only represents 3% of the Group's sales. Turnover of yarn-dyeing operations increased by 18% period on period, while margins decreased as a result of higher utility costs. Operating profit improved, due to the release of foreign exchange gains related to the final repayment of an inter-company loan.

### **Outlook**

Last year we were significantly impacted by the slowdown in the global economy, but in the latter part of 2010 we saw a strong increase in sales and bookings as a result of the reviving economy and we entered into 2011 with a much fuller order book than 2010. Order bookings developed favourably throughout the first half of 2011 and our factories have a healthy backlog for the second part of the year.

Upward pressure on raw material costs seem to have eased somewhat and we have hedged our exposure partly in the commodity markets. Financial markets remain volatile, but we have hedged the majority of our foreign exchange exposure and will continue to watch movements carefully.

Our second half of the year is traditionally stronger than the first half and we expect that operational results in the second half of the year should be better than prior year.

We will continue to look at opportunities to expand our presence in the luxury segment of the market and continue our strategy of profitable growth through regional expansion and selective acquisitions.

### **Dividend**

The Board does not recommend the payment of an interim dividend for the period (2010: Nil).

### **Capital Expenditure**

Capital expenditure in the form of property, plant & equipment, construction in progress and intangible assets (other than goodwill) incurred by the Group totaled HK\$19 million during the six months ended 30 June 2011 (2010: HK\$15 million). As at 30 June 2011, the aggregate net book value of the Group's property, plant & equipment, investment properties, land use rights, construction in progress and intangible assets (other than goodwill) amounted to HK\$300 million (as at 31 December 2010: HK\$316 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 2011, the Group had total cash and bank balances amounting to HK\$157 million (as at 31 December 2010: HK\$87 million).

As at 30 June 2011, the Group also held financial assets at fair value of HK\$33 million (as at 31 December 2010: HK\$133 million).

### **Details of Charges on the Group's Assets**

The Group had charges on bank deposits of HK\$1 million (as at 31 December 2010: HK\$3 million) made to a bank to secure banking facilities granted to the Group.

### **Exposure to Foreign Exchange Risks**

The Group has overseas operations in the U.S., Europe, Thailand, the PRC, Singapore, India and Argentina. 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 the U.S. dollar, and to a lesser extent in Thai Baht and Euro and a variety of other currencies.

The Group recorded net exchange gains of HK\$5 million, arising from overseas operations. The Group's main exposure is to the Euro, which strengthened against the U.S. dollar versus the prior year. We have hedged the majority of our operating exposure against the Euro for 2011 and the Group will closely monitor the exchange rate movements and take appropriate action to manage any material exposure that may arise.

### **Employee & Remuneration Policies**

As at 30 June 2011, the Group employed 3,300 employees (as at 31 December 2010: 3,300 employees). 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.

### **Contingent Liabilities**

As at 30 June 2011, the Group's total contingent liabilities amounted to HK\$34 million (as at 31 December 2010: HK\$33 million).

**James H. Kaplan**  
*Chief Executive Officer*

Hong Kong, 26 August 2011

## Corporate Governance & Other Information

### **Compliance with the Code on Corporate Governance Practices**

During the six months ended 30 June 2011, the Company complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

### **Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers**

The Company adopted a code of conduct regarding the Directors’ transactions in the securities of the Company 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 Company’s code of conduct in this respect throughout the six-month period ended 30 June 2011 and up to the date of publication of this Interim Report.

### **Audit Committee**

Written terms of reference of the Audit Committee in line with code provision C.3.3 of the Code were adopted at the Board meeting on 23 September 2005.

Under these terms of reference, the responsibilities of the Audit Committee include overseeing the relationship with the Company’s external auditors (including making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, 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 and internal controls.

During the six months period up to the date of this Interim Report, the Audit Committee held two meetings with the management and the external auditors 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 auditors and internal auditors, and discussing issues arising from the audits including internal controls and financial reporting.

### **Purchase, Sale or Redemption of Shares**

The Company has not redeemed any of its shares during the six months ended 30 June 2011. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company’s shares during the period.

