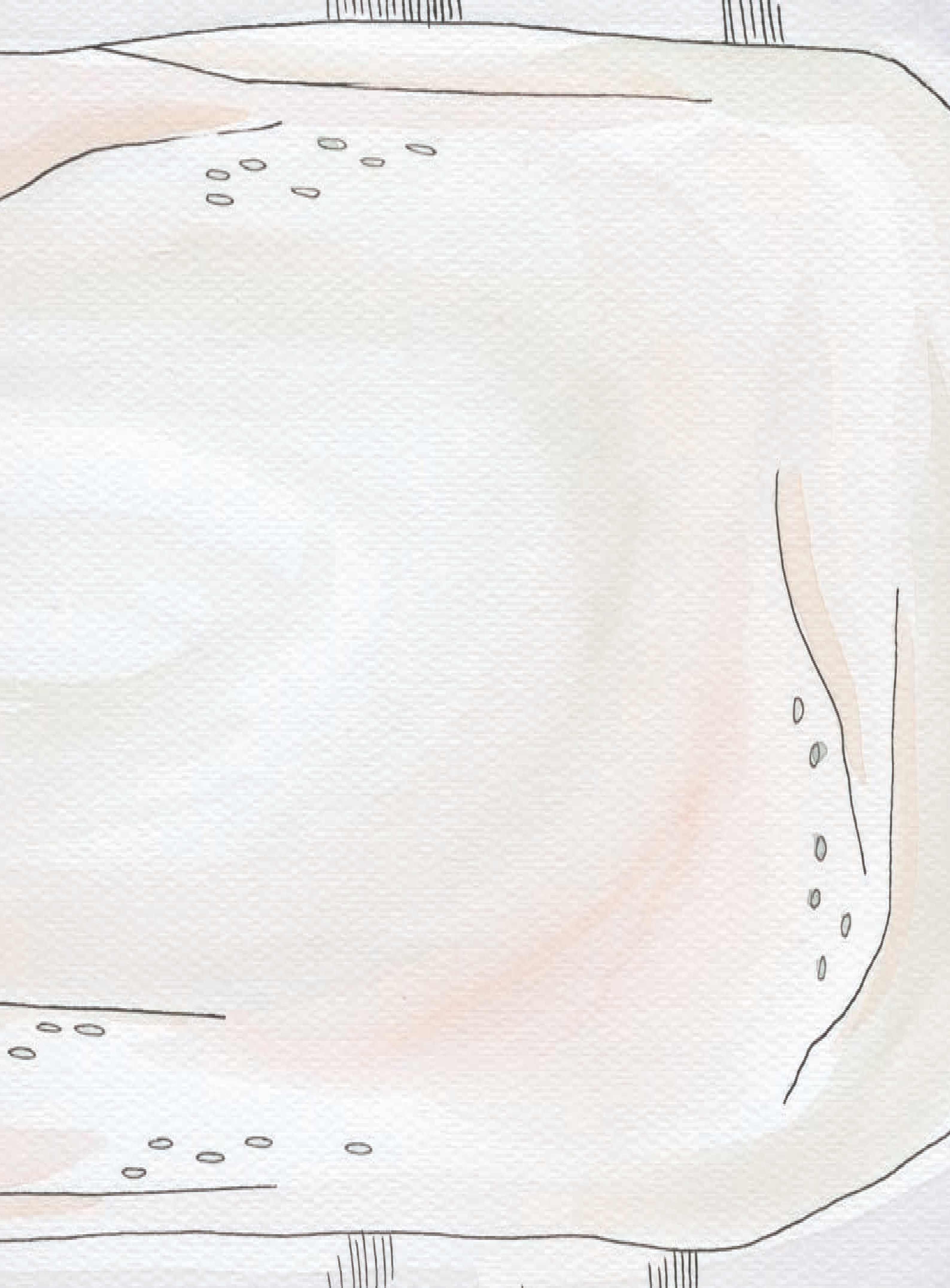
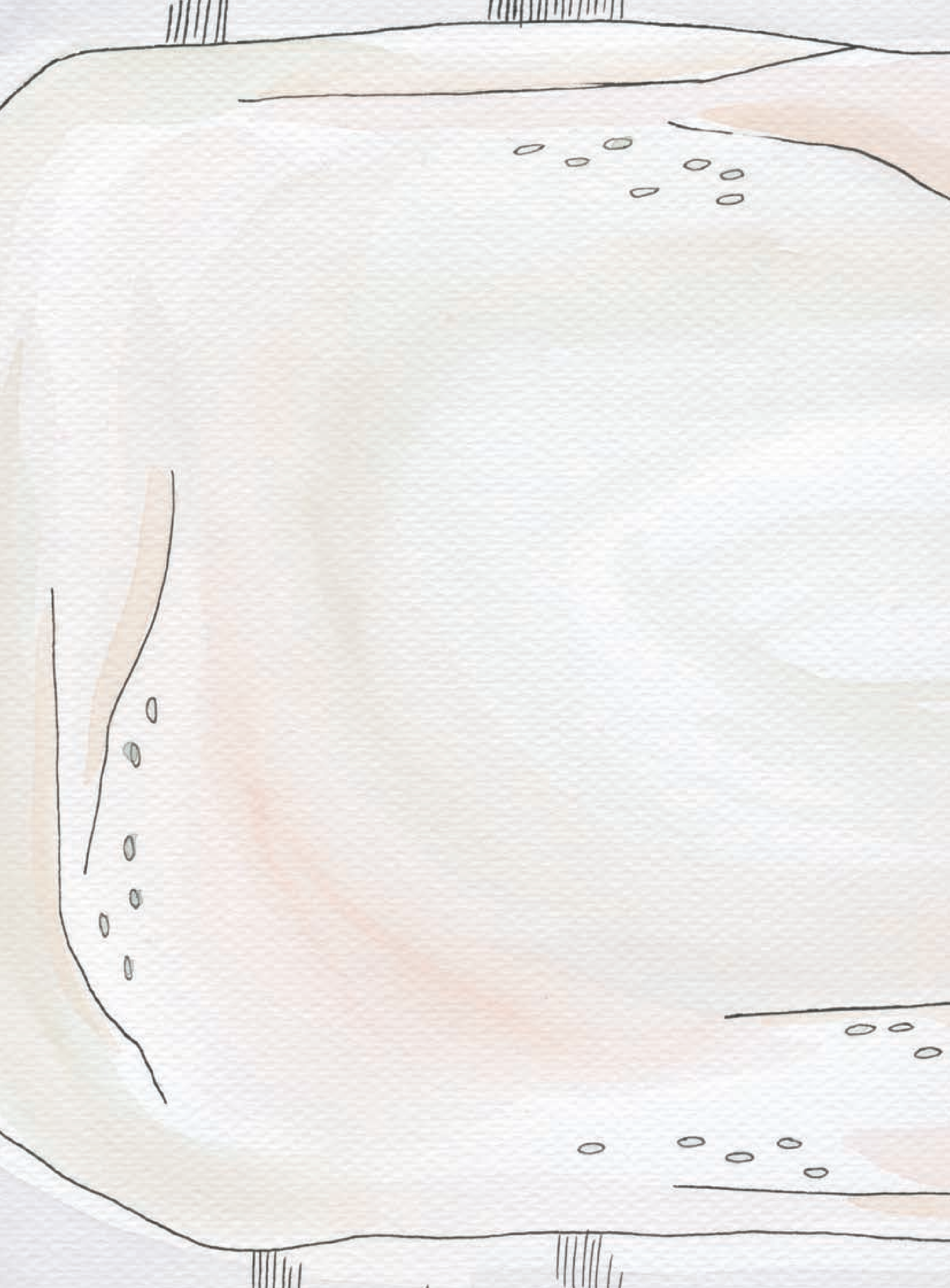
TAI PING

Tai Ping Carpets International Limited
Annual Report 2012

Incorporated in Bermuda with Limited Liability
Stock Code: 146





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 Paris Flagship

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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

		2012	2011
Per share	Net worth per share (HK$)	**4.41**	4.06
	Basic earnings/(loss) per share (HK cents)	**62.57**	(83.96)
	Final dividend declared per share (HK cents)	**12.0**	9.0
For the year	Turnover	**1,502,645**	1,250,109
	Profit/(loss) for the year	**142,577**	(175,467)
	Profit/(loss) attributable to owners of the Company	**132,775**	(178,143)
	Earnings before interest, tax, depreciation & amortisation	**244,607**	(137,298)
	Additions to property, plant & equipment, construction in progress and intangible assets	**133,389**	79,844
As at 31 December	Capital & reserves attributable to owners of the Company	**876,764**	812,668
	Shares in issue (in thousands)	**212,187**	212,187
Ratio	Return on capital & reserves attributable to owners	**15.14%**	–21.9%

Five-year Consolidated Financial Summary

Year ended 31 December

Assets & Liabilities

	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,487,902**	1,248,428	1,362,535	1,276,540	1,294,669
Total liabilities	**552,799**	387,244	315,013	250,810	298,739
Total equity	**935,103**	861,184	1,047,522	1,025,730	995,930

Consolidated Income Statement

	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit/(loss) attributable to:					
Owners of the Company	**132,775**	(178,143)	(13,063)	39,134	83,465
Non-controlling interests	**9,802**	2,676	1,255	219	688
	142,577	(175,467)	(11,808)	39,353	84,153

Tai Ping Paris Flagship

Chairman's Statement

2012 was a year focused on rebuilding our production facility in Pathumthani, Thailand following the dramatic floods of October 2011, and bringing the business back to profitability following the substantial flood-related write-downs and losses incurred in our 2011 results.

