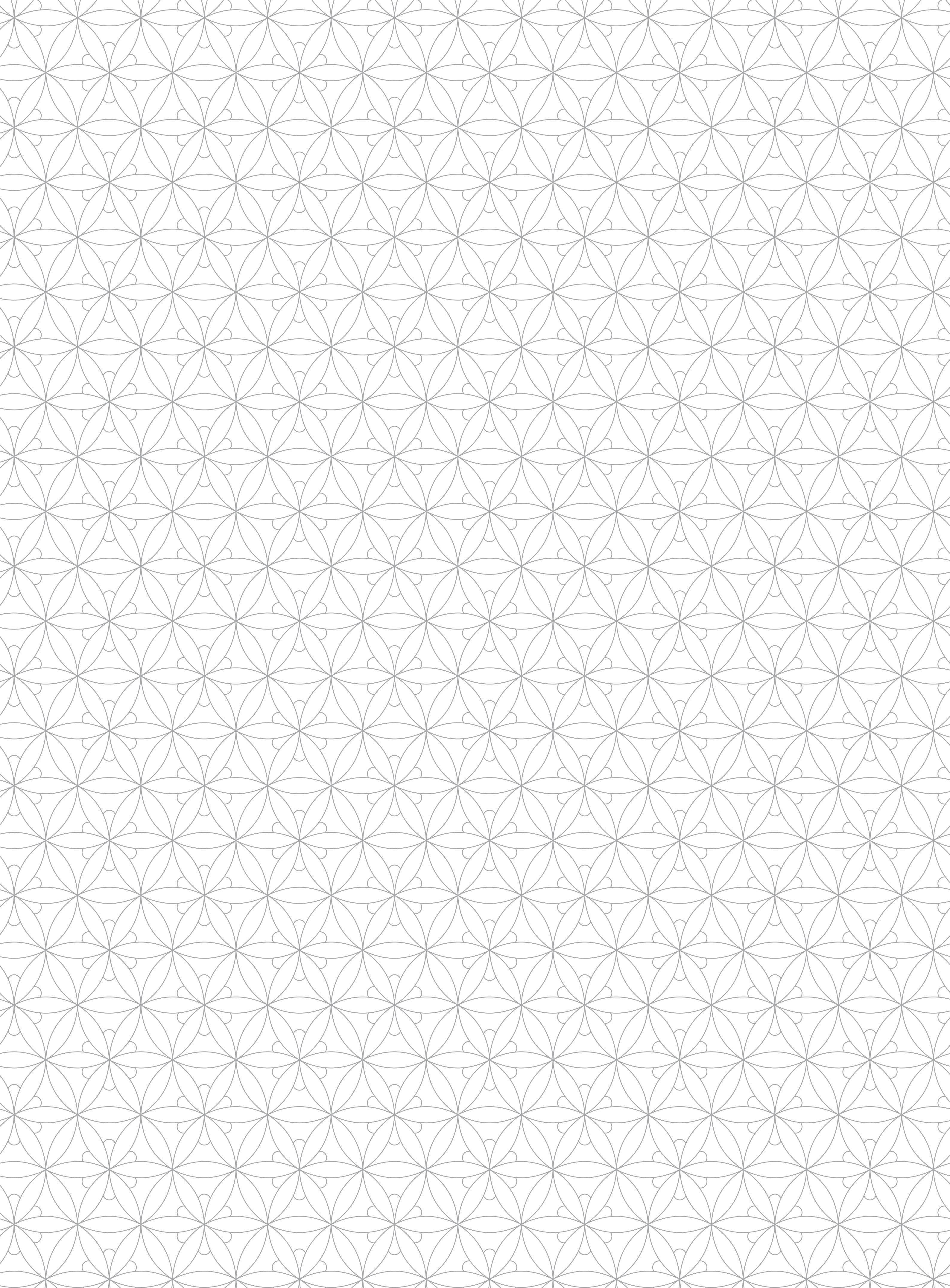
TAI PING

Tai Ping Carpets International Limited
Interim Report 2012

Incorporated in Bermuda with Limited Liability
Stock Code: 146

www.taipingcarpets.com



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Management Discussion & Analysis

The Directors of Tai Ping Carpets International Limited (the "Company") are pleased to present the Interim Report and condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012. The condensed consolidated income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity of the Group for the six months ended 30 June 2012, and the condensed consolidated statement of financial position as at 30 June 2012, along with selected explanatory notes, all of which are unaudited and reviewed by the Audit Committee of the Company, can be found on pages 10 to 32 of this report.

We are pleased to report that following the dramatic flooding of the Company's production facility in Pathumthani, Thailand in October 2011, we managed to get the factory reopened and back to full capacity in just five months and through the dedication of factory operators, staff and management, the factory is now producing higher volumes than ever before in its history.

