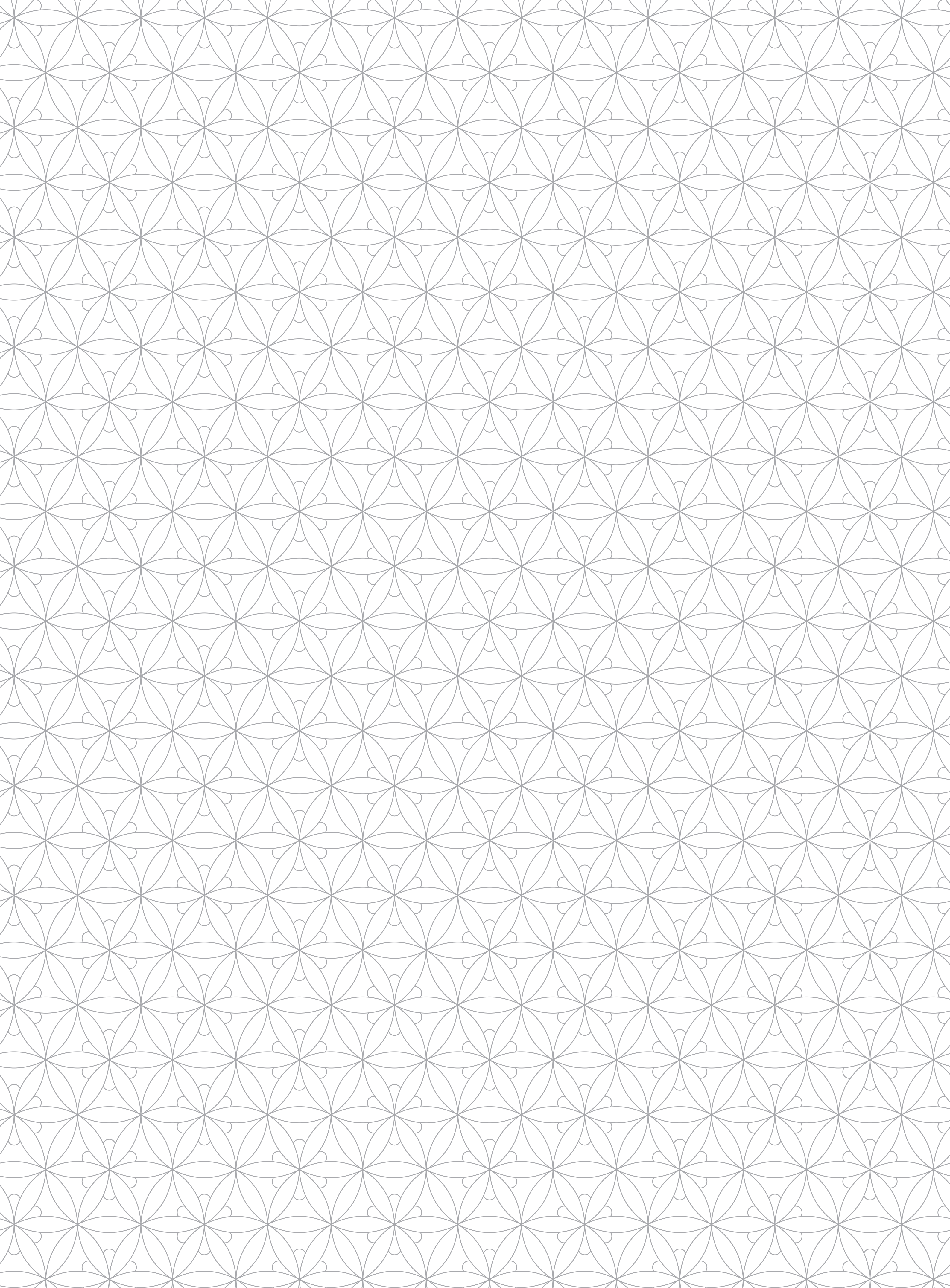
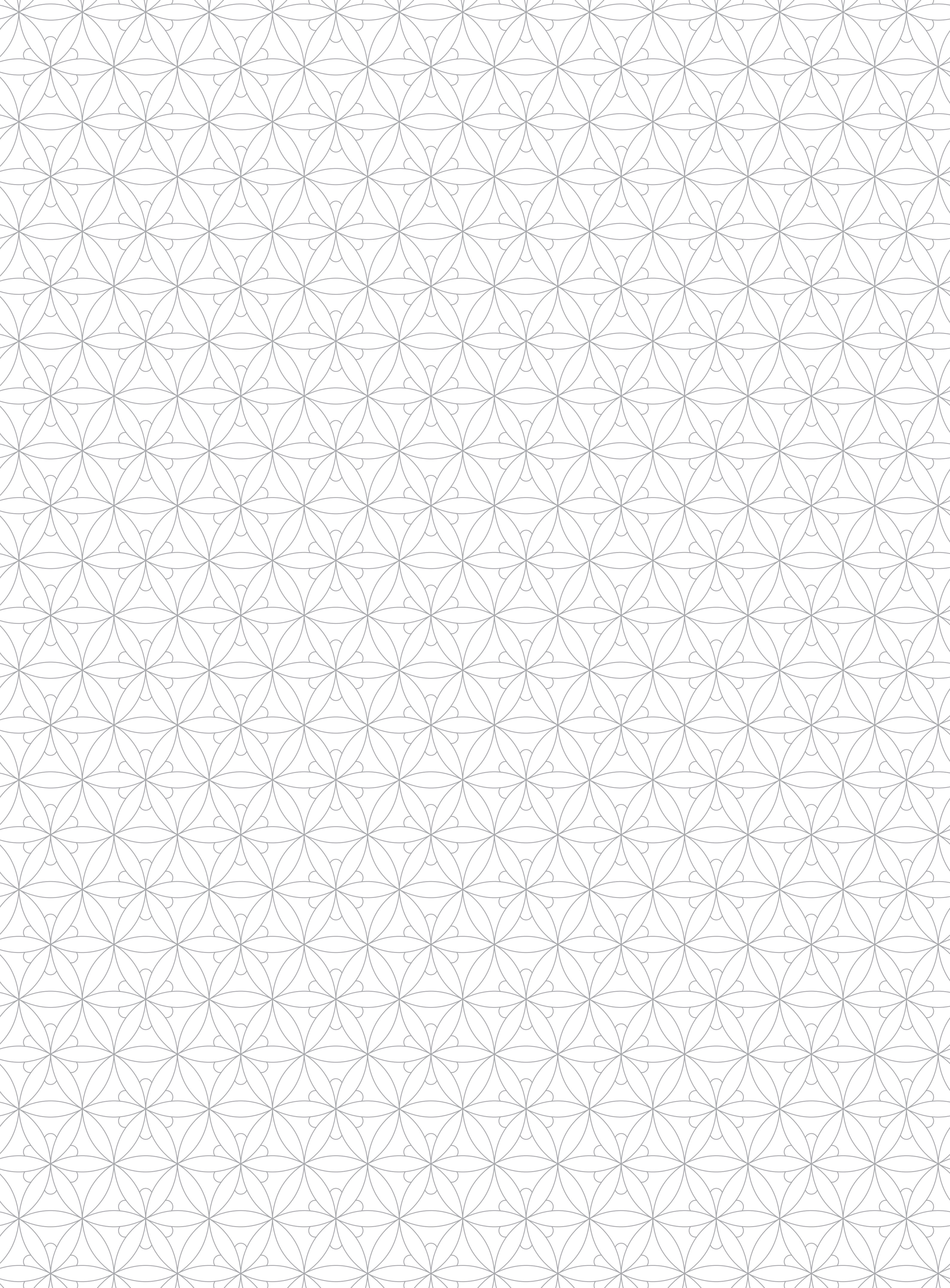
TAI PING

Tai Ping Carpets International Limited
Annual Report 2011

Incorporated in Bermuda with Limited Liability
Stock Code: 146





TAI PING

VISION

Tai Ping will be a world leader in the creation and distribution of exceptional products and services for interiors, acting through a constellation of prestigious products and brands. Tai Ping will be a vibrant, well-respected, innovative company with an ambitious and realistic strategy for continued long-term prosperity.

We will build our carpet businesses by extending our geographic reach, expanding our product offering, strengthening our brand positions and continuing to set the bar for quality and design excellence. We will also seek our new opportunities in related product categories, thereby leveraging our relationships and expertise into the broader realm of interior design.

We will focus on a sophisticated, international clientele, which we will serve through an array of brands, each representing the Tai Ping standard of excellence.

In attaining our vision, we will hold steadfast to our ideals and to the well-being of our employees.

Peerless since 1956.

Tai Ping Headquarters, Hong Kong

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Tai Ping at-a-Glance

Tai Ping is Asia's premier carpet manufacturer and is a leader in the international custom carpet industry. The Company was founded in 1956 by a group of visionary businessmen and has been publicly traded since 1973. The Company's shares are traded under stock code 146 on The Stock Exchange of Hong Kong Limited.

The Company has grown from a small cottage industry making traditional Chinese knotted rugs to a vertically integrated, full-service manufacturer of hand tufted, machine woven and tufted carpets with myriad variety and sales in over 100 countries.

Tai Ping offers its customers access to a full range of quality floorcovering products, from luxury to affordable, appropriate for every commercial and residential environment. The Company's global network attends to customer needs with unparallelled attention to detail, providing a full service from custom design through post-installation services. With its superior design and manufacturing capabilities, Tai Ping can transform the most complicated custom design into a work of art for the most discerning buyer.

Financial Highlights

In thousands of Hong Kong dollar except per share amounts

		2011	2010
Per share	Net worth per share (HK$)	**4.06**	4.94
	Basic loss per share (HK cents)	**(83.96)**	(6.16)
	Final dividend declared per share (HK cents)	**9.0**	9.0
For the year	Turnover	**1,250,109**	1,221,548
	Loss for the year	**(175,467)**	(11,808)
	Loss attributable to owners of the Company	**(178,143)**	(13,063)
	Earnings before interest, tax, depreciation & amortisation	**(137,298)**	82,065
	Additions to property, plant & equipment, construction in progress and intangible assets (other than goodwill)	**79,844**	49,956
As at 31 December	Capital & reserves attributable to the owners of the Company	**812,668**	1,002,504
	Shares in issue (in thousands)	**212,187**	212,187
Ratio	Return on capital & reserves attributable to owners	**–21.9%**	–1.3%

Five-year Consolidated Financial Summary

Year ended 31 December

Assets & Liabilities

	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,248,428**	1,362,535	1,276,540	1,294,669	1,205,305
Total liabilities	**387,244**	315,013	250,810	298,739	271,146
Total equity	**861,184**	1,047,522	1,025,730	995,930	934,159

Consolidated Income Statement

	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
(Loss)/profit attributable to:					
Owners of the Company	**(178,143)**	(13,063)	39,134	83,465	89,169
Non-controlling interests	**2,676**	1,255	219	688	4,802
	(175,467)	(11,808)	39,353	84,153	93,971

Outdoor Collection

Chairman's Statement

On 17 October 2011, our factory in Pathumthani near Bangkok was flooded, and inundated with water for several weeks thereafter. Fortunately, there was no loss of life, but more than 1300 of our factory employees suffered severe damage to their homes.

A company-wide effort was immediately put into effect to help the victims of the flood and limit the damage to our business operations. The global crisis management team did an extraordinary job fulfilling existing orders and continuing supply to our customers, by redeploying orders to our facilities in China and arranging--in a matter of weeks-– ad-hoc sourcing through a select group of carpet companies in China and South-East Asia. Additional rapid response by the Operations team and the factory workers, who were instrumental in the clean-up and recovery, enabled the factory to be back up and running, close to pre-flood capacity, by early March, albeit at significant extra cost.

It is important to note that Carpets Inter management was recognised by the Thai Ministry of Labour for their post-flood efforts and diligence in assuring all staff were accounted for and unharmed. Additionally, I would like to pay tribute to the many customers who showed such understanding and flexibility in the light of this natural disaster, thereby also providing valuable support to the Company.

The losses related to the floods, which included damage to raw materials, inventory and equipment, as well as business interruption, had a major impact on our operating results, especially on our Commercial Division, which has the majority of its products manufactured in Thailand. Therefore, we had to issue a profit warning in December, as under current accounting standards none of the expected insurance payouts could be included in the 2011 results. We have adequate insurance coverage and we expect to recover the majority of the incurred losses from the underwriters. We hope to settle major parts of the insurance claim in 2012, but final settlement might take well into 2013. However, we are fortunate to have a strong balance sheet with healthy cash reserves and the support of good banking relationships, leaving us in a position to endure and recover robustly from this unexpected natural disaster.

Excluding the significant impact of the flood, our Commercial division had a good year. A general recovery in the key hospitality sector, apparent in the second half of the previous year, continued, and we also witnessed a further increase in pricing and margins. The outlook for 2012, already showing a strong order book, is very positive.

Our Residential businesses felt very little effect from the floods, as the vast majority of their products are manufactured in our factory in Nanhai, PRC. Turnover of this high-end, luxury, strategic focus area of our business grew double digits once again, and now represents close to 40% of our overall turnover, compared to less than 10% five years ago. After years of significant investments, profitability is also increasing in line with our long-term strategic goals. The U.S. business managed to break-even for the first time. Our focus on the private Yacht and Aviation segments is paying off, with sales increasing more than 30%. We now manage the Aviation business sector globally through the appointment of a Global Managing Director for Aviation. We re-introduced the Tai Ping brand in China through the very successful launch of the André Fu collection. We also created a new sales team in Shanghai, a key growth market. In Paris, we opened a new flagship showroom, which will allow us to expand the business further.

Our manufacturing operations in China had a record year in terms of production and overall contribution to the Group. We increased the retention rate of our top-skilled employees, as well as the operating efficiency of the factory through the introduction of environmentally friendly package dyeing and best-in-class manufacturing practices.

In November 2011 we announced our intention to sell our 49% stake in the Shanhua, Weihai joint venture. Although making a profitable contribution to the Group, we concluded that the shareholding was not in line with our long-term intent to focus on our portfolio of top-quality brands. We expect to complete the disposal in the first half of 2012 and although we will record a book loss, this will release substantial funds for future investments into our own core operations.

We also, in September 2011, relocated to our new global head offices in Kwai Chung, giving a much-needed boost to the working atmosphere for our staff, and providing the right environment to welcome our customers and the international design community.

Based on strong improvement of markets around the globe and our current order book, 2012 should be a positive year for all our businesses, although economic turmoil in Europe or political issues in the Middle East could change the overall outlook.

Our people have once again proven to be our key asset, as we managed to work through a major crisis and come out stronger than before. On behalf of the other members of the Board, I would like to thank Tai Ping management and staff for their contributions in this difficult year. I would also like to thank the Directors for their support and advice throughout 2011.

In this regard, I should note that due to other commitments, Mr. Lincoln Leong will step down from the Board in May 2012, and that it is proposed that Mr. Nelson Leong will stand as Director in his stead. Nelson already makes a significant contribution to the Board in his capacity as Alternate and on the Executive Committee. I would like to thank Lincoln for all his valuable advice during his period of service, and I am pleased to add that it is proposed that he would act as Alternate to Nelson.

Nicholas T. J. Colfer
Chairman

Hong Kong, 29 March 2012

Management Discussion & Analysis

The Group's consolidated turnover for the year ended 31 December 2011 was HK$1,250 million, virtually unchanged from 2010. The turnover was, however, heavily affected by the flooding that forced our Thailand operations to cease production for several months. We estimate that had the company not been impacted by customer order delays and cancellations, global turnover would have increased by about 10%.