## Directors' Interests in Equity Securities

As at 30 June 2011, the interests of the Directors in the shares of the Company and its associated corporations (within the meaning of the Part XV of Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

### Ordinary shares of HK\$0.10 each in the Company

Number of ordinary shares held (long position)

Name	Beneficial owner	Interests of controlled corporation	Aggregate % of the share capital
Ian D. Boyce	831,371	–	0.392%
David C. L. Tong	431,910	–	0.204%
Lincoln C. K. Yung	30,000	–	0.014%
Lincoln K. K. Leong <sup>1</sup>	–	2,000,000	0.943%
Nelson K. F. Leong <sup>1</sup> (Alternate Director to Lincoln K. K. Leong)	–	2,000,000	0.943%
John J. Ying <sup>2</sup>	–	32,605,583	15.366%
Aubrey K. S. Li	100,000	–	0.047%
James H. Kaplan	522,000	–	0.246%

Notes:

- <sup>1</sup> Mr. Nelson K. F. Leong is interested in the same shares as disclosed by Mr. Lincoln K. K. Leong. The shares are held through a company which is controlled by Mr. Lincoln K. K. Leong and Mr. Nelson K. F. Leong.
- <sup>2</sup> The shares are held through Peak Capital Partners I, L.P. of which Mr. John J. Ying is the sole shareholder of the general partner of Peak Capital Partners I, L.P. and is deemed to have an interest in the shares held by Peak Capital Partners I, L.P. (the Company is advised that the term "general partner" commonly refers to the entity liable for all the debts and obligations of a limited partnership and has power to bind a limited partnership).

Save for the Directors' interests as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

## Share Options

The existing share options scheme ("2002 Share Options Scheme" or the "Scheme") was approved by the shareholders of the Company at an Annual General Meeting held on 23 May 2002. The Scheme fully complies with Chapter 17 of the Listing Rules.

During the period between 1 January 2011 and the date of this report, there were no outstanding share options under the 2002 Share Option Scheme.

## Substantial Shareholders

As at 30 June 2011, the register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO showed that the Company had been notified of the following interests, being 5% or more in the issued ordinary share capital of the Company.

Name	No. of ordinary shares held in the Company of HK\$0.10 each (long position)	Aggregate % of the share capital
Acorn Holdings Corporation <sup>1</sup>	40,014,178	18.858%
Bermuda Trust Company Limited <sup>1</sup>	40,014,178	18.858%
Harneys Trustees Limited <sup>1</sup>	77,674,581	36.607%
Lawrencium Holdings Limited <sup>1</sup>	77,674,581	36.607%
The Mikado Private Trust Company Limited <sup>1</sup>	77,674,581	36.607%
The Hon. Sir Michael Kadoorie <sup>1</sup>	77,674,581	36.607%
Peak Capital Partners I, L.P. <sup>2</sup>	32,605,583	15.366%

Notes:

<sup>1</sup> Bermuda Trust Company Limited is deemed to be interested in the same 40,014,178 shares in which Acorn Holdings Corporation is interested. The Mikado Private Trust Company Limited and Harneys Trustees Limited are deemed to be interested in the same 77,674,581 shares in which Lawrencium Holdings Limited is interested. For the purpose of the SFO, the spouse of the Hon. Sir Michael Kadoorie has a duty of disclosure in Hong Kong in relation to the 77,674,581 shares. The interest disclosed by the spouse of the Hon. Sir Michael Kadoorie is that of the Hon. Sir Michael Kadoorie attributed to her under the SFO. Except the above, she has no interest, legal or beneficial in those shares.

<sup>2</sup> Mr. John J. Ying (a Non-executive Director of the Company) is the sole shareholder of the general partner of Peak Capital Partners I, L.P. and is deemed to have an interest in the shares held by Peak Capital Partners I, L.P. (the Company is advised that the term “general partner” commonly refers to the entity liable for all the debts and obligations of a limited partnership and has power to bind a limited partnership).

# Condensed Consolidated Income Statement

For the six months ended 30 Jun

	Note	Unaudited	
		2011 HK\$'000	2010 HK\$'000
Revenue	6(a)	589,818	508,723
Cost of sales		(360,642)	(295,288)
Gross profit		229,176	213,435
Distribution costs	7	(54,015)	(43,891)
Administrative expenses	7	(214,624)	(199,948)
Other gains/(losses) – net	8	5,831	(9,318)
Operating loss		(33,632)	(39,722)
Finance income		233	107
Finance costs		(52)	(166)
Finance income/(costs) – net	9	181	(59)
Share of profit/(loss) of			
an associate		1,483	(907)
jointly controlled entities		3,686	8,958
Loss before income tax		(28,282)	(31,730)
Income tax expenses	10	(3,601)	(14,149)
Loss for the period		(31,883)	(45,879)
Loss attributable to:			
owners of the parent		(31,252)	(45,820)
non-controlling interests		(631)	(59)
		(31,883)	(45,879)
Loss per share for loss attributable to owners of the parent (expressed in HK cents per share)			
basic	12	(14.73)	(21.59)

The notes on pages 14 to 28 are an integral part of these condensed consolidated financial statements.