The flooding caused us to report flood–related losses of HK$115 million for the full financial year 2011 and HK$34 million for the six months ended 30 June 2012. As a result of the factory being out of service for over five months from the flooding, we had to take significant write-downs on stock and assets and suffered substantial losses in sales and margin. Furthermore, we were obliged to outsource product and materials at a higher cost to guarantee continued supply to our customers.

We saw a significant recovery in sales in the first six months of 2012 as a result of a strong back order portfolio and improved market conditions around the globe, especially in the United States ("U.S."). The Group's consolidated turnover for the six months ended 30 June 2012 was HK$666 million, a period-on-period increase of 13%, or HK$77 million. Virtually all markets and sectors contributed to the increase, and the growth in turnover of our U.S. hospitality business was especially noteworthy.

Turnover of carpet operations increased by 15% period-on-period, while the turnover of non-carpet operations showed a decrease of 31%. Overall gross margin decreased slightly from 47% to 45%, mainly due to a less favourable product mix and lower production volumes in the first six months of 2012 resulting from the flood.

Our shareholding in Weihai Shanhua, for which we entered into a non-binding offer for sale on 17 November 2011 is held as an asset for sale. The share of profits of Weihai Shanhua are no longer consolidated in the Group's results.

While we have not achieved a definitive settlement with our insurers on our claim regarding the flood-related losses in Thailand, we have accounted for HK$75 million in insurance recoveries, which is equal to the advances committed per the reporting date. We do expect the final settlement to be significantly higher than the advances received to date. We are making good progress in our discussions with the insurance companies and we hope to settle the insurance claim before reporting our final results for 2012.

The Group recorded an operating loss of HK$11 million for the first six months compared with HK$34 million for the corresponding period in 2011. The Group's loss attributable to owners of the Company was HK$26 million, a reduction of HK$5 million from the previous period.

Carpet Operations

The 2011 flood mainly impacted the Commercial business, as the majority of these products are manufactured in our Thailand factory. As a result of pent-up demand, as well as underlying increases in demand, total sales of the Commercial business increased by 19%, or HK$71 million, period-on-period. Turnover in the Americas grew by 44% or HK$81 million. Sales in Thailand and the rest of Asia grew by 2% or HK$5 million.

Total sales of the RBC business grew by 6%, or HK$12 million, period-on-period. The increase was mainly driven by growth in the U.S. Margins were lower due to product mix, higher sourcing costs as a result of OEM purchases and the negative impact of currency movements, with the Euro weakening against the U.S. dollar compared to the same period in the prior year.

Operating loss was higher than in the prior period, which had benefited from the completion of several major projects. Traditionally, the Group's results in the second half of the year are stronger, due to the completion of major projects closer to the end of the year.

Our factory in Nanhai, in the People's Republic of China ("PRC"), is producing record volumes of finished product. Labour shortages, which have been quite significant in previous years, have been manageable and labour costs increase in the first half of 2012 has been lower than in prior years. Raw material price pressures, especially on wool and silk, which were high in previous years have eased somewhat, although remain a source of concern.

Operating expenses totalled HK$353 million, an increase of 15% from the previous period, which reflect investments in new hires for our growing businesses and additional lease expenses for new showrooms and the new head office in Kowloon Commerce Centre, Hong Kong. Our new Hong Kong head office and showrooms are now leased, as we sold our previously owned office space in Regent Centre.

Other Operations

Other operations comprise mainly our Group's U.S.-based yarn-dyeing subsidiary and only represent 2% of the Group's sales. Turnover in other operations decreased by 31% period-on-period. Profitability decreased as a result of higher operating expenses, only partly offset by price increases. The yarn-dyeing business is a non-core asset and we continue to monitor its performance closely.

Outlook

Though last year the Group was significantly impacted by the flood in Thailand, we managed to get the Thailand factory back in operation ahead of plan and year-to-date results are ahead of internal budgets. Sales in the Thailand domestic market and the important automotive sector recovered faster than expected, although margins in the automotive sector were depressed as we had to source product from Japan in order to guarantee supply to our key customers. We are seeing increased activity in key U.S. Commercial markets, with delayed and new projects coming to the market. European economies remain depressed, though we do not yet see a significant slowdown in the high-end luxury market sectors in which we operate, and we see continued opportunities to grow our business in the Middle East and Asia.

Upward pressure on raw material costs seem to have eased and we have partly hedged our exposure in the commodity markets. Financial markets remain volatile. We have partly hedged our exposure to the Euro for the balance of year, but the Euro's weakness remains a concern as it places downward pressure on overall margins.

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

We expect to complete the disposal of Weihai Shanhua in the second half of the year, which will restore our liquidity. We will partly use the proceeds of this sale to start construction of a new artisan workshop focused on hand-made products in Xiamen, PRC. Construction is expected to take 18-24 months.

Dividend

The Board does not recommend the payment of an interim dividend for the period (2011: Nil).