All regions suffered some impact from the floods, but it was heaviest felt in Asia, where Thailand domestic and export sales were decimated following the inundation of major parts of the country. Overall sales in Asia decreased, while sales in the Americas grew by 10% and in Europe grew by 7%.

Our gross margin also decreased due to the floods. A combination of factors-– price increases at the beginning of the year, a better product mix resulting from faster growth in Residential and Boutique Contract sales over Commercial sales, and more efficient production--all helped to partly offset increases in factory wages, raw material prices, and more expensive third-party manufacturing, incurred as a consequence of the disaster.

Operating expenses grew by 11%. Flood damage expenses, which are fully provided for in 2011, amounted to HK$115 million. In combination with reduced sales following the flood, these resulted in an operating loss of HK$227 million for the Group.

Share of profits of the jointly controlled entities, which mainly reflects our 49% interest in the carpet manufacturing operations of Weihai Shanhua in China was HK$20 million, a drop of HK$13 million from 2010. We have announced our intention to dispose of our full shareholding in the partnership and expect to complete this transaction in the first half of 2012.

As a result, loss attributable to owners of the Company amounted to HK$178 million, compared with HK$13 million in the prior year.

CARPET OPERATIONS

Turnover of the carpet operations improved in 2011, driven by another year of excellent sales performance in the Residential Division, which increased by 26%, offset by a 6% flood-impacted drop in Commercial sales.

Our operating entities in Asia generated the largest share of our turnover, accounting for 44% of sales, while America and Europe, the Middle East and Africa accounted for 34% and 22%, respectively.

Gross profit margin slightly decreased by 0.5% due to yearly raw material and wage inflation, in spite of strategic price increases and expedited growth in Residential and Boutique Contract sales. Operating loss of the carpet business increased by HK$190 million, which includes flood expenses related to the impairment of property, plant & equipment and inventory write-offs.

The Americas

The signs of economic recovery that were starting to show in the second half of 2011 continued, and turnover in all sectors of our business in the Americas increased. Carpet turnover increased by 10% to HK$418 million.

Growth in the Residential business was led by the Aviation sector, which had another very strong year, growing turnover 13%. A new U.S.-based Managing Director was hired to better service our customers and to oversee this key business sector, globally. Margins improved as a result of dedicated sales efforts and we continued to take market share from our competitors globally through this focused initiative. Additionally, we secured preferred vendor contract status with Bombardier.

Residential sales grew to HK$176 million; the U.S. Residential business broke even for the first time in its existence, delivering on several years of high-end investments made in sales and support staff, showrooms, collections, events and marketing expenditure, with the intent to increase the client base.

Despite the flooding in Thailand, which led to the delay and cancellation of orders at the end of the year, the U.S. Commercial business managed to increase turnover by 15%, grow market share, secure, among other projects, a large order for a Houston convention centre and strengthen relationships with key hospitality clients such as Westin, Sheraton and Venetian hotels.

The transformation of J.S.L. Carpet Corporation ("JSL"), a U.S.-based wholesale distributor of high-end custom carpets and rugs acquired by the Group in 2008, into an internal supplier of woven carpets was completed during the year. Operating expenses were significantly reduced and management fully integrated.

Asia

Turnover in Asia dropped to HK$540 million due to the completion of the large Marina Bay project in 2010, and the flood-related decrease in sales at Carpets Inter Thailand. Adjusting for the floods, the performance of the underlying business in Hong Kong was strong, driven by sales into Macau and Southern China.

Carpets Inter's domestic, export and automotive sales reduced dramatically after the inundation of the factory and a large part of Thailand, resulting in an overall decrease of 10%. The factory is due to be fully operational again at the end of March 2012.

Our growing Hong Kong Residential business had a successful year, and a small sales team was created in Shanghai. Overall sales grew to HK$21 million, although the operating result went from break-even to a small loss due to investment in the future growth of the China market business. Strategic company investment in the Residential sector in China resulted in significant percentage increases in both order bookings and sales in this market and will continue to be a focus of our company strategy in Asia.

Europe, the Middle East & Africa

Following a very strong 2010 sales performance with several one-off projects, Europe grew turnover to HK$259 million, a 7% increase compared to the previous year.

The European Commercial Business, managed out of Kidderminster, U.K. was restructured in the beginning of the year, and combined with the Residential business, managed out of Paris, to form one regional Selling and Distribution organisation, handling both Residential and Commercial product lines. The creation of a single entity selling both Commercial and Residential products represents a unique model for the company.

La Manufacture Cogolin, acquired in 2010, was wholly integrated into the European division and received significant investment in people, brand equity and capital expenditure to revive sales. Progress of the company is according to plan.

Jointly Controlled Entities

Combined turnover of the three jointly controlled entities in China was up to HK$994 million in 2011. The Group's share of the profit, after tax expenses and HKFRS accounting adjustments, amounted to HK$20 million, a 39% decrease from 2010.

We announced our intention to dispose of our shareholding in Weihei Shanhua in November 2011. The disposal will generate an expected loss on disposal of HK$49 million versus book value, which we have fully provided for. The investments have been reclassified as non-current assets held for sale.

Manufacturing Operations

Our manufacturing business in Nanhai managed to improve output and efficiency by 10%. Wages continued to increase significantly in real terms, but less than in the previous year. A combination of improved salaries, training, housing and other secondary benefits, all contributed to fewer labour shortages, and the retention of our best operators and tufters.

The operations team and factory workers in Thailand were faced with great challenges following the flooding of the factory on 17 October 2011, but through hard work and much dedication we managed to get the facility back up and running in record time. The facility was back in full operation by the end of March 2012. Production for the year was down by 17%, but had the disaster not occurred, would have significantly surpassed 2011.

Human Resources

Our number of employees dropped to 3130, which was predominantly due to a decrease of factory workers in Thailand by year-end 2011. As we ramp-up production post-flood, and return production in-house following the re-start of the Thailand factory, we expect the number of employees to grow again above 2010 levels.

We worked with a New York and Hong Kong-based design team from M Moser Associates to develop a new and improved headquarters and relocated in September 2011 from Regent Centre to leased facilities at the Kowloon Commerce Centre in Kwai Chung. The new space offers a much better working environment and includes new showrooms for both Residential and Commercial product for customer presentations, product launches and display throughout the year.

Information Technology

Oracle was launched in the U.S., facilitating faster order processing and better customer service. Oracle financials were placed into the majority of our operating entities, and in 2012 the system will be implemented in Paris, Hong Kong and Nanhai, fully completing the rollout.

Design & Marketing

In the luxury market, the launch of the André Fu Collection achieved very positive results, from both a sales and a Public Relations perspective. The re-launch of *La Manufacture Cogolin*, including a fresh visual identity and website is underway, and a brand new Cogolin showroom will open its doors in Paris in April 2012. Additionally, a new Tai Ping Paris flagship, conceived by Belgium-born designer Ramy Fischler is in progress, with a planned opening for June 2012.

The 1956 by Tai Ping rebranding and launch was successfully completed on schedule for the Commercial sector and we have already seen the benefits of distinguishing the hospitality-focused products from the luxury Residential and Boutique Contract line.

Web-based Marketing initiatives, including social media continue to be a strategic focus area. Facebook pages for both the Tai Ping and Edward Fields brands have been launched and a Twitter account for Tai Ping has been opened, providing new ways of connecting directly with our customers and the architect and design communities around the globe.

NON-CARPET OPERATIONS

Yarn Operations

Premier Yarn Dyers, Inc. ("PYD"), which operates the Group's U.S.-based yarn-dyeing facilities, experienced a difficult year due to the recession and structural over-capacity, resulting in their customers moving dyeing in-house, rather than outsourcing. Turnover decreased by 3%, and the operating result was break-even. The expense base has been reduced and some recovery is expected, depending on the U.S. economy.

Other Operations

The sale of the 26th floor of Regent Centre, Hong Kong to a wholly-owned subsidiary of Winsor Properties Holdings Limited was completed in September 2011 for a total consideration of HK$31 million and resulted in a profit of HK$6 million.

Liquidity & Financial Resources

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

As at 31 December 2011, the Group had total cash and bank balances amounting to HK$117 million (2010: HK$87 million).

As at 31 December 2011, the Group also held financial assets at fair value through profit or loss of HK$41 million (2010: HK$133 million).

James H. Kaplan
Chief Executive Officer

Hong Kong, 29 March 2012

Zingara Collection

Board of Directors

Chairman & Non-Executive Director

Nicholas T. J. Colfer, age 52

Chairman since 2005; Non-Executive Director since 2003; Member of the Executive Committee

Mr. Colfer is a Director of Sir Elly Kadoorie & Sons Ltd., a Non-Executive Director of The Hongkong and Shanghai Hotels, Ltd. and serves on several other corporate boards in Hong Kong. He holds a Master of Arts degree from the University of Oxford.

Chief Executive Officer & Executive Director

James H. Kaplan, age 56

Chief Executive Officer and Executive Director since 2003; Member of the Executive Committee

Mr. Kaplan has been with Tai Ping for eight years. Prior to that, he was Divisional Vice President of the high-end global furniture manufacturer Knoll International. He holds a Bachelor of Arts degree from Lafayette College.

Non-Executive Director

Ian D. Boyce, aged 67

Non-Executive Director since 1999

Mr. Boyce is Chairman of Sir Elly Kadoorie & Sons Ltd., a Non-Executive Director of CLP Holdings Ltd. and Deputy Chairman of The Hongkong and Shanghai Hotels, Ltd. He is a Chartered Accountant with extensive investment banking experience.

Non-Executive Director

Lincoln K. K. Leong, aged 51

Non-Executive Director since 1997

Mr. Leong is the Finance & Business Development Director of MTR Corp. Ltd., an Independent Non-Executive Director of Hong Kong Aircraft Engineering Co., Ltd. and Mandarin Oriental International Ltd. He is a Chartered Accountant and holds a Master of Arts degree from the University of Cambridge. He is the elder brother of Mr. Nelson K. F. Leong.

Non-Executive Director

Nelson K. F. Leong, aged 48

Alternate Director to his elder brother Lincoln K. K. Leong since 1998; Member of the Executive Committee

Mr. Leong is a Director of a number of companies involved in real estate in Hong Kong and North America. He holds a Master of Business Administration degree from the University of Toronto and a Bachelor of Arts degree from Brown University.

Non-Executive Director

David C. L. Tong, aged 41

Non-Executive Director since 1997; Member of the Executive and Remuneration Committees

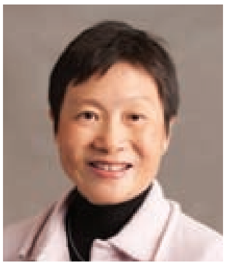
Mr. Tong is a Director of Sir Elly Kadoorie & Sons Ltd. and serves on several other corporate boards in Hong Kong. He is a Chartered Engineer and holds a Bachelor of Engineering degree from the University of London.

Non-Executive Director

John J. Ying, aged 49

Non-Executive Director since 1999; Member of the Executive and Audit Committees

Mr. Ying is the Managing Director of Peak Capital Partners I, L.P., a private equity firm focused on investments in Greater China and Chairman of Sateri Holdings Ltd. He holds a Master of Business Administration degree from the Wharton School, a Master of Arts degree from the University of Pennsylvania and a Bachelor of Science degree from the Massachusetts Institute of Technology.



Independent Non-Executive Director

Yvette Y. H. Fung, aged 50

Independent Non-Executive Director since 2004; Member of the Remuneration Committee

Mrs. Fung is a Director of Hsin Chong International Holdings Ltd., an Independent Non-Executive Director of Fountain Set (Holdings) Ltd. and a member of various boards in the education and non-profit sectors. She holds both a Juris Doctor and a Bachelor of Arts degree from Stanford University and a Master of Business Administration degree from the University of California, Los Angeles.

Independent Non-Executive Director

Roderic N. A. Sage, aged 59

Independent Non-Executive Director since 2005; Chairman of the Remuneration Committee and the Audit Committee

Mr. Sage is Chief Executive Officer of a consultancy specialising in taxes, corporate services and trusts. He is a Chartered Accountant and was formerly a Senior Partner and member of the board of KPMG in Hong Kong.

Independent Non-Executive Director

Lincoln C. K. Yung, JP, aged 66

Independent Non-Executive Director since 2004 and Non-Executive Director (1980-2004)

Mr. Yung is currently Deputy Managing Director of Nanyang Holdings Ltd., Chairman and Non-Executive Director of Shanghai Commercial Bank Ltd. and Paofoong Insurance Co., (Hong Kong) Ltd.; and a Director of The Shanghai Commercial & Savings Bank, Ltd. He has extensive experience in the textile, banking and investment industries and serves on various committees and boards. He holds a Master of Business Administration degree from the University of Chicago and is a graduate of Cornell University.

Independent Non-Executive Director

Aubrey K. S. Li, aged 62

Independent Non-Executive Director since 2010; Member of the Audit Committee

Mr. Li is the Chairman of MCL Partners Ltd., a Hong Kong-based financial advisory and investment group, a Non-Executive Director of The Bank of East Asia, Ltd. and an Independent Non-Executive Director of Café de Coral Holdings Ltd., China Everbright International Ltd., Kunlun Energy Co., Ltd., Kowloon Development Co., Ltd. and Pokfulam Development Co., Ltd. He is also a Non-Executive Director of Affin Bank Berhad, and within the past three years was a Non-Executive Chairman of Atlantis Asian Recovery Fund plc. He has over 35 years experience in merchant and commercial banking and holds a Master of Business Administration degree from Columbia University and a Bachelor of Science degree in Civil Engineering from Brown University.

Corporate Governance

Corporate Governance Practices

The Board and Management are committed to promoting good corporate governance to safeguard the interests of shareholders. The Company codified its corporate governance practices by reference to the Code on Corporate Governance Practices (the "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"). The Company has applied the principles in the Code and complied with the code provisions set out in the Code throughout the year ended 31 December 2011.

Directors' Securities Transactions

The Company has 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 year ended 31 December 2011 and up to the date of publication of this Annual Report.

Board of Directors

The Board of Directors is accountable to the shareholders for the leadership and management and control of the business of the Company. The Board delegates to the Chief Executive Officer and his management team day-to-day management of the Company's business, including the preparation of annual and interim financial statements and implementation of internal controls, in accordance with the strategy, policies and programmes approved by the Board.

The Board currently consists of 11 members. Among them, 1 is Executive Director, 6 are Non-Executive Directors (including one alternate director) and 4 are Independent Non-Executive Directors.

Board Meetings

The Board of Directors held a total of six Board meetings during the year ended 31 December 2011. Of these, two meetings were held to approve the 2010 final results and 2011 interim results of the Group; the other meetings were held to consider financial and operating performances of the Group. The Chief Financial Officer and the Company Secretary, attended all Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial.

The attendance of individual Directors during the year ended 31 December 2011 is set out in the table below. All businesses transacted at the Board meetings are well-documented and the records are maintained in accordance with applicable laws and regulations.

	No. of meetings attended
Chairman & Non-Executive Director	
Nicholas T. J. Colfer	6/6
Chief Executive Officer & Executive Director	
James H. Kaplan	6/6
Non-Executive Directors	
Ian D. Boyce	5/6
Lincoln K. K. Leong	2/6
Nelson K. F. Leong (Alternate Director to Lincoln K. K. Leong)	6/6
David C. L. Tong	5/6
John J. Ying	6/6
Independent Non-Executive Directors	
Yvette Y. H. Fung	5/6
Aubrey K. S. Li	5/6
Roderic N. A. Sage	5/6
Lincoln C. K. Yung	6/6

The proceedings of the Board of Directors at its meetings are conducted by the Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and also equal opportunities are being given to Directors to speak, express their views and share their concerns. Minutes of the Board meetings record in sufficient detail the matters considered by the Board of Directors and the decisions reached. The draft minutes of each Board meeting are sent to all Directors for comments.