Assisted by resources from all parts of the Group, the local operations team in Thailand did a formidable job, managing to reopen the Pathumthani factory two months sooner than anticipated, while also increasing full-year production volumes versus a non-flood affected 2010.

Significant flood-related costs were incurred in the first quarter of the year, as continued outsourcing of production was required to fulfill the Group's order book. However, profitability was restored from the second quarter onwards when the Pathumthani factory was functioning again at normal capacity, and over the full year the Group was able to record an operating profit.

We continue to pursue full compensation for the losses sustained as a result of the flood with our underwriters. Progress of our claim is slow, due to the overwhelming number of claims being filed with the insurance industry in Thailand. Thus far we have succeeded in settling our claim related to damaged inventories. Parts of the claim related to business interruption losses and property damage are still under discussion and we hope to resolve these in 2013, although final settlement may take well into 2014.

Our Commercial businesses, for which the majority of product comes from the Pathumthani factory, were most impacted by the flood in Thailand, yet they experienced a fast turnaround. Aided by backlogged orders, and a better economic climate in the U.S., sales grew and profitability was restored.

Our high-end Residential businesses had a year of stable growth, with the strongest sector being Aviation, where we are gaining market share based on our strong product offerings, fast delivery times and outstanding customer service. Year-on-year, Aviation sales grew 40%. The U.S. residential sector is recovering, but sales are still below the 2008 peak level. Europe saw slower growth levels after several years of double-digit increases.

The sale of our 49% stake in the Weihai Shanhua joint venture was completed in December, ending a long-standing relationship between the two companies. We expect to continue our co-operation with Weihai Shanhua and to use the company as an important supplier to the Group.

We announced our intention to build a new artisan workshop in Xiamen, PRC, exclusively focused on the production of high-end, custom handmade products and have retained the renowned French architect Jean-Marc Sandrolini to conceive the master design. A letter of intent with the local government has been signed, and the land was recently purchased. Completion of the facility is expected by mid 2014. The artisan workshop will enable the Group to meet the growing demand for its premium products and open up new business opportunities in the future.

We entered 2013 with a strong order book, but the global economic environment remains volatile. Continued investments will be made to develop key markets and sectors globally, especially in the higher added value segments of the business.

On behalf of the other members of the Board, I would like to thank Tai Ping management and staff for their contributions throughout this year. I would also like to thank the Directors for their continued support and advice.

Nicholas T. J. Colfer
Chairman

Hong Kong, 22 March 2013

Management Discussion & Analysis

The Group's consolidated turnover for the year ended 31 December 2012 was HK$1,503 million, up HK$253 million or 20% compared to the previous year.

Gross margin rose by 1 percentage point to 41%. Operating expenses increased by 2% to HK$581 million and the Group recorded an operating profit of HK$35 million before exceptional items.

Exceptional items include a profit of HK$65 million related to the disposal of jointly controlled entities. This gain was the result of foreign exchange differences, which was only recorded upon the completion of the transaction under HKFRS.

Losses due to the Thailand flood amounted to HK$33 million, bringing the total losses to HK$148 million over the two years. However, insurance recoveries amounting to HK$112 million were included in 2012 results, but final settlement of all the insurance claims is expected to take well into 2013 and might stretch into 2014.

Operating profit after exceptional items amounted to HK$179 million and net profit attributable to the equity holders to HK$133 million, an improvement of HK$311 million versus the previous year.

CARPET OPERATIONS

Turnover of the carpet operations increased by 21%, or HK$259 million, to HK$1,475 million in 2012 driven by the Commercial Division's strong rebound from the devastation in Thailand of HK$1,217 million in the previous year.

Steady growth in the U.S. Aviation sector combined with growth in Asia, albeit low-based, drove turnover in the Residential Division, resulting in a 2% increase in sales to HK$500 million.

Our operating entities in Asia generated the largest share of our turnover, accounting for 44% of sales, while America and Europe, Middle East & Africa accounted for 38% and 18% respectively.

The gross profit margin increased 1 percentage point to 41%, due to a change in mix as a result of the faster growth in the Commercial sector sales, more than offset by price increases to compensate for higher raw material costs, and wage inflation. Before exceptional items the operating profit of the carpet operations increased by HK$70 million year-on-year, to an operating profit of HK$25 million.

The Americas

Our business in the Americas experienced a very solid year, with turnover growing to HK$556 million, an increase of 33% from HK$418 million in the previous year.

Residential turnover grew by HK$15 million or 9% to HK$191 million. Gross margin decreased by 1 percentage point to 67%. Growth was led by the Aviation sector, which had another very sound year, increasing turnover 18%. We have significantly shortened our lead times for custom-made samples and are winning more projects by being involved in the early stages of the aircraft design process. We were viewed as a pre-eminent supplier to the aircraft industry at the EBACE aviation show in Geneva, which generated a lot of media attention. In addition we secured a global contract to supply Juicy Couture retail stores worldwide and won several prestigious high-end contracts for private residences.

Following our decision to restructure and write-down our investment in the J.S.L. Carpet Corporation in 2011, we created a new Division focused on the design and sale of high-end custom-made hand-knotted carpets from Nepal, to be sold through the Tai Ping global residential showroom network. The business is still in its early stages, but we expect sales in this segment to significantly grow over the coming years and intend to set up a full sourcing unit in Nepal in 2013.

The U.S. Commercial business had a robust performance, with turnover growing by HK$128 million or 54% to HK$364 million, partly resulting from the fulfillment of 2011 orders which had been backlogged due to the flooding of our Thailand factory. We secured major projects for Marriott CFRST properties (Courtyard, Fairfield Inn, Residence Inn, Spring Hill Suites and Town Place Suites), which rebounded from the poor economic conditions in 2010 and 2011. Our ability to stock for these hospitality programmes put us in a prime position to service the majority of the dealings in this market segment. Our business in Latin America, led from our Buenos Aires office, reported an operating profit for the first time since its establishment in 2007.

Gross margin decreased by 5% due to the higher percentage of commercial products in the mix, but operating profit increased significantly to HK$81 million, an increase of HK$50 million compared with the prior year.

Asia

As sales in Thailand recovered post-flood, and despite the factory operating below regular capacity in the first quarter of the year, turnover in Asia increased by 21% from HK$540 million to HK$651 million.

Thailand achieved 22% growth, as domestic, export and automotive sales rebounded quickly and backlogged orders were fulfilled.

Commercial turnover in the rest of Asia grew by 36% to HK$195 million, buoyed by carryover from 2011 as a result of the flood in Thailand. Key markets were Hong Kong and Macau, where we continued with major hotel and casino renovations, and Southern China, which is seeing an increased opening of 5-Star Hotels. Looking forward we are also considering entering other emerging markets in Asia.

Our exclusive distributor in Australia continues to increase sales of Carpets Inter modular carpet tiles, which showed a year-on-year growth of 14% from HK$58 million to HK$66 million. We have introduced the *1956 by Tai Ping* brand and associated products in this market as well, and early sales have been encouraging.

We significantly downscaled our operations in India. We entered the market in 2008, but found market conditions and practices to be challenging, as well as lacking consistency with the Group's overall brand strategy. Going forward we will focus on the sales of our own high-end *1956 by Tai Ping* commercial brand and residential products, rather than low-priced locally produced products.