Capital Expenditure

Capital expenditure in the form of property, plant & equipment and construction in progress incurred by the Group totaled HK$66 million during the six months ended 30 June 2012 (2011: HK$15 million). As at 30 June 2012, the aggregate net book value of the Group's property, plant & equipment, leasehold land & land use rights, construction in progress and intangible assets (other than goodwill) amounted to HK$330 million (as at 31 December 2011: HK$300 million).

Liquidity & Financial Resources

The Group coordinates its financing and cash management activities at the corporate level. As we had to pre-finance the replacement of assets and raw materials damaged by the flood in Thailand and had to pay significant deposits for OEM production to continue supply, the Group borrowed HK$133 million through existing facilities with its key relationship banks. The Group expects that its cash position will significantly improve in the second half of the year, as a result of further insurance pay-outs and the receipt of the proceeds of the sale of the Group's stake in Weihai Shanhua.

As at 30 June 2012, the Group had total net debt amounting to HK$62 million (as at 31 December 2011: net cash HK$116 million).

Details of Charges on the Group's Assets

The Group had charges on bank deposits of HK$2 million (as at 31 December 2011: HK$1 million) made to secure banking facilities granted to the Group.

Exposure to Foreign Exchange Risks

The Group has overseas operations in the U.S., Europe, Thailand, the PRC, Singapore, India and Argentina. The Group treats its investments in these foreign operations as permanent equity, so exchange differences from translating the net investments in these foreign operations do not affect cash flows and are dealt with in the reserves.

The Group's sales are denominated primarily in the U.S. dollar, and to a lesser extent in Thai Baht and Euro and a variety of other currencies.

The Group recorded a net exchange loss of HK$1.9 million, arising from overseas operation. The Group's main exposure is to the Euro, which weakened against the U.S. dollar versus prior period. We have partly economically hedged our operating exposure against the Euro for 2012 by the use of forward contract and the Group will closely monitor the exchange rate movements and take appropriate action to manage any material exposure that may arise.

Employee & Remuneration Policies

As at 30 June 2012, the Group employed 3,190 employees (as at 31 December 2011: 3,130 employees). Employees are remunerated according to the nature of the job and market trends, with built-in merit components incorporated as an annual incentive to reward and motivate individual performance.

Contingent Liabilities

As at 30 June 2012, the Group's total contingent liabilities amounted to HK$9 million (as at 31 December 2011: HK$7 million).

James H. Kaplan
Chief Executive Officer

Hong Kong, 24 August 2012

Corporate Governance & Other Information

Corporate Governance

The Company has complied with the applicable code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) (the "Code") and the Corporate Governance Code (effective from 1 April 2012) (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six-month period ended 30 June 2012, other than code provision A.6.7 of the CG Code.

In respect of code provision A.6.7 of the CG Code, all non-executive directors (including independent non-executive directors) attended the annual general meeting of the Company held on 17 May 2012 except one non-executive director and one independent non-executive director due to other business engagement.

Directors' Securities Transactions

The Company adopted a code of conduct regarding the Directors' transactions in the securities of the Company on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). Specific enquiry has been made of all the Directors of the Company and they have confirmed their compliance with the required standard set out in the Model Code and the Company's code of conduct in this respect throughout the six-month period ended 30 June 2012 and up to the date of publication of this Interim Report.

Audit Committee

Written terms of reference of the Audit Committee in line with code provision C.3.3 of the Code were adopted at the Board meeting on 23 September 2005 and were revised as the CG Code and adopted 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 auditors (including making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the audit fee and reviewing the audit scope), review of financial information of the Group, oversight of the Group's financial reporting system and internal controls.

During the six-month period ended 30 June 2012 and up to the date of this Interim Report, the Audit Committee held two meetings with the management and the external auditors for reviewing the interim and annual reports before submission to the Board for consideration and approval, reviewing the annual audit plan and scope of work of both external auditors and internal auditors, and discussing issues arising from the audits including internal controls and financial reporting.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the six months ended 30 June 2012. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company's shares during the period.

Directors' Interests in Equity Securities

As at 30 June 2012, the interests of the Directors in the shares of the Company and its associated corporations (within the meaning of the Part XV of Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Ordinary shares of HK$0.10 each in the Company
Number of ordinary shares held (long position)

Name	Beneficial owner	Interests of controlled corporation	Aggregate % of the share capital
Ian D. Boyce	831,371	–	0.392%
David C. L. Tong	431,910	–	0.204%
Lincoln C. K. Yung	30,000	–	0.014%
Nelson K. F. Leong[1]	–	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 The shares are held through a company which is controlled by 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 period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to hold any interests in the shares in, or debentures of, the Company or any other body corporate.

Share Options

The share options scheme ("2002 Share Options Scheme" or the "Scheme") valid during the period was approved by the shareholders of the Company at an Annual General Meeting held on 23 May 2002. The Scheme fully complies with Chapter 17 of the Listing Rules and expired on 22 May 2012.