Chairman & Chief Executive Officer

The posts of Chairman and Chief Executive Officer ("CEO") are separate and are not held by the same individual to ensure their independence, accountability and responsibility. The Chairman of the Board is Mr. Nicholas T. J. Colfer and the Chief Executive Officer is Mr. James H. Kaplan. To comply with code provision A.2.1 of the Code, the division of responsibilities between the Chairman and the Chief Executive Officer was formally set out in writing at the Board meeting on 23 September 2005. Essentially, the Chairman takes the lead to oversee the Board functions while the Chief Executive Officer, supported by his management team, is responsible for the day-to-day management of the business of the Company.

Non-Executive Directors

The Company's Non-Executive Directors are not appointed for specific terms as required by code provision A.4.1 of the Code. However, at the Company's annual general meeting on 10 June 2005, in order to be more consistent with code provision A.4.1, the relevant Bye-law of the Company was amended to ensure that every Director other than any Executive Chairman or Managing Director would retire by rotation at least once every three years. The Executive Chairman or Managing Director cannot be required to retire by rotation in the Bye-laws as pursuant to the Tai Ping Carpets International Limited Company Act 1990 of Bermuda. Notwithstanding this, the Directors intend to comply with code provision A.4.1 by asking any Executive Chairman or Managing Director to voluntarily retire by rotation at least once every three years.

Mr. Lincoln K. K. Leong and Mr. Nelson K. F. Leong (being Alternate Director to Mr. Lincoln K. K. Leong) are brothers. Save for this relationship, to the best knowledge of the Company, there are no other financial, business, family or other material or relevant relationships among members of the Board.

The Company considers that its Non-Executive Directors and Independent Non-Executive Directors bring to the Board a good mix of expertise and experience in the fields of accounting, investment and business. At least one of the Independent Non-Executive Directors has appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. Pursuant to the requirements of the Listing Rules, each Independent Non-Executive Director has given the Company an annual confirmation of his/her independence.

The Company considers all the Independent Non-Executive Directors to be independent with due regard to the guidelines as set out in Rule 3.13 of the Listing Rules.

Board Committees

The Company currently has four Board committees, namely, Executive Committee, Remuneration Committee, Audit Committee and Nomination Committee.

1. Executive Committee

The Executive Committee was established in August 2005 and operates as an executive management committee under the Board to monitor and control the financial and operational performance of the Group.

During the year under review, it held seven meetings and the attendances of the members were:

	No. of meetings attended
Nicholas T. J. Colfer	7/7
James H. Kaplan	7/7
David C. L. Tong	7/7
John J. Ying	5/7
Nelson K. F. Leong	6/7

2. Remuneration Committee

Written terms of reference for the Remuneration Committee in line with code provision B.1.3 of the Code were adopted at the Board meeting on 23 September 2005 and were revised at the Board Meeting on 29 March 2012. The majority of its members are Independent Non-Executive Directors.

The roles and functions of the Remuneration Committee under its terms of reference are to:

- Make recommendation on the Company's policy and structure for remuneration of the Directors and senior executives
- Determine remuneration of all Executive Directors and senior executives
- Review and approve performance-based remuneration
- Review and approve compensation in connection with any loss or termination of office or appointment of any Executive Directors and senior executives

The committee evaluates the remuneration packages of the Executive Director and the senior executives by linking their performance against corporate objectives, the profits of the Group and their potential contribution to the development of the Group. The fees for the Non-Executive Directors and the Independent Non-Executive Directors are determined on the basis of experience, demand for their services and market practice.

The members of the Remuneration Committee and their attendances at the meetings of the committee are set out below:

	No. of meetings attended
Roderic N. A. Sage (Chairman)	2/2
Yvette Y. H. Fung	1/2
David C. L. Tong	2/2

3. 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 and were revised at the Board meeting on 29 March 2012.

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 and internal controls.

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 internal controls and financial reporting.

The composition of the Audit Committee and the attendances of the members at the meetings are as follows:

	No. of meetings attended
Roderic N. A. Sage (Chairman)	3/3
John J. Ying	3/3
Aubrey K. S. Li	3/3

4. Nomination Committee

The Nomination Committee will be established with written terms of reference in line with code provision A.4.5 of the Code with effect from 31 March 2012 which were approved at the Board meeting on 29 March 2012.

The roles and functions of the Nomination Committee under its term of reference are to:

– review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy
– identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships
– to assess the independence of Independent Non-Executive Directors
– to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman of the Board and the chief executive

The composition of the Nomination Committee are as follows:

Nicholas T. J. Colfer (Chairman)
Lincoln C. K. Yung
Yvette Y. H. Fung

Auditor's Remuneration

For the year under review, the fees charged to the financial statements of the Company and its subsidiaries by the Group's external auditor, PricewaterhouseCoopers and other member firms under PricewaterhouseCoopers, for services provided are analysed as follows:

PricewaterhouseCoopers:	HK$'000
Audit services	3,550
Non-audit services	1,821

Financial Reporting & Internal Controls

The consolidated financial statements of the Company for the year ended 31 December 2011 have been reviewed by the Audit Committee and audited 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.

The independent auditor's report is on pages 38 and 39.

The Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. The internal control system of the Group is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the consolidated financial statements, and ensure compliance with relevant legislation and regulations. However, associate and jointly controlled entities might not fully follow the Group's internal control system. The Group is not involved in routine operational decisions or does not play an active role in running the businesses of the associate and jointly controlled entities, and an audit or certain review procedures are performed on their annual financial results. Major business decisions and challenges, including key policies, capital expenditure, regulatory and financing issues, would be presented and considered through regular Board meetings. Such practices provide reasonable, but not absolute, assurance against material mis-statement or loss and manage rather than eliminate risks associated with the business activities.

The independent internal audit function has written terms of reference and reports directly to the Audit Committee. Internal Audit conducts reviews of the effectiveness of the Group's internal control system based on the internal audit plan and ad hoc requests from the Audit Committee and senior management. The annual internal audit plan is developed based on an assessment of the various business and operational risks of the Group and is approved by the Audit Committee. The Audit Committee reviews the findings and opinion of Internal Audit in respect of the effectiveness of the Group's internal control system periodically, and reports annually to the Board the key findings of such reviews.

Tai Ping Showroom, Paris

Alpha Workshops Edition, Edward Fields

Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2011.

Principal Activities & Geographical Analysis of Operations

The principal activities of the Company and its subsidiaries (the "Group") consist of manufacture, import, export and sale of carpets, and manufacture and sale of yarns.

An analysis of the Group's performance for the year by segments is set out in Note 5 to the consolidated financial statements.

Results & Appropriations

The results for the year are set out on page 40.

No interim dividend was paid during the year. The Directors recommend a final dividend of HK9 cents per share (2010: HK9 cents), totaling HK$19,097,000 for the year ended 31 December 2011. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, the final dividend will be paid to shareholders whose names appear on the register of members of the Company at the close of business on 25 May 2012.

Five-year Consolidated Financial Summary

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 7 of the annual report.

Reserves

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 30 to the consolidated financial statements.

Donations

During the year, donations made by the Group for charitable purposes amounted to HK$696,000.

Intangible Assets

Details of the movement in intangible assets during the year are set out in Note 17 to the consolidated financial statements.

Property, Plant & Equipment

Details of the movement in property, plant and equipment during the year are set out in Note 16 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in Note 29 to the consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2011, calculated under the Companies Act 1981 of Bermuda (as amended) amounted to approximately HK$369,480,000.

Principal Subsidiaries, an Associate & Jointly Controlled Entities

Particulars of the principal subsidiaries are set out on pages 105 and 106.

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.

Pre-emptive Rights

No shareholder pre-emptive rights exist in the jurisdiction in which the Company was incorporated.

Share Options

The existing share option scheme ("2002 Share Option Scheme" or the "Scheme") was approved by the shareholders of the Company at the annual general meeting held on 23 May 2002. The details of the Scheme (which fully complies with Chapter 17 of the Listing Rules) are as follows:

1. **Purpose**

   – To provide participants (see the definition below) with the opportunity to acquire proprietary interests in the Company.
   – To encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

2. **Participants**

   Any employee of the Group (whether full time or otherwise, including any Executive Director, Non-Executive Director and Independent Non-Executive Director of the Group) and any consultant of the Group who has contributed or will contribute to the Group.

3. **Maximum number of shares available for issue under the 2002 Share Option Scheme together with the percentage of share capital it represents as at the date of the annual report**

   20,401,980 shares (representing 9.6% of issued share capital of the Company as at the date of this Directors' Report).

4. **Maximum entitlement of each participant**

   1% of the shares in issue in any 12-month period up to the date of further grant.

5. **The period within which the shares must be taken up under an option**

   As specified by Directors, which shall not be more than 10 years from the date of grant.

6. **The minimum holding period before an option can be exercised**

   Generally none, but subject to Directors' discretion on a case-by-case basis.

7. **Amount payable on application or acceptance of the option and the periods within which payments must or may be made or loans made for such purposes must be repaid**

   HK$10, payable upon acceptance of the offer of the grant of option which shall be made within 30 days of the offer.

8. **Basis of determining the exercise price**

   Determined by the Directors being at least the highest of
   - the closing price of a share as stated on the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at the date of grant;
   - the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
   - the nominal value of a share.

9. **The remaining life of the 2002 Share Option Scheme**

   The Scheme is valid and effective for a period of 10 years from 23 May 2002. As at the date of this Directors' Report, there were no outstanding share options under the 2002 Share Option Scheme.

Directors

The names of the Directors at the date of this Report are set out on pages 18 and 19.

In accordance with the Company's Bye-laws, Mr. Ian D. Boyce, Mr. David C. L. Tong, Mr. John J. Ying, Mr. Lincoln C. K. Yung and Mr. Lincoln K. K. Leong shall retire at the forthcoming annual general meeting. Mr. Ian D. Boyce, Mr. David C. L. Tong, Mr. John J. Ying and Mr. Lincoln C. K. Yung, being eligible, have offered themselves for re-election at the forthcoming annual general meeting. Mr. Lincoln K. K. Leong has indicated to the Company that he will not offer himself for re-election as a Director at the forthcoming annual general meeting.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company and its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Independent Non-Executive Directors

The Company has received from Mrs. Yvette Y. H. Fung, Mr. Aubrey K. S. Li, Mr. Roderic N. A. Sage and Mr. Lincoln C. K. Yung, Independent Non-Executive Directors, written confirmations of independence pursuant to Rule 3.13 of the Listing Rules.

The Company considers all the Independent Non-Executive Directors to be independent.

Biographical Details of Directors & Senior Management

Brief biographical details of Directors and senior management are set out on pages 18 to 19 and 107 respectively.

Directors' Interests in Competing Business

None of the Directors of the Company have any interest in any business which may compete with the business of the Group.

Directors' Interests in Equity Securities

As at 31 December 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

No. 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[1]	–	2,000,000	0.943%
Nelson K. F. Leong[1] (Alternate Director to Lincoln K. K. Leong)	–	2,000,000	0.943%
John J. Ying[2]	–	32,605,583	15.366%
Aubrey K. S. Li	100,000	–	0.047%
James H. Kaplan	522,000	–	0.246%

Notes:

1 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.

2 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 year 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 in the shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders

As at 31 December 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[1]	40,014,178	18.858%
Bermuda Trust Company Limited[1]	40,014,178	18.858%
Harneys Trustees Limited[1]	77,674,581	36.607%
Lawrencium Holdings Limited[1]	77,674,581	36.607%
The Mikado Private Trust Company Limited[1]	77,674,581	36.607%
The Hon. Sir Michael Kadoorie[1]	77,674,581	36.607%
Peak Capital Partners I, L.P.[2]	32,605,583	15.366%

Notes:

1 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.

2 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).

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major Customers & Suppliers

During the year, the Group sold less than 30% of its goods and services to its five largest customers and purchased less than 30% of its goods and services from its five largest suppliers.

Connected Transactions

1. Significant related party transactions entered into by the Group during the year ended 31 December 2011, which did not constitute connected transactions and were not required to be disclosed under the Listing Rules, are disclosed in Note 40 to the consolidated financial statements.

2. Other related party transactions entered into by the Group in 2011 and up to the date of this Directors' Report, which fall under the definition of "connected transactions" or "continuing connected transactions" and not exempted under Rule 14A.31 and Rule 14A.33 of the Listing Rules, are as follows:

   The Company's subsidiaries have been from time to time supplying products, and providing related ancillary services to The Hongkong and Shanghai Hotels, Limited ("HSH") and its subsidiaries. These transactions fall under the definition of continuing connected transactions under the Listing Rules by virtue of the fact that The Mikado Private Trust Company Limited, a substantial shareholder of the Company, is also interested in more than 30% voting power of HSH. In accordance with the requirements of the Listing Rules, the Company entered into a master supply agreement with HSH on 21 March 2011 ("Master Supply Agreement) for the supply of carpets and floor coverings and provision of ancillary services to HSH and its subsidiaries on normal commercial terms for a period of three years from 22 March 2011 to 21 March 2014 subject to an annual cap of HK$8,500,000 for each of the financial years ending 31 December 2011, 31 December 2012 and 31 December 2013. An announcement in this respect was made on 22 March 2011. For the year ended 31 December 2011, the total order amount and invoiced value of these transactions ("HSH Transactions") amounted to HK$1,158,000 and HK$1,480,000 respectively.

   The Directors, including all the Independent Non-Executive Directors, have reviewed the HSH Transactions and confirmed that they have been entered into:

   i. in the ordinary and usual course of business of the Group;

   ii. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to independent third parties; and

   iii. in accordance with the master supply agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

   The Company's auditor has reported to the Directors in their letter that based on their work performed:

   i. the HSH Transactions have been approved by the Company's Board of Directors;

   ii. the HSH Transactions have been entered into in accordance with the pricing policies of the Group and the relevant agreements or order contracts governing the transactions; and

   iii. the amounts on the HSH Transactions in 2011 have not exceeded the relevant cap amount.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the connected transactions and continuing connected transactions.

Public Float

As at the date of this report, the Company has maintained a sufficient public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of its Directors.

Auditor

The consolidated financial statements for the year ended 31 December 2011 were audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Board
James H. Kaplan
Chief Executive Officer

Hong Kong, 29 March 2012


Spice Market Wool Tile Collection


La Manufacture Cogolin

Financial Section

羅兵咸永道

To the shareholders of Tai Ping Carpets International Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Tai Ping Carpets International Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 40 to 104, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2012

Consolidated Income Statement

For the year ended 31 December

	Note	2011 HK$'000	2010 HK$'000
Revenue	5	**1,250,109**	1,221,548
Cost of sales	7	**(645,053)**	(625,133)
Gross profit		**605,056**	596,415
Distribution costs	7	**(107,219)**	(102,562)
Administrative expenses	7	**(562,186)**	(498,179)
Impairment of intangible assets	17	**–**	(15,533)
Impairment of interests in jointly controlled entities	21	**(51,007)**	–
Loss in relation to Thailand flooding	8	**(114,967)**	–
Other gains/(losses) – net	6	**3,794**	(845)
Operating loss		**(226,529)**	(20,704)
Finance income	10	**410**	197
Finance costs	10	**(81)**	(374)
Finance income/(costs) – net	10	**329**	(177)
Share of profit/(loss) of:			
an associate	20	**1,234**	(1,335)
jointly controlled entities	21	**19,838**	33,313
(Loss)/profit before income tax		**(205,128)**	11,097
Income tax credit/(expense)	11	**29,661**	(22,905)
Loss for the year		**(175,467)**	(11,808)
(Loss)/profit attributable to:			
owners of the Company		**(178,143)**	(13,063)
non-controlling interests		**2,676**	1,255
		(175,467)	(11,808)
Loss per share attributable to the owners of the Company during the year (expressed in HK cents per share)			
Basic	13	**(83.96)**	(6.16)
Diluted	13	**(83.96)**	(6.16)

	Note	2011 HK$'000	2010 HK$'000
Dividend	14	**19,097**	19,097

The notes on pages 47 to 104 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	2011 HK$'000	2010 HK$'000
Loss for the year	**(175,467)**	(11,808)
Other comprehensive income:		
Currency translation differences	**8,897**	49,326
Total comprehensive income for the year	**(166,570)**	37,518
Attributable to:		
owners of the Company	**(170,739)**	35,434
non-controlling interests	**4,169**	2,084
	(166,570)	37,518

Note:

[1] Items in the statement above are disclosed net of tax. The income tax relating to each component of the other comprehensive income is disclosed in note 11.