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 Jun

	Unaudited	
	2011	2010
	HK\$'000	HK\$'000
Loss for the period	(31,883)	(45,879)
Other comprehensive income for the period:		
currency translation differences	(11,531)	24,643
Total comprehensive income for the period	(43,414)	(21,236)
Total comprehensive income for the period attributable to:		
owners of the parent	(43,477)	(21,537)
non-controlling interests	63	301
	(43,414)	(21,236)

The notes on pages 14 to 28 are an integral part of these condensed consolidated financial statements.

## Condensed Consolidated Statement of Financial Position

		Unaudited 30 Jun 2011 HK\$'000	Audited 31 Dec 2010 HK\$'000
	Note		
<b>Assets</b>			
<b>Non-current assets</b>			
Land use rights	13	4,455	5,359
Property, plant & equipment	14	262,386	278,886
Construction in progress	14	5,978	6,036
Intangible assets	15	26,692	25,661
Interest in an associate		18,972	17,489
Interests in jointly controlled entities		330,835	322,078
Deferred income tax assets		8,737	11,771
Pledged bank deposits	17	1,359	1,359
Bank deposits	18	–	439
		<b>659,414</b>	<b>669,078</b>
<b>Current assets</b>			
Inventories		253,886	192,535
Trade & other receivables	16	234,780	232,754
Derivative financial instruments		–	1,109
Amount due from an associate		343	403
Amounts due from jointly controlled entities		21,283	19,495
Financial assets at fair value through profit or loss		32,611	133,065
Pledged bank deposits	17	–	1,988
Cash & cash equivalents	18	156,810	86,697
		<b>699,713</b>	<b>668,046</b>
Non-current asset classified as held for sale	19	25,411	25,411
		<b>725,124</b>	<b>693,457</b>
<b>Total assets</b>		<b>1,384,538</b>	<b>1,362,535</b>

The notes on pages 14 to 28 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Financial Position

		Unaudited 30 Jun 2011 HK\$'000	Audited 31 Dec 2010 HK\$'000
	Note		
<b>Equity</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	20	21,219	21,219
Reserves	21	433,165	445,390
Retained earnings:			
Proposed final dividend		–	19,097
Others		485,546	516,798
		939,930	1,002,504
<b>Non-controlling interests</b>		<b>44,479</b>	<b>45,018</b>
<b>Total equity</b>		<b>984,409</b>	<b>1,047,522</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		6,235	5,597
Retirement benefit obligations		19,125	18,281
Other long-term liabilities – non-current portion		163	837
		25,523	24,715
<b>Current liabilities</b>			
Bank borrowings – unsecured		–	5,989
Derivative financial instruments		424	–
Trade & other payables	22	335,414	256,137
Dividend payable		19,097	–
Current income tax liabilities		5,080	13,698
Other long-term liabilities – current portion		1,028	1,028
Amounts due to non-controlling interests shareholders		13,563	13,446
		374,606	290,298
<b>Total liabilities</b>		<b>400,129</b>	<b>315,013</b>
<b>Total equity &amp; liabilities</b>		<b>1,384,538</b>	<b>1,362,535</b>
<b>Net current assets</b>		<b>325,107</b>	<b>377,748</b>
<b>Total assets less current liabilities</b>		<b>1,009,932</b>	<b>1,072,237</b>

The notes on pages 14 to 28 are an integral part of these condensed consolidated financial statements.

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 Jun

	Unaudited							
	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
<b>Balance at 1 January 2011</b>	21,219	189,699	255,691	535,895	1,002,504	45,018	1,047,522	
Loss for the period	-	-	-	(31,252)	(31,252)	(631)	(31,883)	
<b>Other comprehensive income</b>								
Currency translation differences	-	-	(12,225)	-	(12,225)	694	(11,531)	
<b>Total comprehensive income for the period</b>	-	-	(12,225)	(31,252)	(43,477)	63	(43,414)	
<b>Transactions with owners</b>								
Dividends relating to 2010	-	-	-	(19,097)	(19,097)	-	(19,097)	
Dividend paid to non-controlling interests	-	-	-	-	-	(602)	(602)	
<b>Total transactions with owners</b>	-	-	-	(19,097)	(19,097)	(602)	(19,699)	
<b>Balance at 30 June 2011</b>	21,219	189,699	243,466	485,546	939,930	44,479	984,409	
<b>Balance at 1 January 2010</b>	21,219	189,699	207,194	568,055	986,167	39,563	1,025,730	
Loss for the period	-	-	-	(45,820)	(45,820)	(59)	(45,879)	
<b>Other comprehensive income</b>								
Currency translation differences	-	-	24,283	-	24,283	360	24,643	
<b>Total comprehensive income for the period</b>	-	-	24,283	(45,820)	(21,537)	301	(21,236)	
<b>Transactions with owners</b>								
Dividends relating to 2009	-	-	-	(19,097)	(19,097)	-	(19,097)	
Dissolution of a subsidiary <sup>1</sup>	-	-	-	-	-	(441)	(441)	
<b>Total transactions with owners</b>	-	-	-	(19,097)	(19,097)	(441)	(19,538)	
<b>Balance at 30 Jun 2010</b>	21,219	189,699	231,477	503,138	945,533	39,423	984,956	