During the period between 1 January 2012 and 22 May 2012, there were no outstanding share options under the 2002 Share Options Scheme.

Substantial Shareholders

As at 30 June 2012, 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).

Condensed Consolidated Income Statement

For the six months ended 30 June

	Note	Unaudited 2012 HK$'000	2011 HK$'000
Revenue	6(a)	**666,474**	589,818
Cost of sales		**(366,645)**	(315,543)
Gross profit		**299,829**	274,275
Distribution costs	7	**(59,618)**	(54,015)
Administrative expenses	7	**(292,586)**	(259,723)
Loss in relation to Thailand flooding	8	**(33,501)**	–
Insurance compensation in relation to Thailand flooding	9	**75,475**	–
Other (losses)/gains – net	10	**(925)**	5,831
Operating loss		**(11,326)**	(33,632)
Finance income		**120**	233
Finance costs		**(585)**	(52)
Finance (costs)/income – net	11	**(465)**	181
Share of (loss)/profit of:			
an associate		**(979)**	1,483
jointly controlled entities		**–**	3,686
Loss before income tax		**(12,770)**	(28,282)
Income tax expenses	12	**(13,012)**	(3,601)
Loss for the period		**(25,782)**	(31,883)
(Loss)/profit attributable to:			
owners of the Company		**(26,403)**	(31,252)
non-controlling interests		**621**	(631)
		(25,782)	(31,883)
Loss per share attributable to owners of the Company (expressed in HK cents per share)			
basic	14	**(12.44)**	(14.73)

The notes on pages 16 to 32 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June

	Unaudited	
	2012	2011
	HK$'000	HK$'000
Loss for the period	**(25,782)**	(31,883)
Other comprehensive income for the period:		
currency translation differences	**814**	(11,531)
Total comprehensive income for the period	**(24,968)**	(43,414)
Total comprehensive income for the period attributable to:		
owners of the Company	**(25,353)**	(43,477)
non-controlling interests	**385**	63
	(24,968)	(43,414)

The notes on pages 16 to 32 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Financial Position

	Note	**Unaudited 30 Jun 2012 HK$'000**	Audited 31 Dec 2011 HK$'000
Assets			
Non-current assets			
Land use rights	15	**2,447**	3,516
Property, plant & equipment	16	**235,596**	243,935
Construction in progress	16	**62,458**	22,051
Intangible assets	17	**29,124**	30,588
Interest in an associate		**19,707**	18,723
Deferred income tax assets		**25,568**	33,036
Prepayments		**–**	9,391
Pledged bank deposits	19	**1,563**	1,344
Fixed deposits	20	**6,828**	7,865
		383,291	370,449
Current assets			
Inventories		**295,861**	195,893
Trade & other receivables	18	**307,832**	205,109
Derivative financial instruments		**1,565**	1,022
Amount due from an associate		**356**	356
Financial assets at fair value through profit or loss		**529**	40,752
Current income tax assets		**8,422**	4,137
Fixed deposits	20	**7,438**	1,642
Cash & cash equivalents	20	**70,807**	117,164
		692,810	566,075
Non-current asset classified as held for sale	21	**311,904**	311,904
		1,004,714	877,979
Total assets		**1,388,005**	1,248,428

The notes on pages 16 to 32 are an integral part of these condensed consolidated financial statements.

	Note	Unaudited 30 Jun 2012 HK$'000	Audited 31 Dec 2011 HK$'000
Equity			
Equity attributable to owners of the Company			
Share capital	22	**21,219**	21,219
Reserves	23	**453,844**	452,794
Retained earnings:			
Proposed final dividend		**–**	19,097
Others		**293,155**	319,558
		768,218	812,668
Non-controlling interests		**48,901**	48,516
Total equity		**817,119**	861,184
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**491**	425
Retirement benefit obligations		**21,816**	20,009
Other long-term liabilities		**3,015**	2,584
		25,322	23,018
Current liabilities			
Bank borrowings – unsecured	24	**132,748**	866
Trade & other payables	25	**369,832**	346,899
Dividend payable		**19,097**	–
Current income tax liabilities		**9,113**	1,485
Other long-term liabilities – current portion		**–**	1,267
Derivative financial instruments		**–**	263
Amounts due to jointly controlled entities		**1,328**	–
Amounts due to non-controlling interests shareholders		**13,446**	13,446
		545,564	364,226
Total liabilities		**570,886**	387,244
Total equity & liabilities		**1,388,005**	1,248,428
Net current assets		**147,246**	201,849
Total assets less current liabilities		**842,441**	884,202

The notes on pages 16 to 32 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June