The notes on pages 47 to 104 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December

	Note	2011 HK$'000	2010 HK$'000
Assets			
Non-current assets			
Land use rights	15	**3,516**	5,359
Property, plant & equipment	16	**243,935**	278,886
Construction in progress	16	**22,051**	6,036
Intangible assets	17	**30,588**	25,661
Interest in an associate	20	**18,723**	17,489
Interests in jointly controlled entities	21	**–**	322,078
Deferred income tax assets	31	**33,036**	11,771
Prepayments		**9,391**	–
Pledged bank deposits	26	**1,344**	1,359
Fixed deposits	27	**7,865**	439
		370,449	669,078
Current assets			
Inventories	22	**195,893**	192,535
Trade & other receivables	23	**205,109**	232,754
Derivative financial instruments	24	**1,022**	1,109
Amount due from an associate	20	**356**	403
Amounts due from jointly controlled entities	21	**–**	19,495
Financial assets at fair value through profit or loss	25	**40,752**	133,065
Current income tax assets		**4,137**	–
Pledged bank deposits	26	**–**	1,988
Fixed deposits	27	**1,642**	–
Cash & cash equivalents	27	**117,164**	86,697
		566,075	668,046
Non-current assets classified as held for sale	28	**311,904**	25,411
		877,979	693,457
Total assets		**1,248,428**	1,362,535

The notes on pages 47 to 104 are an integral part of these consolidated financial statements.

	Note	2011 HK$'000	2010 HK$'000
Equity			
Equity attributable to owners of the Company			
Share capital	29	**21,219**	21,219
Reserves	30	**452,794**	445,390
Retained earnings:			
Proposed final dividend	14	**19,097**	19,097
Others		**319,558**	516,798
		812,668	1,002,504
Non-controlling interests		**48,516**	45,018
Total equity		**861,184**	1,047,522
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	31	**425**	5,597
Retirement benefit obligations	32	**20,009**	18,281
Other long-term liabilities	33	**2,584**	837
		23,018	24,715
Current liabilities			
Bank borrowings – unsecured	34	**866**	5,989
Trade & other payables	35	**346,899**	256,137
Current income tax liabilities		**1,485**	13,698
Other long-term liabilities – current portion	33	**1,267**	1,028
Derivative financial instruments	24	**263**	–
Amounts due to non-controlling shareholders	19	**13,446**	13,446
		364,226	290,298
Total liabilities		**387,244**	315,013
Total equity & liabilities		**1,248,428**	1,362,535
Net current assets		**201,849**	377,748
Total assets less current liabilities		**884,202**	1,072,237

The financial statements on pages 40 to 104 were authorised for issue by the Board of Directors on 29 March 2012 and were signed on its behalf.

Nicholas T. J. Colfer
Chairman

James H. Kaplan
Executive Director

The notes on pages 47 to 104 are an integral part of these consolidated financial statements.

Company Statement of Financial Position

As at 31 December

	Note	2011 HK$'000	2010 HK$'000
Assets			
Non-current assets			
Investments in subsidiaries	18	**242,800**	242,800
Current assets			
Amount due from an indirectly held associate	19	**343**	343
Amounts due from subsidiaries	19	**232,614**	198,811
Other receivables	23	**133**	102
Cash & cash equivalents	27	**360**	330
		233,450	199,586
Total assets		**476,250**	442,386
Equity			
Equity attributable to owners of the Company			
Share capital	29	**21,219**	21,219
Reserves	30	**277,467**	277,467
Retained earnings:			
Proposed final dividend	14	**19,097**	19,097
Others		**72,916**	5,947
Total equity		**390,699**	323,730
Liabilities			
Current liabilities			
Amounts due to subsidiaries	19	**81,092**	117,189
Other payables	35	**4,397**	1,467
Dividend payable		**62**	–
Total liabilities		**85,551**	118,656
Total equity & liabilities		**476,250**	442,386
Net current assets		**147,899**	80,930
Total assets less current liabilities		**390,699**	323,730

Nicholas T. J. Colfer
Chairman

James H. Kaplan
Executive Director

The notes on pages 47 to 104 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December

	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
	Attributable to owners of the Company						
Balance at 1 January 2010	21,219	189,699	207,194	568,055	986,167	39,563	1,025,730
Loss for the year	–	–	–	(13,063)	(13,063)	1,255	(11,808)
Other comprehensive income for the year							
Currency translation differences	–	–	48,497	–	48,497	829	49,326
Total comprehensive income for the year	–	–	48,497	(13,063)	35,434	2,084	37,518
Total contributions by and distributions to owners of the Company, recognised directly in equity							
Dividends	–	–	–	(19,097)	(19,097)	–	(19,097)
Dividend paid to non-controlling interests	–	–	–	–	–	(611)	(611)
Dissolution of subsidiaries[1]	–	–	–	–	–	3,982	3,982
Total transactions with owners	–	–	–	(19,097)	(19,097)	3,371	(15,726)
Balance at 31 December 2010	21,219	189,699	255,691	535,895	1,002,504	45,018	1,047,522
Balance at 1 January 2011	21,219	189,699	255,691	535,895	1,002,504	45,018	1,047,522
Loss for the year	–	–	–	(178,143)	(178,143)	2,676	(175,467)
Other comprehensive income for the year							
Currency translation differences	–	–	7,404	–	7,404	1,493	8,897
Total comprehensive income for the year	–	–	7,404	(178,143)	(170,739)	4,169	(166,570)
Total contributions by and distributions to owners of the Company, recognised directly in equity							
Dividends	–	–	–	(19,097)	(19,097)	–	(19,097)
Dividend paid to non-controlling interests	–	–	–	–	–	(627)	(627)
Acquisition from non-controlling interests	–	–	–	–	–	(44)	(44)
Total transactions with owners	–	–	–	(19,097)	(19,097)	(671)	(19,768)
Balance at 31 December 2011	21,219	189,699	263,095	338,655	812,668	48,516	861,184

Note:

[1] Non-controlling interests included the share of losses of subsidiaries from prior years.

The notes on pages 47 to 104 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December

	Note	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Cash generated from operations	36	**14,411**	88,713
Income tax paid		**(14,430)**	(17,510)
Interest paid		**(81)**	(374)
Net cash (used in)/generated from operating activities		**(100)**	70,829
Cash flows from investing activities			
Purchases of property, plant & equipment and construction in progress		**(69,217)**	(35,226)
Acquisition of intangible assets		**(10,627)**	(17,525)
Proceeds from disposal of property, plant & equipment		**663**	1,042
Proceeds from disposal of investment properties		**–**	7,161
Proceed from disposal of non-current assets held for sale		**31,315**	–
Advance to an associate		**–**	(403)
Repayment from jointly controlled entities		**–**	260
Proceeds from disposal of financial assets at fair value through profit or loss		**134,710**	288,592
Purchase of financial assets at fair value through profit or loss		**(40,752)**	(333,201)
Repayment of other long-term liabilities		**(1,342)**	(1,028)
Dividend received from jointly controlled entities		**17,325**	14,449
Net receipt for derivative financial instruments		**12**	–
Interest received		**410**	197
Net cash generated from/(used in) investing activities		**62,497**	(75,682)
Cash flows from financing activities			
Proceeds from borrowings		**31,117**	3,783
Repayments of borrowings		**(36,240)**	–
Decrease in pledged bank deposits		**2,003**	6,864
(Increase)/decrease in fixed deposits		**(9,068)**	755
Dividend paid to the Company's shareholders		**(18,872)**	(19,097)
Dividend paid to non-controlling interests		**(627)**	(611)
Acquisition from non-controlling interests		**(44)**	–
Net cash used in financing activities		**(31,731)**	(8,306)
Net increase/(decrease) in cash & cash equivalents		**30,666**	(13,159)
Cash & cash equivalents at beginning of year		**86,697**	99,006
Exchange (losses)/gains on cash & cash equivalents		**(199)**	850
Cash & cash equivalents at end of year	27	**117,164**	86,697

The notes on pages 47 to 104 are an integral part of these 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 8/F, Tower 1, Kowloon Commercial Centre, 51-53 Kwai Cheong Road, Kwai Chung, Hong Kong.

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

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2012.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Tai Ping Carpets International Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated 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.

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.2 Changes in accounting policy & disclosures

(a) New and amended standards adopted by the Group

The Group adopted HKAS 24 (Revised) "Related Party Disclosures" for the first time for the financial year beginning 1 January 2011. It introduces an exemption from all of the disclosures requirements of HKAS 24 for transactions among government related entities and the government. The adoption of the revised standard does not result in a significant impact on the results and financial position of the Group.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but have no impact to the operations of the Group.

HKAS 32 (Amendment)	Classification of rights issue
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a minimum funding requirement
HK(IFRIC)-Int 19 (Amendment)	Extinguishing financial liabilities with equity instruments
Improvements to existing standards	
HKAS 1 (Amendment)	Presentation of financial statements
HKAS 27 (Amendment)	Consolidated and separate financial statements
HKAS 34 (Amendment)	Interim financial reporting
HKFRS 3 (Amendment)	Business combinations
HKFRS 7 (Amendment)	Financial instruments: disclosures
HK(IFRIC)-Int 13 (Amendment)	Customer loyalty programmes

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

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

HKAS 1 (Amendment)	Presentation of financial statements[3]
HKAS 12 (Amendment)	Deferred tax: recovery of underlying assets[2]
HKAS 19 (Amendment)	Employee benefits[4]
HKAS 27 (Revised)	Separate financial statements[4]
HKAS 28 (Revised)	Investments in associates and joint ventures[4]
HKFRS 7 (Amendment)	Disclosure – transfer of financial assets[1]
HKFRS 9	Financial instruments[5]
HKFRS 10	Consolidated financial statements[4]
HKFRS 11	Joint arrangements[4]
HKFRS 12	Disclosures of interests in other entities[4]
HKFRS 13	Fair value measurements[4]

Note:
1 Effective from annual periods beginning on or after 1 July 2011
2 Effective from annual periods beginning on or after 1 January 2012
3 Effective from annual periods beginning on or after 1 July 2012
4 Effective from annual periods beginning on or after 1 January 2013
5 Effective from annual periods beginning on or after 1 January 2015

The Group is assessing the impact of these new standards and amendments, and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

2.3 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition related costs are expensed as incurred. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at deemed cost at directors' valuation less impairment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associate

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the increase after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "Share of profit/(loss) of an associate" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investment in an associate are recognised in the consolidated income statement.

(c) Jointly controlled entities

Jointly controlled entities are all entities which there are contractual arrangements whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors who makes strategic decisions.

2.5 Foreign currency translation

(a) Functional & presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), which is the Company's functional and the Group's presentation currency.

(b) Transactions & balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

2.6 Property, plant & equipment

Buildings comprise mainly factories, retail outlets and offices. They are stated at cost or valuation less accumulated depreciation and impairment losses. Certain buildings were at valuation which was carried out prior to 30 September 1995. Under transitional provision in paragraph 80A of HKAS 16, the Group is not required to make regular revaluations in accordance with paragraphs 31 and 36 of HKAS 16.

Leasehold land classified as finance lease and other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease	Shorter of remaining lease term of 30-40 years or useful life
Buildings	2%-18%
Plant & machinery	8%-20%
Leasehold improvements	Shorter of lease term or useful life
Furniture, fixtures & equipment	6%-25%
Motor vehicles	18%-20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other gains/(losses) – net" in the consolidated income statement.

2.7 Construction in progress

Construction in progress represents machinery, furniture, fixtures and equipment, and buildings on which construction work has not been completed, is stated at cost, which includes construction expenditures incurred and other direct costs capitalised during the construction period, less accumulated impairment losses. No depreciation is provided in respect of construction in progress until the construction work is completed. On completion, the construction in progress is transferred to appropriate categories of property, plant and equipment and depreciated in accordance with the policy stated in Note 2.6.

2.8 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 30 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

2.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiary and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquisition.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Vendor relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The vendor relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of 5 years.

(c) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the development of software product so that it will be available for use;
- Management intends to complete the implementation of software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives of 5 to 7 years.

(d) Brands

Brands acquired in a business combination are initially recognised at fair value at acquisition date. Brands with indefinite useful life are not amortised and are reviewed for impairment on an annual basis.

(e) Design library and other intangible assets

Design library and other intangible assets with finite useful life are stated at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the respective useful lives of the assets, ranging from 3 to 16 years.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Non-current assets classified as held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories: fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans & receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables (excluding prepayments)", "amount due from an associate", "amounts due from jointly controlled entities" and 'cash and cash equivalents' in the consolidated statement of financial position.

2.12.2 Recognition & measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "Other gains/(losses) – net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

2.13 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Trade & other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.16 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Subsequent change in the fair value of these derivatives is recognised immediately in the consolidated income statement.

2.17 Cash & cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.18 Share capital

Ordinary shares are classified as equity.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.22 Financial liabilities

(a) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries to secure loans, overdrafts and other banking facilities.

(b) Consideration payable arising from the acquisition of subsidiaries

Acquisition contract that contain an obligation for the Group to pay the vendor or seller for cash or other financial assets give rise to financial liabilities. Such liabilities are classified as other long-term liabilities in the consolidated statement of financial position.

Financial liabilities are initially recognised at fair value, net of directly attributable transaction costs incurred and are subsequently measured at amortised cost using the effective interest method. The accretion of the discount on the financial liability is recognised as a finance charge in the consolidated income statement.

2.23 Current & deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries, associate and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax assets is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associate and jointly controlled entities, except for the deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.24 Employee benefits

(a) Employee leave entitlements

Provision for paid annual leave and the cost of other benefits to the Group are recognised for each reporting period.

(b) Profit sharing and bonus plans

The Group recognises a liability and an expense for bonus and profit-sharing where the Group is contractually obliged or there is a past practice that created a constructive obligation.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured as the amounts expected to be paid when they are settled.

(c) Pension obligations

The Group operates pension schemes in various jurisdictions in which it operates. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculation. The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of services and compensation.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group contributes on a monthly basis to various defined contribution schemes, organised by relevant municipal and provincial governments in The People's Republic of China (''PRC'') for all its employees in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees for post-retirement benefits beyond the contributions made. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government. Contributions to these schemes are expensed as incurred.