Our Asian Residential business being managed out of Hong Kong had another satisfactory year, and sales increased by 29% to HK$26 million. The business recorded an operating loss, as we are investing in the high-end residential business in Mainland China. We are planning to open a new showroom in Shanghai in 2013.

Before exceptional items, the region generated an operating loss of HK$41 million, an improvement of HK$30 million compared with the previous year. After exceptional items the region recorded an operating profit of HK$103 million.

Europe, Middle East & Africa

Despite the downturn in the European economy we increased turnover in the region by 4% over the prior year to HK$269 million.

We completed several high-end projects, including the Emiri terminal at the new Doha International Airport. We have strengthened our position in the luxury boutique sector, which accounts for approximately 15% of regional turnover. The Yacht sector had an exceptional year, showing 68% growth over 2011.

2012 was an important reconstruction year for La Manufacture Cogolin, acquired in 2010. A showroom in Paris, designed by the brand's director Jean-Pierre Tortil, was opened, and new collections launched, both of which have stimulated great interest in the brand. As we continue to place investment behind the re-launch of this iconic brand in France and across the globe, an operational loss was reported for 2012. However we expect the business to break even in 2013.

In June we unveiled our new Tai Ping European flagship in Paris. The new showroom concept by Belgium-born designer Ramy Fischler presents the Tai Ping brand in a true luxury context. We also opened a new sales office in Dubai, allowing direct access to the fast growing market in the Middle East.

Gross margin decreased by 1 percentage point to 52% compared to the previous year, and the region generated an operating loss of HK$18 million for the year.

Jointly Controlled Entities

The completion of the sale of three jointly controlled entities representing our shareholding in Weihai Shanhua in December marked the end of our 20-year investment in the joint venture. We recognised a non-cash accounting profit of HK$65 million, mainly represent realisation of foreign exchange reserves and capital reserves attributable to the joint ventures in prior years.

Manufacturing Operations

Our manufacturing operations in Nanhai improved their operating efficiency again, increasing Hand Tufted output by 24% to 92,000 square meters. Axminster machine-made production matched the previous year at 675,000 square meters. Employee turnover remained low, although we lost some factory employees to competing industries, which we try to mitigate through selective pay raises, training and improvement of secondary benefits. Continued progress was made with the Aviation business, achieving critical production deadlines and the highest standards of colour matching in the industry. The new package dyeing facility became operational mid-year, delivering significant improvements in efficiency and environmental performance with drastically reduced wastewater discharge and treatment costs.

In Thailand, operation of the factory following the catastrophic floods resumed two months ahead of schedule, and the team proceeded to grow monthly production outputs by 20%, matching previous annual production in just 10 months of activity. Commercial carpet output reached 2.78 million square meters and Automotive 5.64 million square meters. The site has now been protected with a permanent floodwall.

Human Resources

The number of employees grew by 48 to 3,178, predominantly due to increases in our China factory workforce and the start-up of our Dubai enterprise. We further harmonised our human resource practices across the globe and introduced our short-term management incentive plan in Thailand, bringing our entire management establishment under one performance scheme. We refined our recruitment strategy by initiating a global career opportunities page on the intranet and establishing a company presence on an international social media recruitment website. We introduced a global HR administrative system, which will be completed in 2013.

Information Technology

We continued the roll out of the Oracle system, facilitating faster order processing and better customer service. Following the launch in the U.S. in 2011, it was implemented for Hong Kong, Macau and Shanghai, with Europe and Singapore underway. We also initiated a feasibility study for the system for our main factories in China and Thailand.

Development of our Quantum design software is substantially complete with further enhancements in progress. The introduction of this in-house proprietary software will deliver significant savings in license fees.

Design & Marketing

Highlights for the year included the opening of two new flagships in Paris.

The new showroom for *La Manufacture Cogolin*, our upscale French hand-woven carpet brand, was launched in April, garnering much attention from the press and the international design community. Over the coming years, we expect to roll out Cogolin globally.

Our new Tai Ping European flagship opened in June. With interiors conceived by Belgium-born designer Ramy Fischler, the gracious 18th-century Hôtel de Livry, houses our European management team and also marks a new generation of showcasing the Tai Ping luxury brand offering.

In the residential market the main focuses were the global launch of Eclipse, an in-house designed collection inspired by Asian modern style, and Ramy Fischler's Chinoiserie collection first introduced during the opening of the Paris showroom, then globally.

After restructuring the Hand Knotted business, we debuted our first Tai Ping branded hand-knotted collection in Europe and Asia, making the division truly global.

1956 by Tai Ping launched its first digital collections, Momentum and Imperial. In early 2013 both Accent Textures, a comprehensive tool to educate designers and end-users on our wide array of unique capabilities, and the Axminster Specifier, a tutorial and reference to the many qualities that *1956 by Tai Ping* offers, were created. Alongside these, 2013 will also see the debut of The Design Collective, an innovative, global collaboration based on design in its truest form.

Carpets Inter developed a modern upgrade of uniformed books and brochures in conjunction with the launch of several collections: Artline II, Urban Elements, Emporium, Executive Suite and In Transit.

Overall, we increased our focus on social media and other web-based initiatives. The development of a digital interface, which will facilitate the interaction between designers and sales representatives, is almost complete. The interface will be launched globally in 2013.

NON-CARPET OPERATIONS

Yarn Operations

Premier Yarn Dyers, Inc. ("PYD"), which operates the Group's U.S.-based yarn-dyeing facilities, recorded a small profit despite lower volumes.

Turnover in the second half of the year was stronger than the prior year. The carpet industry around Atlanta, which houses PYD's main customers, is slowly recovering, absorbing the overcapacity in the sector and allowing it to regain some of the volume lost in previous years. Turnover decreased by 18% to HK$27 million. We expect sales in 2013 to slightly increase.

James H. Kaplan
Chief Executive Officer

Hong Kong, 22 March 2013

Four Seasons, Guangzhou

Board of Directors

Chairman & Non-Executive Director

Nicholas T. J. Colfer, aged 53

Chairman since 2005; Non-Executive Director since 2003; Chairman of the Executive and Nomination Committees

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, aged 57

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

Mr. Kaplan has been with Tai Ping for nine years. Prior to that, he was the 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 68

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

Nelson K. F. Leong, aged 49

Non-Executive Director since 2012 and Alternate Director to his elder brother Lincoln K. K. Leong (1998-2012); 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 42

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

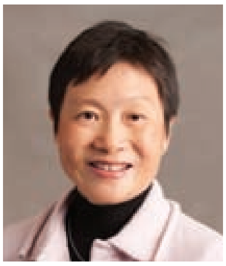
Mr. Tong is a Director of Sir Elly Kadoorie & Sons Ltd., an Independent Non-Executive Director of Hong Kong Aircraft Engineering Co., Ltd. and serves on several other corporate boards in Hong Kong. He is a Chartered Engineer and holds a Bachelor of Engineering degree from the University of London.

Non-Executive Director

John J. Ying, aged 50

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

Mr. Ying is the Managing Director of Peak Capital, 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 51

Independent Non-Executive Director since 2004; Member of the Remuneration and Nomination Committees

Mrs. Fung is a Director of Hsin Chong International Holdings Ltd., and Chair of The Yeh Family Philanthropy Ltd., 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 60

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

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 67

Independent Non-Executive Director since 2004 and Non-Executive Director (1980-2004); Member of the Nomination Committee

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 63

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. 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

The Board and Management are committed to promoting good corporate governance to safeguard the interests of shareholders. The Company has complied with the applicable code provisions 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") throughout the year ended 31 December 2012, except for the deviations as disclosed in this report.

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 2012 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 ten members. Among them, one is Executive Director, five are Non-Executive Directors and four are Independent Non-Executive Directors.

During the year, Mr. Lincoln K. K. Leong retired as a Non-Executive Director of the Company at the annual general meeting on 17 May 2012. Mr. Nelson K. F. Leong was appointed as a Non-Executive Director of the Company on 22 June 2012.

Appropriate directors' and officers' liability insurance has been arranged for the Directors and Officers of the Company.

During the year, all Directors have received regular updates on the changes to and developments in the relevant laws and regulations applicable to Directors. Additionally, training has been attended by all Directors covering a broad range of topics including Directors' duties, updates on the Listing Rules and accounting reporting standards.