	Unaudited						
	Attributable to owners of the Company						
	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
Balance at 1 January 2011	21,219	189,699	255,691	535,895	1,002,504	45,018	1,047,522
Loss for the period	–	–	–	(31,252)	(31,252)	(631)	(31,883)
Other comprehensive income							
Currency translation differences	–	–	(12,225)	–	(12,225)	694	(11,531)
Total comprehensive income for the period	–	–	(12,225)	(31,252)	(43,477)	63	(43,414)
Total contributions by and distributions to owners of the Company, recognised directly in equity							
Dividends relating to 2010	–	–	–	(19,097)	(19,097)	–	(19,097)
Dividend paid to non-controlling interests	–	–	–	–	–	(602)	(602)
Total transactions with owners	–	–	–	(19,097)	(19,097)	(602)	(19,699)
Balance at 30 June 2011	21,219	189,699	243,466	485,546	939,930	44,479	984,409
Balance at 1 January 2012	21,219	189,699	263,095	338,655	812,668	48,516	861,184
(Loss)/profit for the period	–	–	–	(26,403)	(26,403)	621	(25,782)
Other comprehensive income							
Currency translation differences	–	–	1,050	–	1,050	(236)	814
Total comprehensive income for the period	–	–	1,050	(26,403)	(25,353)	385	(24,968)
Total contributions by and distributions to owners of the Company, recognised directly in equity							
Dividends relating to 2011	–	–	–	(19,097)	(19,097)	–	(19,097)
Total transactions with owners	–	–	–	(19,097)	(19,097)	–	(19,097)
Balance at 30 June 2012	21,219	189,699	264,145	293,155	768,218	48,901	817,119

The notes on pages 16 to 32 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June

		Unaudited	
		2012	2011
	Note	**HK$'000**	HK$'000
Net cash used in operating activities		**(144,599)**	(8,057)
Net cash (used in)/generated from investing activities		**(28,308)**	81,139
Net cash generated from/(used in) financing activities		**126,904**	(5,550)
(Decrease)/increase in cash & cash equivalents		**(46,003)**	67,532
Cash & cash equivalents at beginning of period		**117,164**	86,697
Exchange (loss)/gain on cash & cash equivalents		**(354)**	2,581
Cash & cash equivalents at 30 June	20	**70,807**	156,810

The notes on pages 16 to 32 are an integral part of these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

1. General Information

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

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, P.O. Box HM 1179, Hamilton HM EX, Bermuda. The principal office in Hong Kong is located at 8/F, Tower 1, Kowloon Commerce 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 condensed consolidated interim financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated. These condensed consolidated interim financial statements were approved for issue by the Board of Directors on 24 August 2012.

These condensed consolidated interim financial statements have not been audited.

2. Basis of Preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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

3. Accounting Policies

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2011, as described in those annual consolidated financial statements.

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

The following new standards, amendments and interpretations have been issued but are not effective for the financial period beginning 1 January 2012 and have not been early adopted:

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 16 (Revised)	Property, plant and equipment[1]
HKAS 19 (Amendment)	Employee benefits[1]
HKAS 27 (Revised)	Separate financial statements[1]
HKAS 28 (Revised)	Investments in associates and joint ventures[1]
HKFRS 7	Financial instruments: disclosures[1]
HKFRS 9	Financial instruments[2]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosures of interests in other entities[1]
HKFRS 13	Fair value measurements[1]

Notes:

1 Effective from annual periods beginning on or after 1 January 2013

2 Effective from annual periods beginning on or after 1 January 2015

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

4. Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011, with the exception of changes in estimates that are required in determining the provision for income taxes (see Note 12).

5. Financial Risk Management

5.1 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.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2011.

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

5.2 Liquidity risk

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

5.3 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 or 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 30 June 2012.

	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	529	–	–	529
Derivative financial instruments:				
Foreign currency forward contracts	–	1,565	–	1,565
Total assets	529	1,565	–	2,094

The following table presents the Group's assets that are measured at fair value at 31 December 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 fair value of mutual funds which are traded in active markets is based on quoted market prices at the reporting date of the condensed consolidated statement of financial position. The fair value measurement for these mutual funds 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.

6. Revenues & Segment Information

(a) Revenues

	Six months ended 30 June	
	2012 **HK$'000**	2011 HK$'000
Sale of carpets	**606,034**	520,206
Sale of underlays	**7,491**	6,708
Installation of carpets	**14,056**	16,373
Interior furnishings	**21,354**	18,293
Sale of yarns	**16,013**	19,687
Sale of raw materials	**645**	8,192
Other	**881**	359
	666,474	589,818

(b) Segment information

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

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.