The Group also sponsored the Legal Severance Pay Plan, which is organised by the Thailand Government for all its employees in Thailand as well as the pension scheme "AGIRC" in France. These plans are unfunded defined benefit plans. When the actual benefit payment is made, the actual amount will directly reduce the net liability in consolidated statement of financial position.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

2.25 Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

As of 31 December 2011 and 2010, there was no outstanding share option under this plan.

2.26 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.27 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, recognition is appropriate when the realisation of income is virtually certain.

A contingent asset is disclosed when an inflow of economic benefits is probable.

2.28 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Revenue from sale of carpets, yarns, underlays and interior furnishings

Revenue from sale of carpets, yarns, underlays and interior furnishings is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(b) Revenue from installation of carpets

Revenue from installation of carpets is recognised in the accounting period in which the installation services are rendered.

(c) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.29 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.30 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial Risk Management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, price risk, credit risk, liquidity risk and cash flow and fair value interest rate risk.

Risk management is carried out by a central finance team led by the Chief Financial Officer "Group CFO". Group CFO identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides guidance for overall risk management.

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("US$") and Hong Kong dollar ("HK$"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Management considers the foreign exchange risk with respect to US$ is not significant as HK$ is pegged to US$.

The Group's principal net foreign currency exposure arisen from the US$ denominated financial assets/liabilities in the Group's operations covering Thailand, Europe, PRC and the United Kingdom whose functional currencies are the local currency of respective operations.

To manage this exposure, the Group takes advantage of any natural offsets of the Group's foreign currency revenues and expenses and may use foreign currency forward contracts from time to time to manage the risk arising from foreign currency transactions.

At 31 December 2011, if Thai Baht strengthened/weakened by 5% (2010: 5%) against the US$ with all other variables held constant, post-tax profit for the year would have been HK$242,000 higher/lower (2010: HK$344,000 lower/higher), mainly as a result of foreign exchange losses/gains on foreign currency forward contracts translation of US$ denominated assets and liabilities in entities whose functional currency is Thai Baht.

At 31 December 2011, if Euro strengthened/weakened by 5% (2010: 5%) against the US$ with all other variables held constant, post-tax profit for the year would have been HK$284,000 (2010: HK$3,510,000) higher/lower, mainly as a result of foreign exchange losses/gains on foreign currency forward contracts and translation of US$ denominated assets and liabilities in entities whose functional currency is Euro.

At 31 December 2011, if Chinese Renminbi strengthened/weakened by 5% (2010: 5%) against the US$ with all other variables held constant, post-tax profit for the year would have been HK$27,000 (2010: HK$1,188,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of US$ denominated assets and liabilities in entities whose functional currency is Chinese Renminbi.

At 31 December 2011, if British Pound Sterling strengthened/weakened by 5% (2010: 5%) against the US$ with all other variables held constant, post-tax profit for the year would have been HK$1,390,000 (2010: HK$698,000) higher/lower, mainly as a result of foreign exchange losses/gains on translation of US$ denominated assets and liabilities in entities whose functional currency is British Pound Sterling.

(b) Credit risk

Credit risk of the Group mainly arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers including trade receivables, amounts due from related companies and other receivables. The carrying amount of these balances in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets.

The Group's bank deposits are placed in major international banks and financial institutions. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past.

The Group has no significant concentrations of credit risk as the Group has a large number of customers, internationally dispersed. Sales to retail customers are made in cash or via major credit cards. For project sales, the Group will request the customers for initial deposits and will accept orders only from those customers with an appropriate credit standing or history. The Group also performs periodic assessment of the trade receivables and believes that adequate provision for uncollectible receivables has been made.

(c) Price risk

Price risk refers to the changes in fair value or future cash flows of financial instruments as a result of fluctuations in market price.

At 31 December 2011, if the price of mutual funds rose/fell by 3% (2010: 3%) with all other receivables held constant, the post-tax profit will be increased/decreased by HK$1,223,000 (2010: HK$3,992,000).

(d) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group in and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs 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. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group Treasury. Group Treasury invests surplus cash in time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. At the reporting date, the Group held cash and cash equivalents of HK$117,164,000 (2010: HK$86,697,000) (Note 27) that are expected to readily generate cash inflows for managing liquidity risk. In addition, the Group holds mutual funds which are traded on active markets of HK$40,752,000 (2010: HK$133,065,000) (Note 25), which could be readily realised to provide a further source of cash if the need arose.

The table below analyses the Group's financial into relevant maturity groupings based on the remaining period at the consolidated statement of financial position to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows.The amounts disclosed in the table is the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Group

2011	**Less than 1 year HK$'000**	**Between 1 & 2 years HK$'000**	**Between 2 & 5 years HK$'000**	**Total HK$'000**
Trade & other payables	**199,438**	**–**	**–**	**199,438**
Other long term liabilities – current portion	**1,151**	**–**	**–**	**1,151**
Bank borrowing – unsecured	**866**	**–**	**–**	**866**
Amounts due to non-controlling shareholders	**13,446**	**–**	**–**	**13,446**
Trading & gross settled derivative financial instruments (foreign currency forward contract)	**17,971**	**–**	**–**	**17,971**
	232,872	**–**	**–**	**232,872**

2010	Less than 1 year HK$'000	Between 1 & 2 years HK$'000	Between 2 & 5 years HK$'000	Total HK$'000
Trade & other payables	162,492	–	–	162,492
Other long term liabilities	1,341	1,151	–	2,492
Bank borrowing – unsecured	5,989	–	–	5,989
Amount due to non-controlling shareholders	13,446	–	–	13,446
Trading & gross settled derivative financial instruments (foreign currency forward contract)	54,467	–	–	54,467
	237,735	1,151	–	238,886

(e) Cash flow & fair value interest rate risk

The Group's interest rate risk arises from bank borrowings held by the Group.

At 31 December 2011, the Group's bank borrowings primarily represent outstanding trust receipt loans. As the amount outstanding is not material, no sensitivity analysis is performed.

Apart from the above and cash at banks and bank deposits which carry interest at market rates, the Group has no significant interest-bearing assets or liabilities. The interest income and expenses derived there from are relatively insignificant to the Group's operations; therefore its income and operating cash flows are substantially independent of changes in market interest rates. Accordingly, the directors are of the opinion that the Group does not have significant cash flow and fair value interest rate risk and no sensitivity analysis is performed.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital by maintaining a net cash position throughout the year. The management of the Group monitors the utilisation of borrowings and ensures full compliance with loan covenants during the year and at the end of each reporting period.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

The gearing ratios at 31 December 2011 and 2010 were as follows:

	2011 **HK$'000**	2010 HK$'000
Total bank borrowings (Note 34)	**866**	5,989
Less: cash & cash equivalents (Note 27)	**(117,164)**	(86,697)
Net debt	**–**	–
Total equity	**861,184**	1,047,522
Total capital	**861,184**	1,047,522
Gearing ratio	**0.0%**	0.0%

3.3 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 and liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the Group's assets that are measured at fair value at 31 December 2011.

2011	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets				
Financial assets at fair value through profit or loss:				
Mutual funds	**40,752**	**–**	**–**	**40,752**
Derivative financial instruments:				
Foreign currency forward contracts	**–**	**1,022**	**–**	**1,022**
Total assets	**40,752**	**1,022**	**–**	**41,774**

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

2010	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial assets at fair value through profit or loss:				
Mutual funds	133,065	–	–	133,065
Derivative financial instruments:				
Foreign currency forward contracts	–	1,109	–	1,109
Total assets	133,065	1,109	–	134,174

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

4. Critical Accounting Estimates & Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Dividends derived from the Company's subsidiaries around the world are subject to withholding tax at the local prevailing tax rates. On an annual basis, the Group would reassess its needs to make distribution out of its subsidiaries. As a result, withholding income tax has been provided for the dividends already distributed during the year and unremitted earnings to the extent they are expected to be distributed in the future. As of 31 December 2011, the Group does not have any plan to distribute unremitted earnings beyond the amounts which have already been distributed, and as a result, deferred income tax liabilities have not been recognised for withholding tax and other taxes that would be payable on unremitted earnings.

(b) Useful lives of property, plant & equipment and intangible assets (other than goodwill)

The Group's management determines the estimated useful lives, and related depreciation and amortisation charges for its property, plant and equipment and intangible assets (other than goodwill). This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortisation lives and therefore depreciation and amortisation expense in future periods.

(c) Impairment of property, plant & equipment and intangible assets (other than goodwill)

Property, plant and equipment, leasehold land and land use rights and intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on fair value less cost to sell calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at the end of each reporting period.

(e) Trade & other receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provision at the end of each reporting period.

(f) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 32.

5. Revenues & Segment Information

(a) Revenues

	2011 HK$'000	2010 HK$'000
Sale of carpets	**1,109,987**	1,089,811
Sale of underlays	**14,983**	16,786
Installation of carpets	**38,594**	39,889
Interior furnishings	**38,347**	25,988
Sale of yarns	**33,427**	34,498
Sale of raw materials	**13,594**	12,534
Other	**1,177**	2,042
	1,250,109	1,221,548

(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 four major business segments: Commercial, Residential Boutique Contract ("RBC"), Wholesale and Others (including manufacturing and trading of yarn).

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 concepts of private and public space intersect. Wholesale is a resourcing and product development division, which sources new and innovative products for the residential market.

The Board of Directors assesses the performance of the operating segments based on a measure of segment results. Segment results represents the operating profit/loss of each business segments after excluding shared expenses for global operations, and the effects of non-recurring expenditure from the operating segments such as impairments arising from an isolated, non-recurring event.

The segment information provided to the management for the reportable segments for the year ended 31 December 2011 and 2010 is as follows:

For the year ended 31 December 2011

	Commercial	RBC	Wholesale	Total carpet	Others	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	754,996	456,037	5,649	1,216,682	33,427	1,250,109
Segment results	(82,840)	71,131	(3,172)	(14,881)	21,538	6,657
Unallocated expenses[1]						(67,212)
Impairment of interests in jointly controlled entities	(49,182)	–	(1,825)	(51,007)	–	(51,007)
Loss in relation to Thailand flooding	(114,967)	–	–	(114,967)	–	(114,967)
Operating loss						(226,529)
Finance costs						(81)
Finance income						410
Share of profit of:						
an associate	1,234	–	–	1,234	–	1,234
jointly controlled entities	19,838	–	–	19,838	–	19,838
Loss before income tax						(205,128)
Income tax credit						29,661
Loss for the year						(175,467)
Segment assets	666,294	178,293	5,106	849,693	67,752	917,445
Interest in an associate	18,723	–	–	18,723	–	18,723
Amount due from an associate	356	–	–	356	–	356
Non-current assets held for sale	311,904	–	–	311,904	–	311,904
Total assets						1,248,428
Segment liabilities	233,967	129,267	1,774	365,008	22,236	387,244
Capital expenditure	68,285	11,381	–	79,666	178	79,844
Depreciation of property, plant & equipment	51,188	6,995	–	58,183	1,956	60,139
Amortisation of land use rights	2,098	–	–	2,098	–	2,098
Amortisation of intangible assets	2,943	1,127	1,442	5,512	–	5,512
Impairment of property, plant & equipment	10,024	–	–	10,024	–	10,024
Impairment/(recovery of impairment) of inventories	19,403	(513)	713	19,603	–	19,603
(Recovery of impairment)/impairment of trade receivables	(831)	3,276	(325)	2,120	–	2,120
Loss on disposal of property, plant & equipment	(633)	(89)	(266)	(988)	(23)	(1,011)
Gain on disposal of non-current asset held for sale	–	–	–	–	5,904	5,904

For the year ended 31 December 2010

	Commercial HK$'000	RBC HK$'000	Wholesale HK$'000	Total carpet HK$'000	Others HK$'000	Group HK$'000
Revenue from external customers	806,513	361,382	19,123	1,187,018	34,530	1,221,548
Segment results	26,037	50,012	(28,049)	48,000	(770)	47,230
Unallocated expenses[1]						(67,934)
Operating loss						(20,704)
Finance costs						(374)
Finance income						197
Share of (loss)/profit of:						
an associate	(1,335)	–	–	(1,335)	–	(1,335)
jointly controlled entity	33,208	–	105	33,313	–	33,313
Profit before income tax						11,097
Income tax expense						(22,905)
Loss for the year						(11,808)
Segment assets	762,779	189,706	7,039	959,524	43,546	1,003,070
Interest in an associate	17,489	–	–	17,489	–	17,489
Amount due from an associate	403	–	–	403	–	403
Interests in jointly controlled entities	322,078	–	–	322,078	–	322,078
Amounts due from jointly controlled entities	19,495	–	–	19,495	–	19,495
Total assets						1,362,535
Segment liabilities	229,760	60,078	13,047	302,885	12,128	315,013
Capital expenditure	42,108	7,842	6	49,956	–	49,956
Depreciation of property, plant & equipment	59,263	2,661	104	62,028	–	62,028
Amortisation of land use rights	2,152	–	–	2,152	–	2,152
Amortisation of intangible assets	4,051	39	2,324	6,414	–	6,414
Impairment of intangible assets	–	–	15,533	15,533	–	15,533
Impairment of inventories	–	301	–	301	–	301
Recovery of impairment of trade receivables	(2,373)	(654)	(42)	(3,069)	–	(3,069)
Gain on disposal of investment properties/property, plant & equipment	400	–	–	400	361	761

Notes:

[1] Included shared expenses for global operation, information technology, marketing, internal audit, etc.

Analysis of revenue by the location are based on the sales destination

Analysis of non-current assets other than financial instruments, deferred income tax assets and post-employment benefit costs by the location are based on the physical location of the assets.

For the year ended 31 December 2011

	Revenue HK$'000	Non-current assets HK$'000
Asia		
Hong Kong	55,682	77,715
Macau	26,323	–
PRC	30,667	356,278
Thailand	229,895	139,030
Singapore	32,453	1,824
Malaysia	5,208	–
Japan	5,820	–
Korea	16,334	–
India	30,017	1,049
Middle East	42,459	–
Others	23,292	308
Oceania		
Australia	63,553	–
Others	883	–
Europe		
France	67,066	14,729
Germany	48,937	2,667
United Kingdom	56,951	758
Italy	14,897	–
Switzerland	12,472	–
Others	17,085	–
America		
United States of America	402,043	54,881
Argentina	24,468	78
Canada	25,091	–
Others	15,498	–
Africa		
Others	3,015	–
	1,250,109	649,317

For the year ended 31 December 2010

	Revenue HK$'000	Non-current assets HK$'000
Asia		
Hong Kong	50,790	60,261
Macau	17,704	–
PRC	25,430	358,340
Thailand	252,437	186,542
Singapore	47,773	685
Malaysia	12,542	–
Japan	13,548	–
Korea	8,634	–
India	23,122	1,446
Middle East	91,322	–
Others	4,992	–
Oceania		
Australia	74,852	–
Others	423	–
Europe		
France	66,038	12,597
Germany	46,188	2,697
United Kingdom	39,809	1,361
Italy	7,379	–
Switzerland	8,028	–
Others	8,185	–
America		
United States of America	383,128	58,652
Argentina	31,799	137
Others	7,425	–
	1,221,548	682,718

There is no single external customer contributed more than 10% revenue to the Group's revenue for the years ended 31 December 2011 and 2010.