The Board has a balance of skills and experience appropriate for the requirements of the businesses of the Group. All Directors have separate and independent access to the advice and services of the senior management, the Group Chief Financial Officer and the Company Secretary, with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

Board Meetings

The Board of Directors held a total of five Board meetings during the year ended 31 December 2012. Of these, two meetings were held to approve the 2011 final results and 2012 interim results of the Group; the other meetings were held to consider financial and operating performances of the Group. The Group 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 perspectives.

The attendance of individual Directors during the year ended 31 December 2012 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	5/5
Chief Executive Officer & Executive Director	
James H. Kaplan	5/5
Non-Executive Directors	
Ian D. Boyce	5/5
Lincoln K. K. Leong[1]	1/2
Nelson K. F. Leong[2]	3/3
David C. L. Tong	5/5
John J. Ying	5/5
Independent Non-Executive Directors	
Yvette Y. H. Fung	5/5
Aubrey K. S. Li	4/5
Roderic N. A. Sage	2/5
Lincoln C. K. Yung	5/5

Notes:

1 Mr. Lincoln K. K. Leong retired as a Non-Executive Director of the Company at the annual general meeting on 17 May 2012. He attended one meeting in person and one meeting being attended by his alternate, Mr. Nelson K. F. Leong.

2 Mr. Nelson K. F. Leong was appointed as a Non-Executive Director of the Company on 22 June 2012.

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 CEO is Mr. James H. Kaplan. To comply with code provision A.2.1 of the CG Code, the division of responsibilities between the Chairman and the CEO was formally set out in writing. Essentially, the Chairman takes the lead to oversee the Board functions while the CEO, 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 CG 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 of the Code, 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 of Tai Ping Carpets International Limited as pursuant to the Company Act 1990 of Bermuda. Notwithstanding this, the Directors intend to comply with code provision A.4.1 of the CG Code by asking any Executive Chairman or Managing Director to voluntarily retire by rotation at least once every three years.

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 and the special general meeting of the Company held on 17 May 2012 and 27 July 2012 respectively, except Mr. Lincoln K. K. Leong (Non-Executive Director) and Mrs. Yvette Y. H. Fung (Independent Non-Executive Director) were absent at the annual general meeting and Mr. David C. L. Tong, Mr. Nelson K. F. Leong and Mr. John J. Ying (Non-Executive Directors) and Mrs. Yvette Y. H. Fung (Independent Non-Executive Director) were absent at the special general meeting due to other business commitments.

Mr. Lincoln K. K. Leong and Mr. Nelson K. F. Leong (being Alternate Director to Mr. Lincoln K. K. Leong) are brothers. Mr. Lincoln K. K. Leong retired as a Non-Executive Director of the Company at the annual general meeting on 17 May 2012. 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 six meetings and the attendances of the members at the meetings are as follows:

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

2. Remuneration Committee

The Company has set up a Remuneration Committee on 23 September 2005 and the terms of reference of Remuneration Committee are aligned with the CG Code. Given below are main duties of the Remuneration Committee:

– to make recommendation on the Company's policy and structure for remuneration of the Directors and senior executives
– to determine remuneration of all Executive Directors and senior executives
– to review and approve performance-based remuneration
– to 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)	3/3
Yvette Y. H. Fung	2/3
David C. L. Tong	3/3

3. Audit Committee

The Company has set up an Audit Committee on 23 September 2005 and the terms of reference of Audit Committee are aligned with the CG Code. Under these terms of reference, the responsibilities of the Audit Committee include overseeing the relationship with the Company's external auditor (including making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and approving the audit fee and reviewing the audit scope), review of financial information of the Group, oversight of the Group's financial reporting system 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	2/3
Aubrey K. S. Li	3/3

4. Nomination Committee

The Company has set up a Nomination Committee on 31 March 2012 and the terms of reference of Nomination Committee are aligned with the CG Code. Given below are main duties of the Nomination Committee:

– 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
– to 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 members of the Nomination Committee and their attendances at the meeting of the committee are set out below:

	No. of meeting attended
Nicholas T. J. Colfer (Chairman)	1/1
Lincoln C. K. Yung	1/1
Yvette Y. H. Fung	1/1

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:

	HK$'000
PricewaterhouseCoopers:	
Audit services	4,200
Non-audit services	5,276

Company Secretary

Mr. Lee Siu Kau Thomas ("Mr. Lee") was appointed as the company secretary of the Company with effect from 21 December 2011. He is responsible to the Board for ensuring the board procedures are followed and that the Board is briefed on legislative, regulatory and corporate governance developments. Mr. Lee has been in full compliance with the requirements of Rule 3.29 of the Listing Rules throughout the year of 2012.

Financial Reporting & Internal Controls

The consolidated financial statements of the Company for the year ended 31 December 2012 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 page 42 and 43.

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 and 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.

Communication with Shareholders

The Company is committed to ensure that the Group complies with disclosure obligations under the Listing Rules and other applicable laws and regulations, and that all shareholders and potential investors have an equal opportunity to receive and obtain externally available information issued by the Company. Information regularly provided to the shareholders includes annual and interim reports, circulars and announcements in accordance with the Listing Rules.

The Company welcomes the attendance of shareholders at general meetings to express their views. All the Directors are encouraged to attend the general meetings to have personal communication with shareholders. The external auditor is also required to be present to assist the Directors in addressing any relevant queries by shareholders.

For both institutional and retail investors, the Company's website at www.taipingcarpets.com, as well as a third-party hosted website at www.irasia.com/listco/hk/taipingcarpets, provide up-to-date information on the Group. All key information such as announcements, annual and interim reports can be downloaded from these websites.

During the year ended 31 December 2012, the Company held the annual general meeting on 17 May 2012 and the special general meeting on 27 July 2012. The Chairman of the Board and chairman of the committees attended all general meetings to answer questions and proposals raised by the shareholders of the Company. Details of Directors' attendance record of general meetings are as follows:

	No. of meetings attended
Chairman & Non-Executive Director	
Nicholas T. J. Colfer	2/2
Chief Executive Officer & Executive Director	
James H. Kaplan	2/2
Non-Executive Directors	
Ian D. Boyce	2/2
Lincoln K. K. Leong[1]	0/1
Nelson K. F. Leong[2]	0/1
David C. L. Tong	1/2
John J. Ying	2/2
Independent Non-Executive Directors	
Yvette Y. H. Fung	0/2
Aubrey K. S. Li	2/2
Roderic N. A. Sage	2/2
Lincoln C. K. Yung	1/2

Notes:

1 Mr. Lincoln K. K. Leong retired as a Non-Executive Director of the Company at the annual general meeting on 17 May 2012. He has not attended the annual general meeting on 17 May 2012 in person but by his alternate, Mr. Nelson K. F. Leong.

2 Mr. Nelson K. F. Leong was appointed as a Non-Executive Director of the Company on 22 June 2012.

Shareholders' Rights

1. **Procedure for shareholders to convene an Extraordinary General Meeting ("EGM")**

   The Board shall, on the requisition in writing of the shareholders of not less than one-tenth of the paid-up capital of the Company upon which all calls or other sums then due have been paid, forthwith proceed to convene an EGM.

   If within twenty-one days of such deposit the Board fails to proceed to convene the EGM, the requisitionists or any of them representing more than one half of the total voting rights of all of them, may themselves convene a EGM, but any meeting so convened shall not be held after three months from the date of the original deposit.

2. **Procedures for putting forward proposals at shareholders' meeting**

   Shareholders can submit a written requisition to move a resolution at shareholders' meeting. The number of shareholders shall represent not less than one-twentieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the shareholders' meeting, or who are no less than one hundred shareholders.

   The written requisition must state the resolution, accompanied by a statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at the shareholders' meeting. It must also be signed by all of the shareholders concerned and be deposited at the Company's office in Hong Kong at 8th Floor, Tower 1, Kowloon Commerce Centre, 51-53 Kwai Cheong Road, Kwai Chung, Hong Kong, for the attention of the Company Secretary not less than six weeks before the shareholders' meeting in case of a requisition requiring notice of a resolution and not less than one week before the shareholders' meeting in case of any other requisition.

   The shareholders concerned must deposit a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned under applicable laws and rules.

3. **Shareholders' enquires**

   Shareholders should direct their questions about their shareholdings to the Company's Registrar. Shareholders and the investment community may at any time make a request for the Company's information to the extent that such information is publically available. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's office in Hong Kong at 8th Floor, Tower 1, Kowloon Commerce Centre, 51-53 Kwai Cheong Road, Kwai Chung, Hong Kong.

Constitutional Documents

During the year, there was no change in the Company's constitutional documents.