The Board of Directors assesses the performance of the operating segments based on a measure of segment results. Segment results represent the operating profit/loss of each business segment 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 six months ended 30 June 2012 and 2011 is as follows:

For the six months ended 30 June 2012

	Commercial HK$'000	RBC HK$'000	Total carpet HK$'000	Others HK$'000	Group HK$'000
Revenue from external customers	446,594	206,298	652,892	13,582	666,474
Segment results	(8,066)	(7,572)	(15,638)	(1,391)	(17,029)
Unallocated expenses[1]					(36,271)
Loss in relation to Thailand flooding	(33,501)	–	(33,501)	–	(33,501)
Insurance compensation in relation to Thailand flooding	75,475	–	75,475	–	75,475
Operating loss					(11,326)
Finance income					120
Finance costs					(585)
Share of loss of:					
an associate	(979)	–	(979)	–	(979)
Loss before income tax					(12,770)
Income tax expenses					(13,012)
Loss for the period					(25,782)

Capital expenditure	59,099	5,881	64,980	4,401	69,381
Depreciation of property, plant & equipment	24,314	3,817	28,131	977	29,108
Amortisation of land use rights	1,053	–	1,053	–	1,053
Amortisation of intangible assets	2,536	1,115	3,651	–	3,651
Recovery of impairment of trade receivables	(71)	(847)	(918)	–	(918)

For the six months ended 30 June 2011

	Commercial HK$'000	RBC HK$'000	Total carpet HK$'000	Others HK$'000	Group HK$'000
Revenue from external customers	375,625	194,462	570,087	19,731	589,818
Segment results	4,659	(8,860)	(4,201)	4,774	573
Unallocated expenses[1]					(34,205)
Operating loss					(33,632)
Finance income					233
Finance costs					(52)
Share of profit of:					
an associate	1,483	–	1,483	–	1,483
jointly controlled entities	3,686	–	3,686	–	3,686
Loss before income tax					(28,282)
Income tax expenses					(3,601)
Loss for the period					(31,883)
Capital expenditure	11,598	3,145	14,743	3,982	18,725
Depreciation of property, plant & equipment	27,399	1,066	28,465	1,026	29,491
Amortisation of land use rights	1,026	–	1,026	–	1,026
Amortisation of intangible assets	328	1,868	2,196	1,883	4,079
Impairment of trade receivables	825	3,069	3,894	–	3,894

Note:

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

There has been no material change in total assets from the amount disclosed in the last annual financial statements.

There are no differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.

7. Expenses by Nature

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Depreciation of property, plant & equipment (Note 16)	**29,108**	29,491
Amortisation of land use rights (Note 15)	**1,053**	1,026
Amortisation of intangible assets (Note 17)	**3,651**	4,079
Impairment of trade receivables	**1,094**	4,356
Reversal of impairment of property, plant & equipment (Note 16)	**(2,162)**	–
Property, plant & equipment written off	**1,507**	–
Reversal of impairment of inventories	**(917)**	(46)
Impairment of intangible assets (Note 17)	**1,158**	–
Inventories written off	**1,057**	–
Bad debts written off	**396**	357
Recovery of impairment of trade receivables previously recognised	**(2,012)**	(462)

8. Loss in Relation to Thailand Flooding

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 for the period ended 30 June 2012 is as follows:

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Direct labour costs incurred for idle staff	**11,536**	–
Cost of purchasing replacement carpets	**5,744**	–
Reversal of impairment of inventories	**(1,805)**	–
Write off of inventories	**1,057**	–
Reversal of impairment of property, plant & equipment	**(2,162)**	–
Property, plant & equipment written off	**1,507**	–
Repairs & maintenance of property, plant & equipment	**5,944**	–
Others	**11,680**	–
	33,501	–

9. Insurance Compensation in Relation to Thailand Flooding

During the financial year ended 31 December 2011, the Group had submitted several claims to various insurance companies in relation to the loss incurred due to the severe flooding in Thailand.

In February 2012, 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.

In June 2012, the insurance companies agreed to advance an additional 150,000,000 Thai Baht (approximately HK$37,475,000) to the Group. The Group received cash advances of 15,000,000 Thai Baht (approximately HK$3,800,000) in June 2012 and received the remaining cash advances of 135,000,000 Thai Baht (approximately HK$33,675,000) in July 2012. Based on the management's assessment, the advances represent the minimum settlement amount and the final settlement is expected to exceed the total advances. Therefore, the Group recognised total advances of 300,000,000 Thai Baht (approximately HK$75,475,000) in the condensed consolidated income statement for the six months ended 30 June 2012.

10. Other (Losses)/Gains – Net

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Gain on disposal of financial assets at fair value through profit or loss	**239**	971
(Loss)/gain on disposal of property, plant & equipment	**(70)**	9
Gain/(loss) on change in fair value of derivative financial instruments	**546**	(424)
Net foreign exchange (losses)/gains	**(1,908)**	5,283
Others	**268**	(8)
	(925)	5,831

11. Finance (Costs)/Income – Net

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Finance costs – interest on bank loans & overdrafts wholly repayable within five years	**(585)**	(52)
Finance income – interest income from banks	**120**	233
Finance (costs)/income – net	**(465)**	181

12. Income Tax Expenses

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Current income tax		
Hong Kong	**4,160**	1,279
PRC & overseas	**787**	7,135
Under/(over) provision in prior years	**885**	(1,235)
Deferred income tax expense/(credit)	**7,180**	(3,578)
Income tax expenses	**13,012**	3,601

Income tax expense is recognised based on management's estimate of the weighted average income tax rate expected for the full financial period. The estimated weighted average income tax rate for the period ended 30 June 2012 is 23% (2011: 23%).