Reportable non-current segments' assets are reconciled to total non-current assets as follows:

	2011	2010
	HK$'000	HK$'000
Non-current segment assets for reportable segments	**649,317**	682,718
Unallocated:		
Deferred income tax assets	**33,036**	11,771
Total non-current assets per consolidated statement of financial position	**682,353**	694,489

6. Other Gains/(Losses) – Net

	2011	2010
	HK$'000	HK$'000
Gain on disposal of financial assets at fair value through profit or loss	**1,645**	1,128
(Loss)/gain on disposal of property, plant & equipment	**(1,011)**	400
Gain on disposal of non-current asset classified as held for sale (Note 28)	**5,904**	–
Gain on disposal of investment properties	**–**	361
(Loss)/gain on change in fair value of derivative financial instruments	**(338)**	1,017
Net foreign exchange losses	**(2,406)**	(3,865)
Others	**–**	114
	3,794	(845)

7. Expenses by Nature

	2011 HK$'000	2010 HK$'000
Raw materials & consumables used	**332,028**	340,782
Amortisation of intangible assets (Note 17)	**5,512**	6,414
Amortisation of land use rights (Note 15)	**2,098**	2,152
Depreciation of property, plant & equipment (Note 16)	**60,139**	62,028
Employee benefit expenses (Note 9)	**510,285**	488,692
Operating lease charges		
– Land & buildings	**33,433**	25,582
– Plant & machinery	**2,727**	490
Impairment of property, plant & equipment (Note 16)	**10,024**	–
Property, plant & equipment written off	**4,028**	–
Impairment of inventories	**19,603**	301
Inventories written off	**59,357**	–
Impairment of trade receivables (Note 23)	**4,056**	–
Impairment of jointly controlled entities		
– Dissolution of a jointly controlled entity (Note 21)	**1,825**	–
– Disposal of interests in jointly controlled entities (Note 21)	**49,182**	–
Bad debts written off	**3,423**	1,960
Auditor's remuneration	**3,550**	3,481
Recovery of impairment of trade receivables previously recognised	**(1,936)**	(3,069)
Direct operating expenses arising from investment properties that generated rental income	**–**	3,982
Research & development costs	**3,148**	2,652

8. Loss in Relation to Thailand Flooding

During the year, the severe flooding in Thailand had led the Group to suspend its production facility in Pathumthani, near Bangkok on 17 October 2011. The loss in relation to this flooding, presented as part of the Group's operating expenses (included in Note 7), is as follows:

	2011 HK$'000	2010 HK$'000
Direct labour costs incurred for idle staff	**19,488**	–
Cost of purchasing replacement carpets	**2,766**	–
Impairment of inventories	**19,378**	–
Write off of inventories	**59,357**	–
Impairment of property, plant & equipment	**7,038**	–
Repairs & maintenance of property, plant & equipment	**3,035**	–
Others	**3,905**	–
	114,967	–

9. Employee Benefit Expenses

	2011 HK$'000	2010 HK$'000
Wages & salaries (including Directors' emoluments)	**503,748**	483,889
Pension costs – defined benefit plan (Note 32)	**2,794**	2,107
Retirement benefit costs – defined contribution schemes (including Directors' emoluments)	**3,743**	2,696
	510,285	488,692

(a) Retirement benefit costs – defined contribution schemes

Unvested benefits totaling HK$276,000 (2010: Nil) were used during the year to reduce future contributions. As at 31 December 2011, unvested benefits totaling HK$814,000 (2010: HK$1,054,000) were available for use by the Group to reduce future contributions.

(b) Directors' emoluments

The emoluments of each Director for the year ended 31 December 2011 are set out below:

Name of Directors	Fees HK$'000	Salaries HK$'000	Bonuses HK$'000	Others HK$'000	Retirement benefit costs HK$'000	Compen-sation for loss of office as director HK$'000	Total HK$'000
Nicholas T. J. Colfer	60	–	–	–	–	–	60
Ian D. Boyce	50	–	–	–	–	–	50
Lincoln K. K. Leong[1]	–	–	–	–	–	–	–
Nelson K. F. Leong[2]	50	–	–	–	–	–	50
David C. L. Tong	80	–	–	–	–	–	80
John J. Ying	80	–	–	–	–	–	80
Yvette Y. H. Fung[3]	80	–	–	–	–	–	80
Roderic N. A. Sage[3]	130	–	–	–	–	–	130
Lincoln C. K. Yung[3]	50	–	–	–	–	–	50
Aubrey K. S. Li[3]	80	–	–	–	–	–	80
James H. Kaplan	–	5,796	–	105	–	–	5,901
	660	5,796	–	105	–	–	6,561

The emoluments of each Director for the year ended 31 December 2010 are set out below:

Name of Directors	Fees HK$'000	Salaries HK$'000	Bonuses HK$'000	Others HK$'000	Retirement benefit costs HK$'000	Compen-sation for loss of office as director HK$'000	Total HK$'000
Nicholas T. J. Colfer	50	–	–	–	–	–	50
Ian D. Boyce	50	–	–	–	–	–	50
Lincoln K. K. Leong[1]	–	–	–	–	–	–	–
Nelson K. F. Leong[2]	50	–	–	–	–	–	50
David C. L. Tong	70	–	–	–	–	–	70
John J. Ying	70	–	–	–	–	–	70
Yvette Y. H. Fung[3]	70	–	–	–	–	–	70
Michael T. H. Lee[3]	32	–	–	–	–	–	32
Roderic N. A. Sage[3]	110	–	–	–	–	–	110
Lincoln C. K. Yung[3]	60	–	–	–	–	–	60
Aubrey K. S. Li[3]	14	–	–	–	–	–	14
James H. Kaplan	–	5,950	2,730	279	–	–	8,959
	576	5,950	2,730	279	–	–	9,535

Notes:
1 Mr. Lincoln K. K. Leong's director fee was paid to his alternate Mr. Nelson K. F. Leong
2 Alternate Director to Mr. Lincoln K. K. Leong
3 Independent Non-Executive Directors

Bonuses are determined with reference to the performance against corporate objectives, the profits of the Group and the achievement of individual performance targets.

No directors waived any emoluments for the years ended 31 December 2011 and 2010.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2010: one) director whose emoluments were reflected in the analysis presented above. The emoluments paid to the remaining four (2010: four) individuals during the year are as follows:

	2011	2010
	HK$'000	HK$'000
Basic salaries, bonus, housing and other allowances	**12,321**	9,772
Contributions to retirement schemes	**–**	109
	12,321	9,881

The emoluments fell within the following bands:	No. of Individuals	
	2011	2010
Emolument bands		
HK$2,000,001 – HK$2,500,000	**–**	2
HK$2,500,001 – HK$3,000,000	**1**	2
HK$3,000,001 – HK$3,500,000	**3**	–

10. Finance Income/(Costs) – Net

	2011	2010
	HK$'000	HK$'000
Finance costs		
– Interest on bank loans & overdrafts wholly repayable within five years	**(81)**	(61)
– Amortised interest costs from other long term liabilities	**–**	(313)
	(81)	(374)
Finance income – interest income from banks	**410**	197
Finance income/(costs) – net	**329**	(177)

11. Income Tax (Credit)/Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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.

	2011 HK$'000	2010 HK$'000
Current income tax		
Hong Kong	(764)	3,806
Overseas	(2,200)	16,572
Underprovision in prior years	1,044	2,576
Deferred income tax (credit)/expense	(27,741)	(49)
Income tax (credit)/expense	(29,661)	22,905

Share of income tax expense of an associate of HK$220,000 (2010: HK$180,000) and share of income tax expenses of jointly controlled entities of HK$10,341,000 (2010: HK$11,638,000) respectively are included in the share of profit/(loss) of an associate and jointly controlled entities.

The tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2011 HK$'000	2010 HK$'000
(Loss)/profit before income tax	(205,128)	11,097
Less: Share of net profit of an associate & jointly controlled entities	(21,072)	(31,978)
Loss before income tax of the Company & subsidiaries	(226,200)	(20,881)
Tax calculated at domestic tax rates applicable to profits in the respective countries	(63,385)	(4,532)
Income not subject to tax	(1,715)	(1,886)
Expenses not deductible for tax purposes	13,860	5,130
Utilisation of previously unrecognised tax losses	(2,735)	(3,206)
Tax losses for which no deferred income tax asset was recognised	23,434	24,053
Underprovision in prior years	1,044	2,576
Others	(164)	770
Income tax (credit)/expense	(29,661)	22,905

The weighted average applicable tax rate was 28% (2010: 22%). The increase is caused by a change of profitability of the Group's subsidiaries in the respective countries.

12. Loss Attributable to Owners of the Company

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of HK$66,969,000 (2010: HK$12,895,000).

13. Loss Per Share

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

	2011	2010
Loss attributable to owners of the Company (HK$'000)	**(178,143)**	(13,063)
Weighted average number of ordinary shares in issue (thousands)	**212,187**	212,187
Basic loss per share (HK cents)	**(83.96)**	(6.16)

The Group had no outstanding share options as at 31 December 2011 and 2010. As a result, diluted loss per share is equivalent to basic loss per share.

14. Dividend

	2011	2010
	HK$'000	HK$'000
Proposed final dividend of HK9 cents per share (2010: HK9 cents)	**19,097**	19,097

At the Board of Directors meeting held on 29 March 2012, the Directors declared a final dividend of HK9 cents per share amounting to a total dividend of HK$19,097,000, is to be proposed at the annual general meeting on 17 May 2012. This proposed final dividend is not reflected as a dividend payable in the consolidated financial statements, but is reflected as an appropriation of retained earnings for the year ended 31 December 2011.

15. Land Use Rights

Group

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

	2011 HK$'000	2010 HK$'000
Outside Hong Kong, held on leases of between 10 to 50 years	**3,516**	5,359

	2011 HK$'000	2010 HK$'000
At 1 January	**5,359**	7,122
Exchange differences	**255**	389
Amortisation of land use rights	**(2,098)**	(2,152)
At 31 December	**3,516**	5,359

16. Property, Plant & Equipment and Construction in Progress

Group

	Property, plant & equipment							
	Land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Furniture, fixture & equipment HK$'000	Motor vehicles HK$'000	Property, plant & equipment total HK$'000	Construction in progress HK$'000
At 1 January 2010								
Cost or valuation	12,200	181,671	5,036	516,177	136,775	10,615	862,474	2,301
Accumulated depreciation	(1,331)	(85,772)	(2,772)	(363,705)	(79,856)	(9,083)	(542,519)	–
Net book amount	10,869	95,899	2,264	152,472	56,919	1,532	319,955	2,301
Year ended 31 December 2010								
Opening net book amount	10,869	95,899	2,264	152,472	56,919	1,532	319,955	2,301
Exchange differences	–	2,391	12	14,132	(1,080)	(116)	15,339	182
Additions	–	–	3,478	7,727	7,460	1,833	20,498	14,380
Acquisition of a subsidiary (Note 36(c))	–	–	–	–	–	348	348	–
Transfer from construction in progress	–	–	–	4,625	6,202	–	10,827	(10,827)
Transfer to non-current asset held for sale	(10,869)	(14,542)	–	–	–	–	(25,411)	–
Disposals and assets write off	–	–	–	(30)	(612)	–	(642)	–
Depreciation	–	(8,545)	(4,774)	(30,194)	(17,926)	(589)	(62,028)	–
Closing net book amount	–	75,203	980	148,732	50,963	3,008	278,886	6,036
At 31 December 2010								
Cost or valuation	–	168,234	8,526	542,631	148,745	12,680	880,816	6,036
Accumulated depreciation	–	(93,031)	(7,546)	(393,899)	(97,782)	(9,672)	(601,930)	–
Net book amount	–	75,203	980	148,732	50,963	3,008	278,886	6,036

Group

	Property, plant & equipment							
	Land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Furniture, fixture & equipment HK$'000	Motor vehicles HK$'000	Property, plant & equipment total HK$'000	Construction in progress HK$'000
Year ended 31 December 2011								
Opening net book amount	–	75,203	980	148,732	50,963	3,008	278,886	6,036
Exchange differences	–	(3,747)	155	(8,219)	(234)	213	(11,832)	(456)
Additions	–	74	27,290	8,382	7,392	1,102	44,240	24,977
Transfer from construction in progress	–	45	932	5,463	2,066	–	8,506	(8,506)
Disposals and assets written off	–	–	(234)	(4,404)	(1,008)	(56)	(5,702)	–
Impairment	–	–	–	(10,024)	–	–	(10,024)	–
Depreciation	–	(7,644)	(1,777)	(34,864)	(14,845)	(1,009)	(60,139)	–
Closing net book amount	–	63,931	27,346	105,066	44,334	3,258	243,935	22,051
At 31 December 2011								
Cost or valuation	–	164,899	36,026	587,061	142,856	11,436	942,278	22,051
Accumulated depreciation	–	(100,968)	(8,680)	(481,995)	(98,522)	(8,178)	(698,343)	–
Net book amount	–	63,931	27,346	105,066	44,334	3,258	243,935	22,051

Depreciation expenses of HK$38,428,000 (2010: HK$38,038,000) and HK$21,711,000 (2010: HK$23,990,000) have been charged in the cost of sales and administrative expenses respectively.

Certain of the Group's buildings were revalued on an open market basis at 31 December 1989 by independent professional valuers, Jones Lang Wootton (now Jones Lang LaSalle) and W. Lamar Pinson, Inc. The revaluation was carried out prior to 30 September 1995. Under transitional provisions in paragraph 80A of HKAS 16, the Group is not required to make regular revaluations in accordance with paragraphs 31 and 36 of HKAS 16. The carrying amount of such revalued buildings would have been HK$5,148,000 (2010: HK$5,255,000) had it been stated at cost less accumulated depreciation.

The analysis of the cost or valuation of property, plant and equipment is as follows:

Group

	Buildings HK$'000	Other assets HK$'000	Total HK$'000
At cost	153,220	777,379	930,599
At valuation – 1989	11,679	–	11,679
At 31 December 2011	164,899	777,379	942,278
At cost	156,555	712,582	869,137
At valuation – 1989	11,679	–	11,679
At 31 December 2010	168,234	712,582	880,816

17. Intangible Assets

Group

	Goodwill HK$'000	Vendor relationships HK$'000	Computer software HK$'000	Brands HK$'000	Design library HK$'000	Other intangible assets HK$'000	Total HK$'000
At 1 January							
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
Year ended 31 December 2010							
Opening net book amount	14,533	4,329	7,762	–	3,310	–	29,934
Additions	–	–	12,606	–	–	2,472	15,078
Amortisation	–	(1,563)	(4,090)	–	(761)	–	(6,414)
Acquisition of a subsidiary (Note 36(c))	–	–	–	2,447	–	–	2,447
Impairment	(14,533)	–	–	–	(1,000)	–	(15,533)
Exchange differences	–	–	75	37	–	37	149
Closing net book amount	–	2,766	16,353	2,484	1,549	2,509	25,661
At 31 December 2010							
Cost	–	7,215	20,554	2,484	1,950	2,509	34,712
Accumulated amortisation & impairment	–	(4,449)	(4,201)	–	(401)	–	(9,051)
Net book amount	–	2,766	16,353	2,484	1,549	2,509	25,661
Year ended 31 December 2011							
Opening net book amount	–	2,766	16,353	2,484	1,549	2,509	25,661
Additions	–	–	9,692	–	–	935	10,627
Amortisation	–	(1,323)	(2,904)	–	(119)	(1,166)	(5,512)
Impairment	–	–	–	–	–	–	–
Exchange differences	–	–	(57)	(68)	–	(63)	(188)
Closing net book amount	–	1,443	23,084	2,416	1,430	2,215	30,588
At 31 December 2011							
Cost	–	7,215	30,084	2,416	1,950	3,347	45,012
Accumulated amortisation & impairment	–	(5,772)	(7,000)	–	(520)	(1,132)	(14,424)
Net book amount	–	1,443	23,084	2,416	1,430	2,215	30,588

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

Amortisation expenses of HK$5,512,000 (2010: HK$6,414,000) have been charged in the administrative expenses.