Note:

<sup>1</sup> Non-controlling interests that included the share of losses of subsidiaries in excess of capital contribution therefore have resulted in a deficit balance in prior periods.

The notes on pages 14 to 28 are an integral part of these condensed consolidated financial statements.

## Condensed Consolidated Statement of Cash Flows

For the six months ended 30 Jun

	Note	Unaudited	
		2011 HK\$'000	2010 HK\$'000
Net cash used in operating activities		(8,057)	(19,098)
Net cash generated from/(used in) investing activities		81,139	(11,085)
Net cash used in financing activities		(5,550)	(479)
Increase/(decrease) in cash & cash equivalents		67,532	(30,662)
Cash & cash equivalents at beginning of the period		86,697	105,305
Exchange gain on cash & cash equivalents		2,581	17,026
Cash & cash equivalents at 30 Jun	18	156,810	91,669

The notes on pages 14 to 28 are an integral part of these condensed consolidated financial statements.

# Notes to the Condensed Consolidated Financial Statements

## 1. General Information

Tai Ping Carpets International Limited (“the Company”) and its subsidiaries (together “the Group”) are principally engaged in the manufacture, import, export and sale of carpets, and manufacture and sale of yarns.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon’s Court, 22 Victoria Street, P.O. Box HM 1179, Hamilton HM EX, Bermuda. The principal office in Hong Kong is located at 26/F, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong.

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These condensed consolidated interim financial statements are presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated. These condensed consolidated interim financial statements were approved for issue by the Board of Directors on 26 August 2011.

These condensed consolidated interim financial statements have not been audited.

## 2. Basis of Preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2011 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 financial statements for the year ended 31 December 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

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

### (a) Going-concern basis

The Group finance monitors rolling forecasts of the Group’s liquidity requirement to ensure it has sufficient fund to meet day-to-day working capital requirements while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group’s products; and (b) the availability of bank finance for the foreseeable future. The Group’s forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going-concern basis in preparing its condensed consolidated interim financial statements.

### 3. Accounting Policies

Except as described below, the accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2010, as described in those annual consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The Group has adopted the following new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA that have impact on the results and the financial position of the Group in the current accounting period:

(a) New and amended standards adopted by the Group

*HKAS 24 (Revised) “Related party disclosures”*

It introduces an exception from all of the disclosure requirements of HKAS 24 for transactions among government-related entities and the government. As at 30 June 2011, the Group’s total transactions among government and government-related entities amount to HK\$273,000 (see note 25 to the condensed consolidated interim financial statements for full disclosures).

*Amendment to HKAS 34 “Interim financial reporting”*

It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

The adoption of other new HKFRSs have no material impact on the results and the financial position of the Group. Accordingly, no prior period adjustment has been made.

(b) New standards, amendments and interpretations have been issued but are not effective for the financial period beginning 1 January 2011 and have not been early adopted

HKAS 12 (amendment)	Income taxes <sup>1</sup>
HKFRS 9	Financial instruments <sup>2</sup>

Notes:

<sup>1</sup> Effective from annual periods beginning on or after 1 January 2012

<sup>2</sup> Effective from annual periods beginning on or after 1 January 2013

The Group is assessing the impact of these new standards and amendments. The adoption of these new standards and amendments will not result in a significant impact on the results and financial position of the Group other than certain changes in presentation and disclosures in the condensed consolidated interim financial statements.

#### 4. Estimates

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

#### 5. Financial Risk Management

##### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2010.

There have been no changes in the risk management department since year end or in any risk management policies.