Carpet Tile

Legacy Edition, Edward Fields

Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2012.

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 44.

No interim dividend was paid during the year. The Directors recommend a final dividend of HK12 cents per share (2011: HK9 cents), totalling HK$25,462,000 (2011: HK$19,097,000) for the year ended 31 December 2012. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company on 24 May 2013, 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 3 June 2013.

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$68,000.

Intangible Assets

Details of the movement in intangible assets during the year are set out in Note 18 to the consolidated financial statements.

Property, Plant & Equipment

Details of the movements in property, plant and equipment during the year are set out in Note 17 to the consolidated financial statements.

Share Capital

Details of the movement 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 2012, calculated under the Companies Act 1981 of Bermuda (as amended) amounted to approximately HK$499,228,000.

Principal Subsidiaries & an Associate

Particulars of the principal subsidiaries and an associate are set out on page 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 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.

Directors

The names of the Directors at the date of this Report are set out on pages 20 and 21.

In accordance with the Company's Bye-laws, Mr. Nicholas T. J. Colfer, Mr. David C. L. Tong, Mr. Nelson K. F. Leong, Mr. Roderic N. A. Sage and Mr. Aubrey K. S. Li shall retire by rotation, while Mr. James H. Kaplan shall retire voluntarily from office at the forthcoming annual general meeting. All retiring Directors, being eligible, shall offer themselves for re-election on the forthcoming annual general meeting of the Company on 24 May 2013.

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 20 to 21 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 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

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]	–	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. Mr. Lincoln K. K. Leong retired as a Non-Executive Director of the Company at the annual general meeting on 17 May 2012. Mr. Nelson K. F. Leong was appointed as a Non-Executive Director of the Company on 22 June 2012.

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 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).

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 2012, 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 2012 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 2012, the total order amount and invoiced value of these transactions ("HSH Transactions") amounted to HK$976,000 and HK$2,521,000 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 2012 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.

Annual General Meeting

It is proposed that the annual general meeting of the Company will be held on Friday, 24 May 2013. Notice of the annual general meeting will be published and dispatched to the shareholders together with this report.

Closure of Register of Members

For the purpose of determining shareholders' entitlements to attend and vote at the forthcoming annual general meeting, the transfer books and the register of members of the Company will be closed from Wednesday, 22 May 2013 to Friday, 24 May 2013 (both days inclusive). During such period, no transfer of shares will be effected. In order to establish the right to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 46^{th} Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Tuesday, 21 May 2013.

For determining the entitlements to the proposed final dividend for the year ended 31 December 2012, the transfer books and the register of members of the Company will be closed from Thursday, 30 May 2013 to Monday, 3 June 2013 (both days inclusive). During such period, no transfer of shares will be effected. To ensure that shareholders are entitled to receive the distribution of final dividends to be approved at the annual general meeting, all transfer documents accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 46^{th} Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Wednesday, 29 May 2013.

Auditor

The consolidated financial statements for the year ended 31 December 2012 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, 22 March 2013


La Manufacture Cogolin

Westin, Boston

Financial Section

Notes to the Consolidated Financial Statements

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 44 to 105, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 2012, and of the Group's profit 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, 22 March 2013

Consolidated Income Statement

For the year ended 31 December

	Note	2012 HK$'000	2011 HK$'000 (As restated)
Revenue	5	**1,502,645**	1,250,109
Cost of sales	6	**(886,356)**	(745,241)
Gross profit		**616,289**	504,868
Distribution costs	6	**(122,641)**	(103,147)
Administrative expenses	6	**(469,257)**	(466,070)
Impairment of interests in jointly controlled entities	22	**–**	(51,007)
Gain/(loss) in relation to Thailand flooding – net	8	**79,059**	(114,967)
Gain on disposal of non-current assets held for sale	9	**64,975**	5,904
Other gains/(losses) – net	10	**10,527**	(2,110)
Operating profit/(loss)		**178,952**	(226,529)
Finance income	11	**288**	410
Finance costs	11	**(1,974)**	(81)
Finance (costs)/income – net	11	**(1,686)**	329
Share of (loss)/profit of:			
an associate	21	**(2,779)**	1,234
jointly controlled entities	22	**–**	19,838
Profit/(loss) before income tax		**174,487**	(205,128)
Income tax (expense)/credit	12	**(31,910)**	29,661
Profit/(loss) for the year		**142,577**	(175,467)
Profit/(loss) attributable to:			
owners of the Company		**132,775**	(178,143)
non-controlling interests		**9,802**	2,676
		142,577	(175,467)
Earnings/(loss) per share attributable to the owners of the Company during the year (expressed in HK cents per share)			
Basic/diluted	14	**62.57**	(83.96)

	Note	2012 HK$'000	2011 HK$'000
Dividend	15	**25,462**	19,097

The notes on pages 51 to 105 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	2012 HK$'000	2011 HK$'000
Profit/(loss) for the year	**142,577**	(175,467)
Other comprehensive income:		
Currency translation differences	**8,063**	8,897
Release of reserves attributable to the disposal of non-current assets held for sale	**(57,624)**	–
Total comprehensive income for the year	**93,016**	(166,570)
Attributable to:		
owners of the Company	**83,193**	(170,739)
non-controlling interests	**9,823**	4,169
	93,016	(166,570)

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 12.

The notes on pages 51 to 105 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December

	Note	2012 HK$'000	2011 HK$'000
Assets			
Non-current assets			
Land use rights	16	**1,406**	3,516
Property, plant & equipment	17	**313,233**	243,935
Construction in progress	17	**15,903**	22,051
Intangible assets	18	**33,324**	30,588
Interest in an associate	21	**18,970**	18,723
Deferred income tax assets	31	**15,261**	33,036
Prepayments		**–**	9,391
Pledged bank deposits	27	**1,038**	1,344
Fixed deposits	28	**–**	7,865
		399,135	370,449
Current assets			
Inventories	23	**281,614**	195,893
Trade & other receivables	24	**334,622**	205,109
Derivative financial instruments	25	**–**	1,022
Amount due from an associate	21	**–**	356
Financial assets at fair value through profit or loss	26	**556**	40,752
Current income tax assets		**2,829**	4,137
Pledged bank deposits	27	**11,639**	–
Fixed deposits	28	**4,345**	1,642
Cash & cash equivalents	28	**453,162**	117,164
		1,088,767	566,075
Non-current assets held for sale		**–**	311,904
		1,088,767	877,979
Total assets		**1,487,902**	1,248,428

The notes on pages 51 to 105 are an integral part of these consolidated financial statements.

	Note	2012 HK$'000	2011 HK$'000
Equity			
Equity attributable to owners of the Company			
Share capital	29	**21,219**	21,219
Reserves	30	**403,212**	452,794
Retained earnings:			
Proposed final dividend	15	**25,462**	19,097
Others		**426,871**	319,558
		876,764	812,668
Non-controlling interests		**58,339**	48,516
Total equity		**935,103**	861,184
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	31	**123**	425
Retirement benefit obligations	32	**23,271**	20,009
Other long-term liabilities	33	**3,015**	2,584
		26,409	23,018
Current liabilities			
Bank borrowings – unsecured	34	**120,916**	866
Trade & other payables	35	**394,926**	346,899
Dividend payable		**285**	–
Current income tax liabilities		**4,212**	1,485
Other long-term liabilities – current portion	33	**–**	1,267
Derivative financial instruments	25	**1,693**	263
Amounts due to non-controlling shareholders	20	**4,358**	13,446
		526,390	364,226
Total liabilities		**552,799**	387,244
Total equity & liabilities		**1,487,902**	1,248,428
Net current assets		**562,377**	513,753
Total assets less current liabilities		**961,512**	884,202

The financial statements on pages 44 to 105 were authorised for issue by the Board of Directors on 22 March 2013 and were signed on its behalf.

Nicholas T. J. Colfer
Chairman

James H. Kaplan
Executive Director

The notes on pages 51 to 105 are an integral part of these consolidated financial statements.