Impairment test of goodwill

Goodwill arose from the acquisition of J.S.L. Carpet Corporation (“JSL”) and its 50% interest in Weavers Guild LLC (“WG”) in 2008. It was classified as one of the business segments, wholesale segment of the Group for impairment testing.

During the year ended 31 December 2010, owing to the deteriorating results of JSL, party of the Group’s Wholesale Division in the United States of America, management had decided to restructure the wholesale business and as a result, recorded an impairment charge over the goodwill and intangible assets arising from the acquisition JSL, amounting to HK$15,533,000.

At 31 December 2010, the recoverable amount of the goodwill related to JSL was determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a period to 2015.

The key assumptions used for value-in-use calculations in 2010 were as follows:

a. Budgeted earnings were based on past performance.

b. Annual growth rates of 33%-50% were used to extrapolate cash flows.

c. The discount rate applied to cash flows was 16% which reflected the specific risks relating to the relevant segment. The discount rate was adjusted to reflect the risk profile equivalent to those that the Group expected to derive from the assets acquired.

The goodwill related to JSL was fully impaired in 2010.

18. Investments in Subsidiaries

Company

	2011	2010
	HK$’000	HK$’000
Unlisted shares at Directors’ valuation in 1990	**242,800**	242,800

Details of principal subsidiaries are set out on page 105.

19. Amounts Due to Non-controlling Shareholders

The amounts are unsecured, interest-free, denominated in HK$ and repayable on demand.

20. Interest in an Associate and Amount Due from an Associate

Group

	2011	2010
	HK$'000	HK$'000
At 1 January	**17,489**	18,824
Share of profit/(loss)	**1,234**	(1,335)
At 31 December	**18,723**	17,489

No dividend income was received from the associate during the year (2010: Nil).

The amount due from an associate is unsecured, interest-free, denominated in US$ and repayable on demand.

Details of the associate, which is unlisted, are set out on page 106.

An extract of the Group's share of the operating results and consolidated financial position of the associate, Philippine Carpet Manufacturing Corporation, which is based on its consolidated financial statements as adjusted to conform with HKFRS for the years ended and as at 31 December 2011 and 2010, is as follows:

	2011	2010
	HK$'000	HK$'000
Group's share of operating results		
Turnover	**18,520**	14,593
Group's share of profit/(loss) for the year	**1,234**	(1,335)
Group's share financial position		
Non-current assets	**11,282**	14,718
Current assets	**16,012**	18,691
Non-current liabilities	**(5,780)**	(7,653)
Current liabilities	**(2,791)**	(8,267)
Group's share of net assets	**18,723**	17,489

21. Interests in Jointly Controlled Entities and Amounts Due from Jointly Controlled Entities

Group

	2011	2010
	HK$'000	HK$'000
Interests in jointly controlled entities		
As at 1 January	**322,078**	297,192
Share of profit	**19,838**	33,313
Dividend received	**(17,325)**	(14,449)
Loss on dissolution of a jointly controlled entity (Note 7)	**(1,825)**	–
Exchange difference	**18,825**	6,022
	341,591	322,078
Less: Impairment of interests in jointly controlled entities (Note 7)	**(29,687)**	–
	311,904	–
Transfer to non-current assets held for sale	**(311,904)**	–
As at 31 December	**–**	322,078

	2011	2010
	HK$'000	HK$'000
Amounts due from jointly controlled entities		
As at 1 January	**19,495**	19,495
Impairment of amounts due from jointly controlled entities (Note 7)	**(19,495)**	–
As at 31 December	**–**	19,495

Weavers Guild LLC was dissolved during the year and resulted in a loss on dissolution of HK$1,825,000 (2010: Nil).

The amounts due from jointly controlled entities are unsecured, interest-free, denominated in Renminbi and repayable on demand.

Details of the principal jointly controlled entities, which are unlisted, are set out on page 106.

On 17 November 2011, the board of directors has resolved to accept a non-binding offer to sell all of its 49% equity interests in the three jointly controlled entities, namely Weihai Shanhua Huabao Carpet Company Limited, Weihai Shanhua Premier Carpet Company Limited and Weihai Shanhua Weavers Carpet Company Limited for a proposed consideration of RMB280,000,000 (approximately HK$341,600,000). As at 31 December 2011, the Group has yet to sign the formal agreement in relation to such disposal.

Management then reclassified all the Group's interests in the jointly controlled entities as non-current assets held for sale, as the carrying amounts of the jointly controlled entities would be recovered principally through sale transactions, the jointly controlled entities were available for immediate sale at their present conditions and such sale was considered highly probable given the acceptance of the offer by the Group's Board of Directors.

Management has recorded an impairment charge of HK$49,182,000 in respect of such assets held for sale to its recoverable amount of HK$311,904,000, reflecting the loss on such disposal after having considered the transaction costs (primarily representing withholding tax payable and professional fee) involved in the sale.

22. Inventories

Group

	2011 HK$'000	2010 HK$'000
Raw materials	**103,619**	85,495
Work in progress	**21,670**	24,453
Finished goods	**95,802**	92,958
Consumable stores	**10,431**	10,750
	231,522	213,656
Less: provision	**(35,629)**	(21,121)
	195,893	192,535

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$332,028,000 (2010: HK$340,782,000).

23. Trade & Other Receivables

	Group		Company	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Trade receivables	**159,177**	203,822	**–**	–
Less: provision for impairment of trade receivables	**(15,362)**	(13,801)	**–**	–
Trade receivables – net	**143,815**	190,021	**–**	–
Prepayments	**31,633**	25,898	**133**	–
Value added tax receivables	**10,536**	6,320	**–**	–
Rental deposits	**4,247**	2,611	**–**	–
Other receivables	**14,878**	7,904	**–**	102
	205,109	232,754	**133**	102

The amounts approximate fair values as at 31 December 2011 and 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 were as follows:

	2011	2010
	HK$'000	HK$'000
0 to 30 days	**79,237**	141,941
31 to 60 days	**22,842**	20,963
61 to 90 days	**7,031**	10,345
91 to 365 days	**29,287**	19,585
More than 365 days	**20,780**	10,988
	159,177	203,822

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

	2011	2010
	HK$'000	HK$'000
Amounts past due but not impaired:		
Less than 30 days past due	**30,755**	44,653
31 to 60 days past due	**16,210**	14,525
61 to 90 days past due	**3,550**	8,105
91 to 365 days past due	**30,929**	15,509
More than 365 days past due	**18,212**	9,525
	99,656	92,317

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

As at 31 December 2011, trade receivables of approximately HK$99,656,000 (2010: HK$92,317,000) 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.

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

	2011	2010
	HK$'000	HK$'000
At 1 January	**13,801**	19,670
Impairment of trade receivables	**4,056**	–
Recovery of impairment previously recognised	**(1,936)**	(3,069)
Receivables written off as uncollectible	**(559)**	(2,800)
At 31 December	**15,362**	13,801

The creation of provision for impairment of trade receivables has been included in administrative expenses in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group and the Company does not hold any collateral as security.

The carrying amounts of the Group and the Company's trade and other receivables are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**84,775**	102,963	**–**	–
HK$	**9,127**	12,703	**133**	102
Euro	**32,467**	31,502	**–**	–
Pound Sterling	**11,571**	5,839	**–**	–
Renminbi	**30,657**	13,230	**–**	–
Thai Baht	**20,020**	39,138	**–**	–
Macau Patacas	**2,302**	9,336	**–**	–
Other	**14,190**	18,043	**–**	–
	205,109	232,754	**133**	102

24. Derivative Financial Instruments

Group

	2011	2010
	HK$'000	HK$'000
Financial assets		
– Foreign currency forward contracts	**1,022**	1,109
Financial liabilities		
– Foreign currency forward contracts	**(263)**	–
Foreign currency forward contracts – net	**759**	1,109

The notional principal amounts of outstanding forward foreign exchange contracts of financial assets and financial liabilities at 31 December 2011 were HK$39,156,000 (2010: HK$54,467,000) and HK$17,970,000 (2010: Nil), respectively.

Management purchased these forward contracts to hedge the foreign currency exposure of Euro and Thai Baht. These contracts generally mature within 12 months from the date of purchase.

25. Financial Assets at Fair Value Through Profit or Loss

Group

	2011	2010
	HK$'000	HK$'000
Mutual funds in overseas	**40,752**	133,065

The mutual funds are denominated in Thai Baht and are traded on active liquid markets and the fair value is based on their current bid prices in an active market at each reporting date.

26. Pledged Bank Deposits

Group

	2011	2010
	HK$'000	HK$'000
Pledged bank deposits	**1,344**	3,347
Less: non-current pledged bank deposits	**(1,344)**	(1,359)
	–	1,988

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

As at 31 December 2011, the effective interest rate on the Group's pledged bank deposit is 1.60% (2010: 0.65%) and these deposits had an average maturity of 637 days (2010: 698 days).

The carrying values of the Group's pledged bank deposits are denominated in the following currencies:

	2011	2010
	HK$'000	HK$'000
Euro	**–**	1,988
Singapore dollar	**1,344**	1,359
	1,344	3,347

27. Fixed Deposits and Cash & Cash Equivalents

	Group		**Company**	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash & cash equivalents	**117,164**	86,697	**360**	330
Fixed deposits with maturity over one year	**7,865**	439	**–**	–
Fixed deposits with maturity over three months and less than one year	**1,642**	–	**–**	–
Total fixed deposits and cash & cash equivalents	**126,671**	87,136	**360**	330

The amounts approximate to their respective fair values as at 31 December 2011 and 2010.

The carrying values of the Group and Company's cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**34,684**	30,902	**5**	47
HK$	**33,428**	12,469	**355**	283
Euro	**2,737**	8,538	**–**	–
Pound Sterling	**15,442**	4,998	**–**	–
Renminbi	**24,623**	22,974	**–**	–
Thai Baht	**524**	1,215	**–**	–
Argentine Peso	**3,309**	1,512	**–**	–
Other	**2,417**	4,089	**–**	–
	117,164	86,697	**360**	330

As at 31 December 2011, the Group's cash and bank balances included HK$24,623,000 (2010: HK$22,974,000) placed with certain banks in the PRC by certain subsidiaries of the Group. These balances are subject to exchange controls.

As at 31 December 2011, the effective interest rate on Group's bank deposits is 4.03% (2010: 0.90%) and these deposits had an average maturity of 467 days (2010: 803 days).

28. Non-current Assets Held for Sale

On 17 September 2010, Hong Kong Carpet (Holdings) Limited, a subsidiary of the Company, 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 was presented as non-current assets held for sale following the approval of the Group's management and shareholders on 17 September 2010. The transaction was completed on 16 September 2011.

On 17 November 2011, the Group's Board of Directors approved the acceptance of a non-binding offer to dispose all of its interests in the three jointly controlled entities namely, Weihai Shanhua Huabao Carpet Co., Ltd., Weihai Shanhua Premier Carpet Co., Ltd. and Weihai Shanhua Weavers Carpet Co., Ltd for a proposed consideration of RMB280,000,000 (approximately HK$341,600,000). The interests in these jointly controlled entities were written down by HK$49,182,000 (primarily represent withholding tax payable and transactions costs) to its recoverable amount (HK$311,904,000). The interests in jointly controlled entities have been reclassified as non-current assets held for sale.

29. Share Capital

Group & Company

	No. of shares	HK$'000
Authorised – Ordinary shares of HK$0.10 each:		
At 31 December 2010 & 2011	400,000,000	40,000
Issued and fully paid – Ordinary shares of HK$0.10 each:		
At 31 December 2010 & 2011	212,187,488	21,219

30. Other Reserves

Group

	Share premium HK$'000	Capital reserve HK$'000	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	–	–	–	–	48,497	48,497
Balance at 31 December 2010	189,699	71,625	4,161	16,000	163,905	445,390
Balance at 1 January 2011	189,699	71,625	4,161	16,000	163,905	445,390
Currency translation differences	–	–	–	–	7,404	7,404
Balance at 31 December 2011	189,699	71,625	4,161	16,000	171,309	452,794

Note: The capital reserve includes statutory reserve funds set up by subsidiaries in the PRC. According to the relevant laws and financial regulations, upon approval by the Board, the statutory reserve funds may be used to make up prior years losses, if any, and to increase the capital of such subsidiaries. In addition, as stipulated by the relevant laws and financial regulations, the subsidiaries is required to appropriate an amount of not less than 10% of profit after income tax to its statutory reserve fund. As the accumulated total of the statutory reserves reach 50% of the registered capital of the subsidiaries, it will not be required to make any further appropriation.

Company

	Share premium HK$'000	Contributed surplus HK$'000	Total HK$'000
Balance as at 1 January 2010, 31 December 2010 & 31 December 2011	189,699	87,768	277,467

The contributed surplus of the Company represents the excess of the consolidated net assets of a subsidiary acquired over the nominal amount of the Company's shares issued for the acquisition, as a result of the Group reorganisation in 1990. Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution to members of the Company.

31. Deferred Income Tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

Group

	2011	2010
	HK$'000	HK$'000
Deferred tax assets:		
– Deferred tax assets to be recovered within 12 months	**26,314**	–
– Deferred tax assets to be recovered after more than 12 months	**6,722**	11,771
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**(425)**	(5,597)
Deferred tax assets – net	**32,611**	6,174

The gross movement on the Group's deferred income tax account is as follows:

	2011	2010
	HK$'000	HK$'000
At 1 January	**6,174**	7,626
Exchange differences	**(1,304)**	(1,501)
Credited to the consolidated income statement (Note 11)	**27,741**	49
At 31 December	**32,611**	6,174

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same taxation jurisdiction, are as follows:

Deferred tax liabilities

	Accelerated tax depreciation allowance		**Revaluation of properties**		**Others**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**–**	507	**117**	117	**5,480**	5,570	**5,597**	6,194
Charged/(credited) to the consolidated income statement	**425**	(507)	**(117)**	–	**(5,480)**	(92)	**(5,172)**	(599)
Exchange differences	**–**	–	**–**	–	**–**	2	**–**	2
At 31 December	**425**	–	**–**	117	**–**	5,480	**425**	5,597

Deferred tax assets

	Impairment of assets		Tax losses		Others		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**–**	6,641	**6,047**	2,543	**5,724**	4,636	**11,771**	13,820
(Charged)/credited to the consolidated income statement	**23,512**	(6,641)	**(2,396)**	3,485	**1,453**	2,606	**22,569**	(550)
Exchange differences	**(309)**	–	**(239)**	19	**(756)**	(1,518)	**(1,304)**	(1,499)
At 31 December	**23,203**	–	**3,412**	6,047	**6,421**	5,724	**33,036**	11,771

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$6,745,000 (2010: HK$24,052,000) in respect of tax losses of approximately HK$50,573,000 (2010: HK$360,392,000) that can be carried forward against future taxable income. The expiry dates of the tax losses of the subsidiaries range from 2012 to 2030.

Deferred income tax liabilities of HK$34,104,000 (2010: HK$47,598,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries totaled approximately HK$345,583,000 (2010: HK$482,734,000). Such amounts are not currently intended to be distributed to the subsidiaries outside PRC.

32. Retirement Benefit Obligations

	2011	2010
	HK$'000	HK$'000
Balance sheet obligations for:		
Pension benefits plan (a)	**20,009**	18,281

The defined benefit plans are final salary defined plans in Thailand and France, which are valued by qualified actuary annually using the project unit credit method. The defined benefit plans are valued by Team Excellence Consulting Co. Ltd and SPAC Actuaries in Thailand and France respectively.