##### (b) Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

##### (c) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets/(liabilities) that are measured at fair value at 30 June 2011.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Assets</b>				
<b>Financial assets at fair value through profit or loss:</b>				
Treasury bonds	32,611	–	–	32,611
<b>Derivative financial instruments:</b>				
Foreign currency forward contracts	–	–	(424)	(424)
<b>Total assets</b>	<b>32,611</b>	<b>–</b>	<b>(424)</b>	<b>32,187</b>

The following table presents the Group's assets that are measured at fair value at 31 December 2010.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Assets</b>				
<b>Financial assets at fair value through profit or loss:</b>				
Treasury bonds	133,065	–	–	133,065
<b>Derivative financial instruments:</b>				
Foreign currency forward contracts	–	–	1,109	1,109
<b>Total assets</b>	<b>133,065</b>	<b>–</b>	<b>1,109</b>	<b>134,174</b>

The fair value of treasury bonds which are traded in active markets is based on quoted market prices at the year end date of the condensed consolidated statement of financial position. The fair value measurement for these treasury bonds held by the Group is the current bid price and classified as level 1.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

## 6. Revenue & Segment Information

### (a) Revenues

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Sale of carpets	520,206	451,031
Sale of underlays	6,708	5,434
Installation of carpets	16,373	21,096
Interior furnishings	18,293	10,920
Sale of yarns	19,687	16,693
Sale of raw materials	8,192	3,566
Other	359	(17)
	<b>589,818</b>	<b>508,723</b>

## 6. Revenue &amp; Segment Information

**(b) Segment Information**

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to assess performance and allocate resources. Management considers the businesses primarily based on the nature of operations and customers. The Group is currently organised into three major business segments: Commercial, Residential Boutique Contract (“RBC”) and Others (including manufacturing and trading of yarn and property holding).

The Commercial division designs for hotels and large-scale projects such as airports, ballrooms, convention centres and other large public spaces. RBC projects are those in which carpets of private and public space intersect.

The Board of Directors assesses the performance of the operating segments based on a measure of segment results. Segment results excludes the effects of non-recurring expenditure from the operating segments such as impairments when the impairment is the result of an isolated, non-recurring event. The measure also excludes the effects of change in fair values of derivative financial instruments.

The segment information provided to the management for the reportable segments for the six months ended 30 June 2011 and 2010 is as follows:

**For the six months ended 30 June 2011**

	Commercial	RBC	Total carpet	Others	Unallocated	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	375,625	194,462	570,087	19,731	–	589,818
Segment results	(11,457)	(26,949)	(38,406)	4,774	–	(33,632)
Operating loss			(38,406)	4,774	–	(33,632)
Finance income						233
Finance costs						(52)
Share of profit of:						
an associate						1,483
jointly controlled entities						3,686
Loss before income tax						(28,282)
Income tax expenses						(3,601)
Loss for the period						(31,883)
Capital expenditure	5,863	3,145	9,008	159	9,558	18,725
Depreciation of property, plant & equipment	23,726	1,066	24,792	982	3,717	29,491
Amortisation of land use rights	–	–	–	–	1,026	1,026
Amortisation of intangible assets	328	1,868	2,196	–	1,883	4,079
Impairment of trade & other receivables	825	3,531	4,356	–	–	4,356

## Notes to the Condensed Consolidated Financial Statements

### 6. Revenue & Segment Information

For the six months ended 30 June 2010

	Commercial	RBC	Total carpet	Others	Unallocated	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	319,137	172,839	491,976	16,747	–	508,723
Segment results	(21,486)	(20,256)	(41,742)	2,020	–	(39,722)
Operating loss <sup>1</sup>			(41,742)	2,020	–	(39,722)
Finance income						107
Finance costs						(166)
Share of (loss)/profit of:						
an associate						(907)
jointly controlled entities						8,958
Loss before income tax						(31,730)
Income tax expenses						(14,149)
Loss for the period						(45,879)
Capital expenditure	11,798	326	12,124	–	3,318	15,442
Depreciation of property, plant & equipment	18,927	3,695	22,622	–	5,136	27,758
Amortisation of land use rights	–	–	–	–	980	980
Amortisation of intangible assets	–	1,073	1,073	–	–	1,073
Impairment of trade & other receivables	1,274	690	1,964	–	–	1,964

Note:

<sup>1</sup> Included gain on disposal of investment properties.