13. Dividend

The Board does not recommend the payment of an interim dividend for the period (2011: Nil). The 2011 final dividend was paid on 11 July 2012.

14. 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 period.

	Six months ended 30 June	
	2012	2011
Loss attributable to owners of the Company (HK$'000)	**(26,403)**	(31,252)
Weighted average number of ordinary shares in issue (thousands)	**212,187**	212,187
Basic loss per share (HK cents)	**(12.44)**	(14.73)

The Group had no outstanding share options as at 30 June 2012 and 2011. As a result, diluted loss per share is equivalent to basic loss per share.

15. Land Use Rights

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

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
Outside Hong Kong, held on leases of between 10 and 50 years	**2,447**	3,516

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
At beginning of the period/year	**3,516**	5,359
Exchange differences	**(16)**	255
Amortisation of land use rights	**(1,053)**	(2,098)
At end of the period/year	**2,447**	3,516

16. Property, Plant & Equipment and Construction in Progress

For the six months ended 30 June 2012

	Property, plant & equipment				
	Buildings HK$'000	**Other assets HK$'000**	**Sub-total HK$'000**	**Construction in progress HK$'000**	**Total HK$'000**
At 1 January 2012					
Cost or valuation	**164,899**	**777,379**	**942,278**	**22,051**	**964,329**
Accumulated depreciation	**(100,968)**	**(597,375)**	**(698,343)**	**–**	**(698,343)**
Net book amount	**63,931**	**180,004**	**243,935**	**22,051**	**265,986**
Period ended 30 June 2012					
Opening net book amount	**63,931**	**180,004**	**243,935**	**22,051**	**265,986**
Additions	**–**	**17,089**	**17,089**	**48,750**	**65,839**
Transfer from construction in progress	**254**	**8,058**	**8,312**	**(8,312)**	**–**
Disposals & assets written off	**–**	**(1,577)**	**(1,577)**	**–**	**(1,577)**
Reversal of impairment	**–**	**2,162**	**2,162**	**–**	**2,162**
Depreciation	**(3,204)**	**(25,904)**	**(29,108)**	**–**	**(29,108)**
Exchange differences	**(404)**	**(4,813)**	**(5,217)**	**(31)**	**(5,248)**
Closing net book amount	**60,577**	**175,019**	**235,596**	**62,458**	**298,054**
At 30 June 2012					
Cost or valuation	**164,112**	**768,994**	**933,106**	**62,458**	**995,564**
Accumulated depreciation	**(103,535)**	**(593,975)**	**(697,510)**	**–**	**(697,510)**
Net book amount	**60,577**	**175,019**	**235,596**	**62,458**	**298,054**

For the six months ended 30 June 2011

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

17. Intangible Assets

For the six months ended 30 June 2012

	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 2012						
Cost	7,215	30,084	2,416	1,950	3,347	45,012
Accumulated amortisation	(5,772)	(7,000)	–	(520)	(1,132)	(14,424)
Net book amount	1,443	23,084	2,416	1,430	2,215	30,588
Period ended 30 June 2012						
Opening net book amount	1,443	23,084	2,416	1,430	2,215	30,588
Additions	–	3,542	–	–	–	3,542
Impairment	–	–	–	–	(1,158)	(1,158)
Amortisation	(722)	(2,536)	–	(65)	(328)	(3,651)
Exchange differences	–	–	(99)	–	(98)	(197)
Closing net book amount	721	24,090	2,317	1,365	631	29,124
At 30 June 2012						
Cost	7,215	33,625	2,317	1,950	2,046	47,153
Accumulated amortisation	(6,494)	(9,535)	–	(585)	(1,415)	(18,029)
Net book amount	721	24,090	2,317	1,365	631	29,124

For the six months ended 30 June 2011

	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 2011						
Cost	7,215	20,554	2,484	1,950	2,509	34,712
Accumulated amortisation	(4,449)	(4,201)	–	(401)	–	(9,051)
Net book amount	2,766	16,353	2,484	1,549	2,509	25,661
Period ended 30 June 2011						
Opening net book amount	2,766	16,353	2,484	1,549	2,509	25,661
Additions	–	4,067	–	–	–	4,067
Amortisation	(601)	(2,190)	–	(54)	(1,234)	(4,079)
Exchange differences	–	(65)	218	–	890	1,043
Closing net book amount	2,165	18,165	2,702	1,495	2,165	26,692
At 30 June 2011						
Cost	7,215	24,449	2,702	1,950	3,408	39,724
Accumulated amortisation	(5,050)	(6,284)	–	(455)	(1,243)	(13,032)
Net book amount	2,165	18,165	2,702	1,495	2,165	26,692