Company Statement of Financial Position

As at 31 December

	Note	2012 HK$'000	2011 HK$'000
Assets			
Non-current assets			
Investments in subsidiaries	19	**242,800**	242,800
Current assets			
Amount due from an indirectly held associate	21	**–**	343
Amounts due from subsidiaries	19	**281,656**	232,614
Other receivables	24	**–**	133
Cash & cash equivalents	28	**1,405**	360
		283,061	233,450
Total assets		**525,861**	476,250
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	15	**25,462**	19,097
Others		**196,299**	72,916
Total equity		**520,447**	390,699
Liabilities			
Current liabilities			
Amounts due to subsidiaries	19	**3,252**	81,092
Other payables	35	**2,044**	4,397
Dividend payable		**118**	62
Total liabilities		**5,414**	85,551
Total equity & liabilities		**525,861**	476,250
Net current assets		**277,647**	147,899
Total assets less current liabilities		**520,447**	390,699

Nicholas T. J. Colfer
Chairman

James H. Kaplan
Executive Director

The notes on pages 51 to 105 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December

	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)/profit 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 for 2010	–	–	–	(19,097)	(19,097)	–	(19,097)
Dividends 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
Balance at 1 January 2012	21,219	189,699	263,095	338,655	812,668	48,516	861,184
Profit for the year	–	–	–	132,775	132,775	9,802	142,577
Other comprehensive income for the year							
Release of reserves attributable to the disposal of non-current assets held for sale	–	–	(57,624)	–	(57,624)	–	(57,624)
Currency translation differences	–	–	8,042	–	8,042	21	8,063
Total comprehensive income for the year	–	–	(49,582)	132,775	83,193	9,823	93,016
Total contributions by and distributions to owners of the Company, recognised directly in equity							
Dividends for 2011	–	–	–	(19,097)	(19,097)	–	(19,097)
Total transactions with owners	–	–	–	(19,097)	(19,097)	–	(19,097)
Balance at 31 December 2012	21,219	189,699	213,513	452,333	876,764	58,339	935,103

The notes on pages 51 to 105 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December

	Note	2012 HK$'000	2011 HK$'000
Cash flows from operating activities			
Cash generated from operations	36	**6,086**	14,411
Net receipt for derivative financial instruments		**2,712**	12
Income tax paid		**(10,618)**	(14,430)
Interest paid		**(1,974)**	(81)
Net cash used in operating activities		**(3,794)**	(88)
Cash flows from investing activities			
Purchases of property, plant & equipment and construction in progress		**(122,626)**	(69,217)
Acquisition of intangible assets		**(10,763)**	(10,627)
Proceeds from disposal of property, plant & equipment (Note 36b)		**16,426**	663
Proceed from disposal of non-current assets held for sale (Note 9 & 36b)		**319,255**	31,315
Proceeds from disposal of financial assets at fair value through profit or loss		**233,296**	134,710
Purchase of financial assets at fair value through profit or loss		**(190,996)**	(40,752)
Repayment of other long-term liabilities		**(836)**	(1,342)
Dividend received from jointly controlled entities		**–**	17,325
Interest received		**288**	410
Net cash generated from investing activities		**244,044**	62,485
Cash flows from financing activities			
Proceeds from borrowings		**604,134**	31,117
Repayments of borrowings		**(484,084)**	(36,240)
(Increase)/decrease in pledged bank deposits		**(11,333)**	2,003
Decrease/(increase) in fixed deposits		**5,162**	(9,068)
Dividend paid to the Company's shareholders		**(18,812)**	(18,872)
Dividend paid to non-controlling interests		**–**	(627)
Acquisition from non-controlling interests		**–**	(44)
Net cash generated from/(used in) financing activities		**95,067**	(31,731)
Net increase in cash & cash equivalents		**335,317**	30,666
Cash & cash equivalents at beginning of year		**117,164**	86,697
Exchange gains/(losses) on cash & cash equivalents		**681**	(199)
Cash & cash equivalents at end of year	28	**453,162**	117,164

The notes on pages 51 to 105 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 8th Floor, 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 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 22 March 2013.

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 and liabilities (including derivative financial instruments) at fair value through profit or loss.

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

Comparative figures of certain expense items have been reclassified in the consolidated income statement to conform with the presentation of current year consolidated income statement. There was no impact on profit/(loss) for the year and earnings/(loss) per share for the year ended 31 December 2012 and 2011. Prior year consolidated statement of financial position was not affected by this reclassification and hence the consolidated statement of financial position as at 1 January 2011 was not presented.

2.2 Changes in accounting policy & disclosures

(a) New and amended standards mandatory for the first time for the financial year beginning 1 January 2012 but which have no material impact to the Group

HKAS 12 (Amendment)	Deferred tax: recovery of underlying assets
HKFRS 7 (Amendment)	Financial instruments disclosure – transfer of financial assets

(b) New standards, amendments and interpretations which have been issued but are not effective for the financial year beginning 1 January 2012 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 not yet effective:

HKAS 1 (Amendment)	Presentation of financial statements[1]
HKAS 19 (Amendment)	Employee benefits[2]
HKAS 27 (Revised)	Separate financial statements[2]
HKAS 28 (Revised)	Investments in associates and joint ventures[2]
HKAS 32 (Amendment)	Presentation on asset and liability offsetting[3]
HKFRS 1 (Amendment)	Government loans[2]
HKFRS 7 (Amendment)	Disclosure on asset and liability offsetting[2]
HKFRS 9	Financial instruments[4]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosures of interests in other entities[2]
HKFRS 13	Fair value measurements[2]

Note:
[1] Effective from annual periods beginning on or after 1 July 2012
[2] Effective from annual periods beginning on or after 1 January 2013
[3] Effective from annual periods beginning on or after 1 January 2014
[4] 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 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 identifiable 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.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling over the fair value of the identifiable net assets and liabilities assumed. If this consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and income and expenses 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) Associates

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. Investment in an associate is 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 an associate 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 consolidated statement of other comprehensive income with a corresponding adjustment to the carrying amount of the investment. 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 (loss)/profit 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 the 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.

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 in respect of that operation attributable to the owners of the Company are recognised in the consolidated income statement as part of the gain or loss on disposal.

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. Exchange differences arising are recognised in other comprehensive income.

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.

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:

Buildings	2%-18%
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 aggregate of the consideration transferred and the fair value of any non-controlling interest over the fair value of the net identifiable assets, adequate net of the fair value of the liabilities and any contingent liabilities.

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 software product so that it will be available for use;
- Management intends to complete the 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 (which include customer relationships and non-competitive agreements) with finite useful life are stated at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the respective 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 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.

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.

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

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.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees, and the best estimate of the amount required to settle the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

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, an 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 developed 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 2012 and 2011, 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 Group 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 2012, if Thai Baht had strengthened/weakened by 2% (2011: 5%) against the US$ with all other variables held constant, post-tax profit for the year would have been HK$24,000 higher/lower (2011: post-tax loss of HK$242,000 lower/higher), mainly as a result of foreign exchange gains/losses on foreign currency forward contracts and translation of US$ denominated assets and liabilities in entities whose functional currency is Thai Baht.

At 31 December 2012, if Euro had strengthened/weakened by 2% (2011: 5%) against the US$ with all other variables held constant, post-tax profit for the year would have been HK$144,000 higher/lower (2011: post-tax loss of HK$284,000 lower/higher), mainly as a result of foreign exchange gains/losses on foreign currency forward contracts and translation of US$ denominated assets and liabilities in entities whose functional currency is Euro.

At 31 December 2012, if Chinese Renminbi had strengthened/weakened by 2% (2011: 5%) against the US$ with all other variables held constant, post-tax profit for the year would have been HK$596,000 higher/lower (2011: post-tax loss of HK$27,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of US$ denominated assets and liabilities in entities whose functional currency is Chinese Renminbi.

At 31 December 2012, if British Pound Sterling had strengthened/weakened by 2% (2011: 5%) against the US$ with all other variables held constant, post-tax profit for the year would have been HK$694,000 higher/lower (2011: post-tax loss of HK$1,390,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of US$ 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 amounts 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 2012, if the price of mutual funds rose/fell by 3% (2011: 3%) with all other receivables held constant, the post-tax profit will be increased/decreased by HK$17,000 (2011: post-tax loss of HK$1,223,000 decreased/increased).