### 7. Expenses by Nature

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Depreciation of property, plant & equipment	29,491	27,758
Amortisation of land use rights	1,026	980
Amortisation of intangible assets	4,079	1,073
Impairment of trade & other receivables	4,356	1,964

**8. Other Gains/(Losses) – Net**

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Gain on disposal of financial assets at fair value through profit or loss	971	424
Gain on disposal of property, plant & equipment	9	210
Gain on disposal of investment properties	–	361
Loss on change in fair value of derivative financial instruments	(424)	(41)
Net foreign exchange gains/(losses)	5,283	(10,272)
Others	(8)	–
	<b>5,831</b>	<b>(9,318)</b>

**9. Finance Income/(Costs) – Net**

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Finance costs		
Interest on bank loans & overdrafts wholly repayable within five years	(52)	(9)
Amortised interest costs from other long-term liabilities	–	(157)
	<b>(52)</b>	<b>(166)</b>
Finance income – interest income from banks	233	107
Finance income/(costs) – net	<b>181</b>	<b>(59)</b>

**10. Income Tax Expenses**

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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	
	2011 HK\$'000	2010 HK\$'000
Current income tax		
Hong Kong	1,279	5,153
The People's Republic of China ("PRC") & overseas	7,135	5,879
(Over)/underprovision in prior years	(1,235)	1,759
Deferred income tax	(3,578)	1,358
Income tax expenses	<b>3,601</b>	<b>14,149</b>

## 11. Dividend

The Board does not recommend the payment of an interim dividend for the period (2010: Nil). The 2010 final dividend was paid on 8 July 2011.

## 12. Loss Per Share

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

	Six months ended 30 June	
	2011	2010
Loss attributable to owners of the parent (HK\$'000)	(31,252)	(45,820)
Weighted average number of ordinary shares in issue (thousands)	212,187	212,187
Loss per share (HK cents)	(14.73)	(21.59)

The Group had no outstanding share options as at 30 June 2011 and 2010. As a result, diluted loss per share is not presented.

## 13. Land Use Rights

The Group's interest in land use rights represent prepaid operating lease payments and their new net book values are analysed as follows:

	30 Jun 2011	31 Dec 2010
	HK\$'000	HK\$'000
Outside Hong Kong, held on leases of between 10 to 50 years	4,455	5,359
	30 Jun 2011	31 Dec 2010
	HK\$'000	HK\$'000
At beginning of the period/year	5,359	7,122
Exchange differences	122	389
Amortisation of land use rights	(1,026)	(2,152)
At end of the period/year	4,455	5,359

## 14. Property, Plant & Equipment and Construction in Progress

For the six months ended 30 June 2011

	Property, plant & equipment						Total HK\$'000
	Investment properties	Land	Buildings	Other assets	Sub-total	Construction in progress	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>At 1 January 2011</b>							
Cost	-	-	168,234	712,582	880,816	6,036	886,852
Accumulated depreciation	-	-	(93,031)	(508,899)	(601,930)	-	(601,930)
Net book amount	-	-	75,203	203,683	278,886	6,036	284,922
<b>Period ended 30 June 2011</b>							
Opening net book amount	-	-	75,203	203,683	278,886	6,036	284,922
Additions	-	-	72	9,559	9,631	5,027	14,658
Transfer from construction in progress	-	-	1,108	3,925	5,033	(5,033)	-
Depreciation	-	-	(4,043)	(25,448)	(29,491)	-	(29,491)
Disposals	-	-	-	(636)	(636)	-	(636)
Exchange differences	-	-	(214)	(823)	(1,037)	(52)	(1,089)
Closing net book amount	-	-	72,126	190,260	262,386	5,978	268,364
<b>At 30 June 2011</b>							
Cost	-	-	170,612	710,493	881,105	5,978	887,083
Accumulated depreciation	-	-	(98,486)	(520,233)	(618,719)	-	(618,719)
Net book amount	-	-	72,126	190,260	262,386	5,978	268,364

For the six months ended 30 June 2010

	Property, plant & equipment						Total HK\$'000
	Investment properties	Land	Buildings	Other assets	Sub-total	Construction in progress	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>At 1 January 2010</b>							
Cost	6,800	12,200	181,671	672,838	866,709	2,301	875,810
Accumulated depreciation	-	(1,331)	(85,772)	(459,651)	(546,754)	-	(546,754)
Net book amount	6,800	10,869	95,899	213,187	319,955	2,301	329,056
<b>Period ended 30 June 2010</b>							
Opening net book amount	6,800	10,869	95,899	213,187	319,955	2,301	329,056
Additions	-	-	-	2,727	2,727	8,359	11,086
Transfer from construction in progress	-	-	-	1,631	1,631	(1,631)	-
Depreciation	-	(146)	(1,876)	(25,736)	(27,758)	-	(27,758)
Disposals	(6,800)	-	-	(307)	(307)	-	(7,107)
Exchange differences	-	-	700	2,109	2,809	48	2,857
Closing net book amount	-	10,723	94,723	193,611	299,057	9,077	308,134
<b>At 30 June 2010</b>							
Cost	-	12,200	183,826	685,254	881,280	9,077	890,357
Accumulated depreciation	-	(1,477)	(89,103)	(491,643)	(582,223)	-	(582,223)
Net book amount	-	10,723	94,723	193,611	299,057	9,077	308,134