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

18. Trade & Other Receivables

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
Trade receivables	**208,180**	159,177
Less: provision for impairment of trade receivables	**(11,142)**	(15,362)
Trade receivables – net	**197,038**	143,815
Prepayments	**26,313**	31,633
Value added tax receivables	**27,588**	10,536
Rental deposits	**7,220**	4,247
Other receivables	**49,673**	14,878
	307,832	205,109

The amounts approximated to their respective fair values as at 30 June 2012 and 31 December 2011. 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:

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
0 to 30 days	**110,942**	79,237
31 to 60 days	**26,086**	22,842
61 to 90 days	**19,466**	7,031
91 to 365 days	**41,144**	29,287
More than 365 days	**10,542**	20,780
	208,180	159,177

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

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
Amount past due at the reporting date but not impaired:		
Less than 30 days past due	**29,872**	30,755
31 to 60 days past due	**20,622**	16,210
61 to 90 days past due	**7,859**	3,550
91 to 365 days past due	**40,559**	30,929
More than 365 days past due	**8,864**	18,212
	107,776	99,656

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

As at 30 June 2012, trade receivables of approximately HK$107,776,000 (as at 31 December 2011: HK$99,656,000) 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.

19. Pledged Bank Deposits

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
Pledged bank deposits	**1,563**	1,344

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 1 April 2014 (2011: 29 March 2013).

20. Fixed Deposits and Cash & Cash Equivalents

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
Cash & cash equivalents	**70,807**	117,164
Fixed deposits with maturity over one year	**6,828**	7,865
Fixed deposits with maturity over three months but less than one year	**7,438**	1,642
Total fixed deposits and cash & cash equivalents	**85,073**	126,671

21. Non-current Assets Classified as Held for Sale

On 17 November 2011, the Group's Board of Directors has resolved to accept a non-binding offer to dispose of all of its interests in the three jointly controlled entities namely, Weihai Shanhua Huabao Carpet Co., Ltd., Weihai Shanhua Premier Carpets 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 representing withholding tax payable and professional fee) to its recoverable amount (HK$311,904,000). Management has 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, and the jointly controlled entities were available for sale in their present condition. On 1 August 2012, the Group has signed the formal agreement in relation to such disposal.

22. Share Capital

	No. of shares	HK$'000
Authorised – Ordinary shares of HK$0.10 each:		
At 1 January 2012 & 30 June 2012	400,000,000	40,000
Issued & fully paid – Ordinary shares of HK$0.10 each:		
At 1 January 2012 & 30 June 2012	212,187,488	21,219

23. Reserves

	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 2012	**189,699**	**71,625**	**4,161**	**16,000**	**171,309**	**452,794**
Currency translation differences	**–**	**–**	**–**	**–**	**1,050**	**1,050**
Balance at 30 June 2012	**189,699**	**71,625**	**4,161**	**16,000**	**172,359**	**453,844**

	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 2011	189,699	71,625	4,161	16,000	163,905	445,390
Currency translation differences	–	–	–	–	(12,225)	(12,225)
Balance at 30 June 2011	189,699	71,625	4,161	16,000	151,680	433,165

24. Bank Borrowings – Unsecured

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
Short term bank loan	**128,495**	866
Bank overdraft	**4,253**	–
	132,748	866

25. Trade & Other Payables

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
Trade payables	**74,718**	56,139
Deposits received in advance	**160,623**	133,983
Accrued expenses	**72,387**	96,487
Other payables	**62,104**	60,290
	369,832	346,899

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

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
0 to 30 days	**58,094**	48,382
31 days to 60 days	**9,681**	4,996
61 days to 90 days	**4,191**	1,512
More than 90 days	**2,752**	1,249
	74,718	56,139

26. Contingent Liabilities

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
Performance bonds issued by banks	**8,928**	7,172

27. Capital Commitments

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
Authorised but not contracted for in respect of property, plant & equipment	**15,212**	11,993

28. 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

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Sale of carpets:		
an associate[1]	**34**	10
The Hongkong and Shanghai Hotels, Limited ("HSH")[2]	**573**	1,110
	607	1,120

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

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Purchase of goods:		
an associate[1]	**223**	4,553
jointly controlled entities[1]	**2,596**	–
	2,819	4,553

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:

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Salaries & other short-term employee benefits	**20,507**	17,093

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

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
Trade receivables from related parties:		
HSH	**400**	97
an associate	**34**	–
	434	97

	30 Jun 2012 HK$'000	31 Dec 2011 HK$'000
Trade payables to related parties:		
jointly controlled entities	**1,328**	8,970