(d) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group 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 headroom as determined by the above-mentioned forecasts. At the reporting date, the Group held cash and cash equivalents of HK$453,162,000 (2011: HK$117,164,000) (Note 28) that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the date of 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 are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Group

2012	**Less than 1 year HK$'000**	**Between 1 & 2 years HK$'000**	**Between 2 & 5 years HK$'000**	**Total HK$'000**
Trade & other payables	**199,325**	**–**	**–**	**199,325**
Bank borrowings – unsecured	**121,142**	**–**	**–**	**121,142**
Amounts due to non-controlling shareholders	**4,358**	**–**	**–**	**4,358**
Trading & gross settled derivative financial instruments (foreign currency forward contracts)	**52,956**	**–**	**–**	**52,956**
	377,781	**–**	**–**	**377,781**

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 contracts)	17,971	–	–	17,971
	232,872	–	–	232,872

(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 2012, the Group's bank borrowings primarily represent short-term bank loans and outstanding trust receipt loans. If market interest rate had increased/decreased by 100 basis point with all other variables held constant, post-tax profit for the year would have been HK$1,209,000 lower/higher, mainly as a result of an increase/decrease in interest expenses on bank borrowings by the Group.

Apart from the above, cash at banks and bank deposits which carry interests at market rates, the Group has no significant interest-bearing assets. 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 2012 and 2011 were as follows:

	2012	2011
	HK$'000	HK$'000
Total bank borrowings (Note 34)	**120,916**	866
Less: cash & cash equivalents (Note 28)	**(453,162)**	(117,164)
Net debt	**–**	–
Total equity	**935,103**	861,184
Total capital	**935,103**	861,184
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 and liabilities that are measured at fair value at 31 December 2012.

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	**556**	**–**	**–**	**556**
	556	**–**	**–**	**556**
Liabilities				
Derivative financial instruments:				
Foreign currency forward contracts	**–**	**(1,693)**	**–**	**(1,693)**
	–	**(1,693)**	**–**	**(1,693)**

The following table presents the Group's assets and liabilities 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
	40,752	1,022	–	41,774
Liabilities				
Derivative financial instruments:				
Foreign currency forward contracts	–	(263)	–	(263)
	–	(263)	–	(263)

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 mutual funds held by the Group is the current bid price and classified as level 1.

The fair value of derivative 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 measure fair value of 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 2012, 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 brands)

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 brands). 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 brands)

Property, plant and equipment, leasehold land and land use rights and intangible assets (other than brands) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts 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

	2012	2011
	HK$'000	HK$'000
Sale of carpets	**1,321,494**	1,109,987
Sale of underlays	**21,917**	14,983
Installation of carpets	**60,831**	38,594
Interior furnishings	**52,116**	38,347
Sale of yarns	**30,383**	33,427
Sale of raw materials	**14,574**	13,594
Other	**1,330**	1,177
	1,502,645	1,250,109

(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 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 wholesale operation was acquired by the Group in 2008. Since then, the Group decided to integrate the wholesale business into RBC segment and this was completed during the year 2011.

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 and the effects of gain/loss and income/expenditure that considered are relevant in assessing the segments performance when the impairment is the result of an isolated, non-recurring event.

The segment information provided to the management for the reportable segments for the years ended 31 December 2012 and 2011 is as follows:

For the year ended 31 December 2012

	Commercial	RBC	Total carpet	Others	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	975,675	499,649	1,475,324	27,321	1,502,645
Segment results	24,050	733	24,783	232	25,015
Unallocated expenses					9,903
Gain in relation to Thailand flooding – net	79,059	–	79,059	–	79,059
Gain on disposal of non-current assets held for sale	64,975	–	64,975	–	64,975
Operating profit					178,952
Finance income					288
Finance costs					(1,974)
Share of loss of an associate	(2,779)	–	(2,779)	–	(2,779)
Profit before income tax					174,487
Income tax expense					(31,910)
Profit for the year					142,577
Segment assets	785,089	276,042	1,061,131	407,801	1,468,932
Interest in an associate	18,970	–	18,970	–	18,970
Total assets					1,487,902
Segment liabilities	359,706	177,069	536,775	16,024	552,799
Capital expenditure	(98,994)	(23,951)	(122,945)	(10,444)	(133,389)
Depreciation of property, plant & equipment (Note 17)	(46,315)	(10,686)	(57,001)	(2,199)	(59,200)
Amortisation of land use rights (Note 16)	(2,102)	–	(2,102)	–	(2,102)
Amortisation of intangible assets (Note 18)	(1,149)	(705)	(1,854)	(4,990)	(6,844)
Recovery of impairment of property, plant & equipment (Note 17)	7,143	–	7,143	–	7,143
Impairment of intangible assets (Note 18)	–	(1,213)	(1,213)	–	(1,213)
Recovery of impairment of inventories (Note 23)	17,561	163	17,724	–	17,724
(Impairment)/recovery of impairment of trade receivables (Note 24)	(2,208)	1,589	(619)	–	(619)
Loss on disposal of property, plant & equipment (Note 36b)	(3,916)	(96)	(4,012)	–	(4,012)
Gain on disposal of non-current assets held for sale (Note 36b)	64,975	–	64,975	–	64,975

For the year ended 31 December 2011

	Commercial HK$'000	RBC HK$'000	Wholesale HK$'000	Total carpet HK$'000	Others HK$'000	Group HK$'000
Revenue from external customers	720,100	490,933	5,649	1,216,682	33,427	1,250,109
Segment results	(53,029)	15,229	(7,060)	(44,860)	463	(44,397)
Unallocated expenses						(22,062)
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)
Gain on disposal of non-current asset held for sale	–	–	–	–	5,904	5,904
Operating loss						(226,529)
Finance income						410
Finance costs						(81)
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	592,291	252,296	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	216,264	146,970	1,774	365,008	22,236	387,244
Capital expenditure	(48,088)	(21,833)	–	(69,921)	(9,923)	(79,844)
Depreciation of property, plant & equipment (Note 17)	(47,888)	(10,206)	–	(58,094)	(2,045)	(60,139)
Amortisation of land use rights (Note 16)	(1,304)	(794)	–	(2,098)	–	(2,098)
Amortisation of intangible assets (Note 18)	(39)	(1,127)	(1,442)	(2,608)	(2,904)	(5,512)
Impairment of property, plant & equipment (Note 17)	(10,024)	–	–	(10,024)	–	(10,024)
(Impairment)/recovery of impairment of inventories (Note 23)	(21,654)	2,764	(713)	(19,603)	–	(19,603)
Recovery of impairment/(impairment) of trade receivables (Note 24)	1,031	(3,476)	325	(2,120)	–	(2,120)
Loss on disposal of property, plant & equipment (Note 36b)	(398)	(328)	(266)	(992)	(19)	(1,011)
Gain on disposal of non-current asset held for sale (Note 36b)	–	–	–	–	5,904	5,904

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

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

For the year ended 31 December 2012

	Revenue HK$'000	**Non-current assets HK$'000**
Asia	**623,787**	**318,578**
Oceania	**76,472**	**–**
Europe	**199,433**	**23,642**
North America	**563,527**	**40,497**
South America	**24,648**	**119**
Africa	**14,778**	**–**
	1,502,645	**382,836**

For the year ended 31 December 2011

	Revenue HK$'000	Non-current assets HK$'000
Asia	498,150	256,261
Oceania	64,436	–
Europe	217,408	17,789
North America	427,134	54,076
South America	39,966	78
Africa	3,015	–
	1,250,109	328,204

There is no single external customer contributed more than 10% revenue to the Group's revenue for the years ended 31 December 2012 and 2011.

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

	2012 HK$'000	2011 HK$'000
Non-current segment assets for reportable segments	**382,836**	328,204
Unallocated:		
Deferred income tax assets	**15,261**	33,036
Pledged bank deposits	**1,038**	1,344
Fixed deposits	**–**	7,865
Total non-current assets per consolidated statement of financial position	**399,135**	370,449

6. Expenses by Nature

	2012 HK$'000	2011 HK$'000
Raw materials & consumables used	**694,959**	332,028
Amortisation of intangible assets (Note 18)	**6,844**	5,512
Amortisation of land use rights (Note 16)	**2,102**	2,098
Depreciation of property, plant & equipment (Note 17)	**59,200**	60,139
Employee benefit expenses (Note 7)	**471,790**	467,487
Operating lease charges		
– Land & buildings	**43,067**	33,433
– Other assets	**2,029**	2,727
(Recovery of impairment)/impairment of property, plant & equipment (Note 17)	**(102)**	2,986
Property, plant & equipment written off	**–**	4,028
Impairment of intangible assets (Note 18)	**1,213**	–
(Recovery of impairment)/impairment of inventories (Note 23)	**(15,920)**	225
Inventories written off	**704**	–
Impairment of trade receivables (Note 24)	**3,616**	4,056
Impairment of interests in jointly controlled entities		
– Dissolution of a jointly controlled entity (Note 22)	**–**	1,825
– Disposal of interests in jointly controlled entities (Note 22)	**–**	49,182
Bad debts written off	**3,162**	3,423
Auditor's remuneration	**4,200**	3,550
Recovery of impairment of trade receivables previously recognised (Note 24)	**(2,997)**	(1,936)
Research & development costs	**130**	3,148