(a) Pension benefits

The Group operates defined benefit pension plans in Thailand and France based on employee pensionable remuneration and length of service. These plans are unfunded. These amounts recognised in the consolidated statement of financial position are determined as follows:

	2011	2010
	HK$'000	HK$'000
Present value of unfunded obligation	**20,009**	18,281
Liabilities on the consolidated statement of financial position	**20,009**	18,281

The movement in defined benefit obligation is as follows:

	2011 HK$'000	2010 HK$'000
As 1 January	**18,281**	15,454
Current service costs	**2,050**	1,397
Interest costs	**744**	710
Exchange differences	**(321)**	1,014
Benefit paid	**(745)**	(294)
At 31 December	**20,009**	18,281

	2011 HK$'000	2010 HK$'000
The amounts recognised in the consolidated statement of financial position were determined as follows:		
Present value of defined benefit obligation	**20,009**	18,281
Fair value of plan assets at end of the period	**–**	–
Present value of defined obligations	**20,009**	18,281
Liabilities on the consolidated statement of financial position	**20,009**	18,281

	2011 HK$'000	2010 HK$'000
The amount recognised in the consolidated income statements are as follows:		
Current service costs	**2,050**	1,397
Interest costs	**744**	710
Total, included in employee benefit expenses (Note 9)	**2,794**	2,107

The principal actuarial assumptions were as follows:

	2011	2010
Discount rate	**4.2% - 4.75%**	4.2%
Inflation rate	**2% - 3%**	3%
Expected return on plan asset	**N/A**	N/A
Salary growth	**2% - 8%**	3% - 8%
Turnover rates	**0% - 33%**	0% - 22%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in Thailand and France respectively. Mortality assumptions for Thailand and France are based on post-retirement mortality tables, Thailand TMO97 Table normal retirement age and INSEE TD/TV 2007-2009 respectively.

33. Other Long-term Liabilities

Group

	2011 HK$'000	2010 HK$'000
Non-current portion		
Repayable between 2-5 years	–	837
Repayable between 5-10 years	2,584	–
	2,584	837
Current portion	1,267	1,028
	3,851	1,865

Other long-term liabilities represent discounted basic consideration and contingent consideration payable to the sellers in respect of the acquisition of JSL in 2008 as well as provision for reinstatement costs for the Group's head office in Hong Kong.

Contingent consideration payable

The amounts, being unsecured and interest free, were calculated to the fair value as at 31 December 2011 and 2010. The discount rate used to measure the fair value was 16% (2010: 16%).

The Group is required to make additional payments to the sellers of JSL based on the net profits of JSL (as defined in the Company's circular dated 20 February 2008) for the period from 1 January 2008 to 31 December 2011. The amounts of such additional payments are set out below provided that the aggregate additional amounts payable to the sellers shall not exceed US$6,000,000 (equivalent to HK$46,800,000):

	Additional amounts payable to the sellers
1 January 2008 to 31 December 2008	35% of the net profits
1 January 2009 to 31 December 2009	20% of the net profits
1 January 2010 to 31 December 2010	13% of the net profits
1 January 2011 to 31 December 2011	6% of the net profits

The contingent consideration payable for 2008 amounting to HK$1,287,000 is included in the above calculation of the contingent consideration, while the actual amount paid was HK$1,863,000. The cash outlay was made during the year ended 31 December 2009. As a result, the additional consideration paid with an amount of HK$576,000 was recognised as goodwill for the year ended 31 December 2009.

No contingent consideration was accrued or paid for the year ended 31 December 2011, 2010 and 2009 because of the loss position of JSL.

34. Bank Borrowings – Unsecured

Group

	2011 HK$'000	2010 HK$'000
Current		
Outstanding bills repayable within 60 days	**866**	5,989

The amounts approximated their respective fair values as at 31 December 2011 and 2010. The amounts are unsecured, bear interest at 1% (2010: 1%) per annum and are denominated in US$.

At 31 December 2011, the Group has trade and loan finance facilities of HK$288,653,000 (2010: HK$303,653,000), of which HK$866,000 (2010: HK$5,989,000) were utilised.

35. Trade & Other Payables

	Group		Company	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Trade payables	**56,139**	65,667	**–**	–
Deposits received in advance	**133,983**	103,753	**–**	–
Accrued expenses	**96,487**	35,558	**4,397**	–
Other payables	**60,065**	51,159	**–**	1,467
	346,674	256,137	**4,397**	1,467

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

	2011 HK$'000	2010 HK$'000
0 to 30 days	**48,382**	56,302
31 days to 60 days	**4,996**	7,606
61 days to 90 days	**1,512**	642
More than 90 days	**1,249**	1,117
	56,139	65,667

The carrying amounts of the Group and Company's trade and other payables are denominated in the following currencies:

	Group		Company	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
US$	**135,295**	101,857	**–**	–
HK$	**38,199**	27,238	**4,397**	1,467
Euro	**43,406**	31,617	**–**	–
Pound sterling	**24,259**	10,317	**–**	–
Renminbi	**44,491**	12,043	**–**	–
Thai Baht	**45,913**	55,613	**–**	–
Others	**15,111**	17,452	**–**	–
	346,674	256,137	**4,397**	1,467

36. Notes to the Consolidated Statement of Cash Flows

(a) Cash generated from operations

	2011 HK$'000	2010 HK$'000
(Loss)/profit before income tax	**(205,128)**	11,097
Adjustments for:		
Amortisation of intangible assets	**5,512**	6,414
Amortisation of land use rights	**2,098**	2,152
Bad debts written off	**3,423**	1,960
Retirement benefit obligation	**1,728**	2,827
Loss on dissolution of subsidiaries	**–**	3,982
Depreciation of property, plant & equipment	**60,139**	62,028
Loss/(gain) on disposal of property, plant & equipment	**1,011**	(400)
Gain on disposal of investment properties	**–**	(361)
Gain on disposal of non-current assets classified as held for sale	**(5,904)**	–
Share of (profit)/loss of		
– an associate	**(1,234)**	1,335
– jointly controlled entities	**(19,838)**	(33,313)
Impairment of intangible assets	**–**	15,533
Impairment of inventories	**19,603**	301
Inventories written off	**59,357**	–
Impairment of property, plant & equipment	**10,024**	–
Property, plant and equipment written off	**4,028**	–
Impairment of interests in jointly controlled entities	**51,007**	–
Gain on disposal of financial assets at fair value through profit or loss	**(1,645)**	(1,128)
Loss/(gain) on change in fair value of derivative financial instruments	**338**	(1,017)
Finance costs	**81**	374
Finance income	**(410)**	(197)
Operating (loss)/profit before changes in working capital	**(15,810)**	71,587
Inventories	**(77,671)**	(7,453)
Trade & other receivables	**29,840**	(26,446)
Trade & other payables	**87,443**	51,025
Prepayments – non-current	**(9,391)**	–
Cash generated from operations	**14,411**	88,713

(b) In the consolidated statement of cash flows, proceeds from sale of assets held for sale, property, plant and equipment and investment properties comprise:

	2011		2010	
	Assets held for sale	**Property, plant & equipment**	Investment properties	Property, plant & equipment
	HK$'000	**HK$'000**	HK$'000	HK$'000
Net book amount	**25,411**	**1,674**	6,800	642
Gain/(loss) on disposal	**5,904**	**(1,011)**	361	400
Proceeds from disposal	**31,315**	**663**	7,161	1,042

(c) On 4 May 2010, the Group set up a new subsidiary, Manufacture des Tapis de Cogolin SAS, and acquired intangible assets, inventories and motor vehicles from Manufacture des Tapis de Cogolin, a carpet design and manufacturing company operating in France, for HK$2,898,000. At that date, the fair value of these assets equalled HK$2,898,000. As a result of the acquisition, the Group is expected to increase its presence in these markets and reduce costs through economies of scale.

The following table summarises the consideration paid for Manufacture des Tapis de Cogolin and the amounts of the assets acquired.

Consideration:
At 4 May 2010

	2010
	HK$'000
Cash	2,898

Recognised amounts of identifiable assets acquired

	2010
	HK$'000
Brands	2,447
Property, plant & equipment	348
Inventories	103
Total identified net assets	**2,898**

37. Operating Lease Commitments

The Group has entered into a number of operating leases agreements on property, plant and equipment. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Group

	2011	**2011**	2010	2010
	Property	**Other assets**	Property	Other assets
	HK$'000	**HK$'000**	HK$'000	HK$'000
Not later than one year	**29,521**	**1,150**	20,068	1,371
Later than one year and not later than five years	**96,969**	**1,705**	53,912	2,854
Later than five years	**45,386**	**–**	10,999	–
	171,876	**2,855**	84,979	4,225

38. Capital Commitments

Group

	2011	2010
	HK$'000	HK$'000
Authorised but not contracted for in respect of property, plant & equipment	**11,993**	4,057

39. Contingencies

Group

(a) Contingent liabilities

	2011	2010
	HK$'000	HK$'000
Performance bonds issued by banks	**7,172**	22,518

(b) Contingent assets

During the year, the Group had submitted several claims to various insurance companies in relation to the loss incurred due to the severe flooding in Thailand.

Subsequent to year end, the insurance companies advanced 150,000,000 Thai Baht (approximately HK$38,000,000) to the Group in cash to enable the Group to meet its immediate cash needs. Such advances did not represent the insurance Companies' agreement to the Group's insurance claims and as a result, such advances were not recognised in the consolidated income statement for the year ended 31 December 2011.

(c) Corporate guarantee

The Company provides guarantees in respect of banking facilities granted to its subsidiaries, and approximately HK$73 million (2010: HK$20 million) of which was utilised as at 31 December 2011.

40. Related Party Transactions

The Mikado Private Trust Company Limited ("MPTCL") is a major 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 following transactions were carried out with related parties:

(a) Sale of goods & services

	2011 HK$'000	2010 HK$'000
Sale of carpets:		
an associate[1]	**26**	1,644
The Hongkong and Shanghai Hotels, Limited ("HSH")[2]	**1,480**	5,658
	1,506	7,302

Notes:

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

2 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.

(b) Purchase of goods

	2011 HK$'000	2010 HK$'000
Purchase of goods:		
jointly controlled entities[1]	**19,738**	21,473
an associate[1]	**14**	820
	19,752	22,293

Note:

1 Purchases from an associate and jointly controlled entities were conducted in the normal course of business and at mutually agreed prices between the parties.

(c) Key management compensation

Key management includes Chairman, Executive Director and senior management. The compensation paid or payable to key management for employee service is shown below:

	2011 HK$'000	2010 HK$'000
Salaries & other short-term employee benefits	**31,658**	32,644

(d) Year-end balances arising from sale/purchase of goods/services

	2011 HK$'000	2010 HK$'000
Trade receivables from related parties:		
HSH	**97**	2,174
Trade payables to related parties:		
jointly controlled entities	**8,970**	1,523

Principal Subsidiaries, an Associate & Jointly Controlled Entities

The table lists below the subsidiaries, an associate and jointly controlled entities of the Group as at 31 December 2011 which, in the opinion of the Directors, principally affected the results or financial position of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Name	Country of incorporation & operations	Principal activities	Issued & paid-up capital	Percentage of equity attributable to the Group
Subsidiaries				
Costigan Limited	British Virgin Islands/ Hong Kong	Investment holding	100 shares of US$1 each	100%[1]
Luard Enterprises Limited	British Virgin Islands/ Hong Kong	Investment holding	1 share of US$1	100%[1]
Carpets International Thailand Public Company Limited	Thailand	Carpet manufacturing	10,000,000 shares of Baht 10 each	99%[2]
Edward Fields, Inc.	United States of America	Carpet trading	US$100,000	100%[2]
Foshan Nanhai Tai Ping Carpets Company Limited[3]	The People's Republic of China	Carpet manufacturing	US$5,000,000	80%[2]
Premier Yarn Dyers, Inc.	United States of America	Yarn dyeing	1,100 shares of US$100 each	100%[2]
Tai Ping Carpets Americas, Inc.	United States of America	Carpet trading	220,000 shares of US$1 each	100%[2]
Tai Ping Carpets Europe	France	Carpet trading	Euro 603,341	100%[2]
Tai Ping Carpets India Private Limited	India	Carpet trading	Rupees 10,000,000	100%[2]
Tai Ping Carpets Interieur GmbH	Germany	Carpet trading	Euro 511,292	100%[2]
Tai Ping Carpets UK Limited	United Kingdom	Carpet trading	GBP 20,000	100%[2]
Tai Ping Carpets Latin America S. A.	Argentina	Carpet trading	Pesos 1,818,530	100%[2]
Tai Ping Carpets Limited	Hong Kong	Carpet trading	2,000,000 shares of HK$10 each	100%[2]
TPC Macau Limitada	Macau	Carpet trading	MOP25,000	100%[2]
Tai Ping Carpets (S) Pte. Limited	Singapore	Carpet trading	S$5,000,000	100%[2]
J.S.L. Carpet Corporation	United States of America	Carpet trading	100 shares of US$23,400 each	100%[2]
Manufacture des Tapis de Cogolin SAS	France	Carpet trading	Euro 200,000	100%[2]

Name	Country of incorporation & operations	Principal activities	Issued & paid-up capital	Percentage of equity attributable to the Group
Associate				
Philippine Carpet Manufacturing Corporation	The Philippines	Carpet manufacturing	1,017,581 shares of PHP100 each	33%
Jointly controlled entities – classified as non-current assets held for sale				
Weihai Shanhua Huabao Carpet Company Limited[3]	The People's Republic of China	Carpet manufacturing	US$15,090,000	49%
Weihai Shanhua Premier Carpet Company Limited[3]	The People's Republic of China	Carpet manufacturing	US$5,400,000	49%
Weihai Shanhua Weavers Carpet Company Limited[3]	The People's Republic of China	Carpet manufacturing	US$6,000,000	49%

Notes:

1 Directly held by the Company

2 Indirectly held by the Company

3 Registered as foreign equity joint ventures under PRC Law.

4 None of the subsidiaries had issued any debt securities at the end of the year.

Senior Management

Name	Position held	Age[1]	Joined Group	Business Experience
Mr. Olivier S. Arzel	Managing Director, RBC, Asia	47	2010	Sales & business development
Mr. John P. Goggin	Managing Director, Commercial, U.S.	58	2004	Sales & business development
Mr. Parkpoom Jarnyaharn	Managing Director, Carpets Inter	58	2004	Carpet manufacturing, sales & business development
Mr. Marcel G. J. Lebon	Chief Financial Officer & Human Resources Director	50	2009	Financial management & human resource management
Mr. Richard N. Morris	Managing Director, Commercial, Asia	48	2004	Sales & business development
Mr. Anthony T. Mott	Managing Director, RBC, Americas	47	2004	Sales & business development
Mr. William J. Palmer	Global Managing Director, Commercial	50	1999	Sales & business development
Mr. Alan Porto	Chief Information Officer	46	2009	Information technology
Ms. Simone S. Rothman	Chief Marketing Officer	52	2004	Marketing, PR & business development
Ms. Catherine Vergez	Managing Director, RBC, EMEA	49	1991	Sales & business development
Mr. Mark S. Worgan	Senior Vice President, Global Operations	48	2008	Carpet manufacturing & logistics

Note:

[1] Age as at 29 March 2012

Corporate Information

Auditor
PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

Bankers
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Shanghai Commercial Bank Limited
Chong Hing Bank Limited

Company Secretary
Lee Siu Kau

Registrars and Transfer Agent
HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM 11
Bermuda

Branch Registrars and Registration Office
Computershare Hong Kong Investors Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

Registered Office
Canon's Court
22 Victoria Street
PO Box HM 1179
Hamilton HM EX
Bermuda

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