## 15. Intangible Assets

For the six months ended 30 June 2011

	Goodwill	Vendor relationships	Computer software	Brands	Design library	Other intangible assets	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2011</b>							
Cost	-	7,215	20,554	2,484	1,950	2,509	34,712
Accumulated amortisation	-	(4,449)	(4,201)	-	(401)	-	(9,051)
Net book amount	-	2,766	16,353	2,484	1,549	2,509	25,661
<b>Period ended 30 June 2011</b>							
Opening net book amount	-	2,766	16,353	2,484	1,549	2,509	25,661
Additions	-	-	4,067	-	-	-	4,067
Amortisation	-	(601)	(2,190)	-	(54)	(1,234)	(4,079)
Exchange difference	-	-	(65)	218	-	890	1,043
Closing net book amount	-	2,165	18,165	2,702	1,495	2,165	26,692
<b>At 30 June 2011</b>							
Cost	-	7,215	24,449	2,702	1,950	3,408	39,724
Accumulated amortisation	-	(5,050)	(6,284)	-	(455)	(1,243)	(13,032)
Net book amount	-	2,165	18,165	2,702	1,495	2,165	26,692

For the six months ended 30 June 2010

	Goodwill	Vendor relationships	Computer software	Brands	Design library	Other intangible assets	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2010</b>							
Cost	14,533	7,215	7,762	-	4,751	-	34,261
Accumulated amortisation	-	(2,886)	-	-	(1,441)	-	(4,327)
Net book amount	14,533	4,329	7,762	-	3,310	-	29,934
<b>Period ended 30 June 2010</b>							
Opening net book amount	14,533	4,329	7,762	-	3,310	-	29,934
Additions	-	-	4,356	-	-	-	4,356
Amortisation	-	(721)	-	-	(352)	-	(1,073)
Closing net book amount	14,533	3,608	12,118	-	2,958	-	33,217
<b>At 30 June 2010</b>							
Cost	14,533	7,215	12,118	-	4,751	-	38,617
Accumulated amortisation	-	(3,607)	-	-	(1,793)	-	(5,400)
Net book amount	14,533	3,608	12,118	-	2,958	-	33,217

Other intangible assets include customer relationships and non-competition agreements.

**16. Trade & Other Receivables**

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Trade receivables	199,221	203,822
Less: provision for impairment of trade receivables	(18,433)	(13,801)
Trade receivables – net	180,788	190,021
Prepayment	24,555	25,898
Value added tax receivables	9,475	6,320
Rental deposits	4,693	2,611
Other receivables	15,269	7,904
	<b>234,780</b>	<b>232,754</b>

The amounts approximated to their respective fair values as at 30 June 2011 and 31 December 2010. The credit terms of the Group range from 0 to 90 days, depending on the credit status and repayment history of customers. At the reporting date, the ageing analysis of the trade receivables based on invoice date are as follows:

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
0 to 30 days	97,481	141,941
31 to 60 days	29,050	20,776
61 to 90 days	14,677	10,018
91 to 365 days	37,746	15,385
More than 365 days	1,834	1,901
	<b>180,788</b>	<b>190,021</b>

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

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Amount past due at the reporting date but not impaired:		
Less than 30 days past due	35,223	44,653
31 to 60 days past due	16,312	14,339
61 to 90 days past due	5,631	7,798
91 to 365 days past due	32,293	11,291
More than 365 days past due	1,137	1,600
	<b>90,596</b>	<b>79,681</b>

The current balances related to existing customers, most of which had no recent history of default.

As at 30 June 2011, trade receivables of approximately HK\$90,596,000 (as at 31 December 2010: HK\$79,681,000) 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 the past experience, management estimates that the carrying amounts could be fully recovered.

**17. Pledged Bank Deposits**

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Pledged bank deposits	1,359	3,347
Less: non-current pledged bank deposits	(1,359)	(1,359)
	–	1,988

Pledged bank deposits represented deposits made to a bank for the performance guarantees (the "Guarantee") issued by the bank to the Group's customers. The Guarantee will be expired on 29 March 2013.

**18. Bank Deposits and Cash & Cash Equivalents**

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Cash at banks & on hand	119,691	86,697
Bank deposits	37,119	439
	156,810	87,136
Less: bank deposits – non-current portion	–	(439)
Cash & cash equivalents	156,810	86,697

**19. Non-current Assets Classified as Held for Sale**

On 2 November 2010, Hong Kong Carpet (Holdings) Limited, a subsidiary of the Company, has entered into an agreement to dispose of a property with a carrying value of approximately HK\$25,411,000 for a consideration of HK\$31,699,000. Such property has been presented as non-current assets held for sale following the approval of the Group's management on 17 September 2010. The completion date for the transaction is on or before 16 September 2011.

On 21 December 2009 and 24 December 2009, the Group entered into sale and purchase agreements with independent third parties to dispose of all investment properties situated in Hong Kong for a cash consideration of HK\$7,161,000. The transactions were completed in February 2010 and have resulted in a gain on disposal of approximately HK\$361,000 (note 8).

**20. Share Capital**

	No. of shares	HK\$'000
Authorised – Ordinary shares of HK\$0.10 each:		
At 1 January 2011 & 30 June 2011	400,000,000	40,000
Issued & fully paid – Ordinary shares of HK\$0.10 each:		
At 1 January 2011 & 30 June 2011	212,187,488	21,219

## 21. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Other properties revaluation reserve HK\$'000	General reserve HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
Balance at 1 January 2011	189,699	71,625	4,161	16,000	163,905	445,390
Currency translation differences	-	-	-	-	(12,225)	(12,225)
Balance at 30 June 2011	189,699	71,625	4,161	16,000	151,680	433,165

	Share premium HK\$'000	Capital reserve HK\$'000	Other properties revaluation reserve HK\$'000	General reserve HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
Balance at 1 January 2010	189,699	71,625	4,161	16,000	115,408	396,893
Currency translation differences	-	-	-	-	24,283	24,283
Balance at 30 June 2010	189,699	71,625	4,161	16,000	139,691	421,176

## 22. Trade &amp; Other Payables

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Trade payables	68,147	65,667
Deposits received in advance	152,149	93,645
Accrued expenses	87,629	67,032
Other payables	27,489	29,793
	335,414	256,137

At the reporting date, the ageing analysis of the trade payables based on invoice date is as follows:

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
0 to 30 days	58,847	56,302
31 days to 60 days	6,038	7,606
61 days to 90 days	653	642
More than 90 days	2,609	1,117
	68,147	65,667

**23. Contingent Liabilities**

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Performance bonds issued by banks	27,103	23,719
Standby letter of credit issued by banks	6,837	9,280
	<b>33,940</b>	<b>32,999</b>

**24. Capital Commitments**

	30 Jun 2011 HK\$'000	31 Dec 2010 HK\$'000
Authorised but not contracted for in respect of property, plant & equipment	5,265	4,057
Contracted but not provided for in respect of property, plant & equipment	24,034	–
	<b>29,299</b>	<b>4,057</b>

There are no capital commitments relating to the Group's interest in jointly controlled entities and no capital commitment of the entities themselves.

**25. Related Party Transactions**

The Mikado Private Trust Company Limited ("MPTCL") is a substantial shareholder of the Company and MPTCL is also deemed to be interested in more than 30% of the voting power of The Hongkong and Shanghai Hotels, Limited.

The ultimate parent of the Group is Tai Ping Carpets International Limited (incorporated in Bermuda).

The following transactions were carried out with related parties:

**(a) Sale of goods & services**

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Sale of carpets:		
an associate <sup>1</sup>	10	45
The Hongkong and Shanghai Hotels, Limited ("HSH") <sup>2</sup>	1,110	1,992
Government-related entities	273	152
	<b>1,393</b>	<b>2,189</b>

Notes:

<sup>1</sup> Sales to an associate were conducted in the normal course of business and at mutually agreed prices between the parties.

<sup>2</sup> By virtue of the fact that HSH is under common control with the Company, the Company's transactions with HSH and its subsidiaries are related party transactions. These transactions also fall under the definition of continuing connected transactions under the Listing Rules.

## 25. Related Party Transactions

**(b) Purchase of goods**

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Purchase of goods:		
jointly controlled entities <sup>1</sup>	4,553	5,870
	4,553	5,870

Note:

<sup>1</sup> Purchases from jointly controlled entities were conducted in the normal course of business and at mutually agreed prices between the parties.

**(c) Key management compensation**

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Salaries & other short-term employee benefits	22,955	20,954

**(d) Period/year-end balances arising from sale/purchase of goods/services**

	30 Jun	31 Dec
	2011	2010
	HK\$'000	HK\$'000
Trade receivable from a related party:		
HSH	1	2,174
	1	2,174
Trade payables to related parties:		
jointly controlled entities	530	1,523
	530	1,523