7. Employee Benefit Expenses

	2012 HK$'000	2011 HK$'000
Wages & salaries (including Directors' emoluments)	**464,552**	460,950
Pension costs – defined benefit plan (Note 32)	**2,722**	2,794
Retirement benefit costs – defined contribution schemes (including Directors' emoluments)	**4,516**	3,743
	471,790	467,487

(a) Retirement benefit costs – defined contribution schemes

Unvested benefits totalling HK$2,000 (2011: HK$276,000) were used during the year to reduce future contributions. As at 31 December 2012, unvested benefits totalling HK$1,026,000 (2011: HK$814,000) 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 2012 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	**90**	**–**	**–**	**–**	**–**	**–**	**90**
Ian D. Boyce	**70**	**–**	**–**	**–**	**–**	**–**	**70**
Lincoln K. K. Leong[1]	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Nelson K. F. Leong[2]	**73**	**–**	**–**	**–**	**–**	**–**	**73**
David C. L. Tong	**110**	**–**	**–**	**–**	**–**	**–**	**110**
John J. Ying	**120**	**–**	**–**	**–**	**–**	**–**	**120**
Yvette Y. H. Fung[3]	**110**	**–**	**–**	**–**	**–**	**–**	**110**
Roderic N. A. Sage[3]	**140**	**–**	**–**	**–**	**–**	**–**	**140**
Lincoln C. K. Yung[3]	**80**	**–**	**–**	**–**	**–**	**–**	**80**
Aubrey K. S. Li[3]	**110**	**–**	**–**	**–**	**–**	**–**	**110**
James H. Kaplan[4]	**–**	**7,576**	**–**	**175**	**–**	**–**	**7,751**
	903	**7,576**	**–**	**175**	**–**	**–**	**8,654**

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[4]	–	5,796	–	105	–	–	5,901
	660	5,796	–	105	–	–	6,561

Notes:

1 Mr. Lincoln K. K. Leong's director fee was paid to his alternate Mr. Nelson K. F. Leong. He retired as a Non-Executive Director of the Company at the annual general meeting on 17 May 2012.

2 Mr. Nelson K. F. Leong was Alternate Director to Mr. Lincoln K. K. Leong until 17 May 2012. He was appointed as a Non-Executive Director of the Company on 22 June 2012.

3 Independent Non-Executive Directors

4 Chief Executive Officer

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 2012 and 2011.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2011: one) director whose emoluments were reflected in the analysis presented above. The emoluments paid to the remaining four (2011: four) individuals during the year are as follows:

	2012	2011
	HK$'000	HK$'000
Basic salaries, bonus, housing and other allowances	**15,573**	12,321
Retirement benefit costs	**39**	–
	15,612	12,321

The emoluments fell within the following bands:	No. of individuals	
	2012	2011
Emolument bands		
HK$2,500,001 – HK$3,000,000	–	1
HK$3,000,001 – HK$3,500,000	**2**	3
HK$3,500,001 – HK$4,000,000	–	–
HK$4,000,001 – HK$4,500,000	**1**	–
HK$4,500,001 – HK$5,000,000	**1**	–

8. Gain/(Loss) in Relation to Thailand Flooding – Net

	Notes	**2012**	2011
		HK$'000	HK$'000
Gain in relation to Thailand flooding			
– Insurance recoveries	(a)	**112,191**	–
Loss in relation to Thailand flooding			
– Expenses incurred	(b)	**(33,132)**	(114,967)
Gain/(loss) in relation to Thailand flooding – net		**79,059**	(114,967)

(a) Insurance recoveries 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 sustained by the Group's operations in Thailand due to the severe flooding in 2011.

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 further advance an additional 150,000,000 Thai Baht (approximately HK$37,475,000) to the Group. The Group received the full advances in July 2012.

During the year 2012, the Group had received letters of settlement of various claims from the insurance companies and hence recognised income of 436,000,000 Thai Baht (approximately HK$112,000,000) based on these letters of settlements, out of which 250,000,000 Thai Baht (approximately HK$63,560,000) attributable to the inventory loss claim has already been received as part of the cash advances.

The remaining cash advances of 50,000,000 Thai Baht (approximately HK$12,750,000) has been recorded as deferred income since the claims relating to business interruption and property damage are still under negotiation.

(b) Costs in relation to Thailand flooding

The loss in relation to this flooding presented as part of the Group's operating expenses (excluded in Note 6) is as follows:

	2012	2011
	HK$'000	HK$'000
Direct labour costs incurred for idle staff	11,529	19,488
Cost of purchasing replacement carpets	6,323	2,766
(Recovery of impairment)/impairment of inventories (Note 23)	(1,804)	19,378
Inventories written off	1,149	59,357
(Recovery of impairment)/impairment of property, plant & equipment (Note 17)	(7,041)	7,038
Loss on disposal of property, plant & equipment	3,837	–
Repairs & maintenance of property, plant & equipment	6,391	3,035
Freight charges	9,409	668
Others	3,339	3,237
	33,132	114,967

9. Gain on Disposal of 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 had been 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 1 August 2012, formal sale and purchase agreements were signed to dispose the Company's entire 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. (the "Disposal Group"). The consideration was RMB280,000,000 (approximately HK$347,000,000) and the total transaction costs amounted HK$28,000,000. The transaction was completed on 7 December 2012.

The gain on disposal of the Disposal Group on the completion date was as follows:

	2012	2011
	HK$'000	HK$'000
Consideration of the disposal	346,991	–
Less: direct expenses in relation to the disposal	(27,736)	–
Net consideration	319,255	–
Carrying value of the Disposal Group	(311,904)	–
Release of exchange reverses attributable to the Disposal Group	41,927	–
Release of capital reserves attributable to the Disposal Group	15,697	–
Gain on disposal	64,975	–

10. Other Gains/(Losses) – Net

	2012	2011
	HK$'000	HK$'000
Gain on disposal of financial assets at fair value through profit or loss	**698**	1,645
Loss on disposal of property, plant & equipment	**(175)**	(1,011)
Gain/(loss) on change in fair value of derivative financial instruments	**260**	(338)
Net foreign exchange gain/(loss)	**1,012**	(2,406)
Write off of amount due from an associate	**(356)**	–
Write off of amount due to non-controlling shareholders	**9,088**	–
	10,527	(2,110)

11. Finance (Costs)/Income – Net

	2012	2011
	HK$'000	HK$'000
Finance costs – Interest on bank loans & overdrafts wholly repayable within five years	**(1,974)**	(81)
Finance income – interest income from banks	**288**	410
Finance (costs)/income – net	**(1,686)**	329

12. Income Tax Expense/(Credit)

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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.

	2012	2011
	HK$'000	HK$'000
Current income tax		
Hong Kong	**6,655**	(764)
Overseas	**7,323**	(2,200)
Underprovision in prior years	**675**	1,044
Deferred income tax expense/(credit)	**17,257**	(27,741)
Income tax expense/(credit)	**31,910**	(29,661)

Share of income tax expenses of an associate of HK$nil (2011: HK$220,000) and share of income tax expenses of jointly controlled entities of HK$nil (2011: HK$10,341,000) respectively are included in the share of (loss)/profit of an associate and jointly controlled entities.

The tax on the Group's profit/(loss) 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:

	2012 HK$'000	2011 HK$'000
Profit/(loss) before income tax	**174,487**	(205,128)
Less: share of net loss/(profit) of an associate & jointly controlled entities	**2,779**	(21,072)
Profit/(loss) before income tax of the Company & subsidiaries	**177,266**	(226,200)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**28,999**	(63,385)
Income not subject to tax	**(12,703)**	(1,715)
Expenses not deductible for tax purposes	**5,589**	13,860
Utilisation of previously unrecognised tax losses	**(3,612)**	(2,735)
Tax losses for which no deferred income tax asset was recognised	**12,733**	23,434
Underprovision in prior years	**675**	1,044
Others	**229**	(164)
Income tax expense/(credit)	**31,910**	(29,661)

The weighted average applicable tax rate was 18% (2011: 13%). The increase is caused by a change of profitability of the Group's subsidiaries in the respective countries.

13. Profit/(Loss) Attributable to Owners of the Company

The profit/(loss) attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of HK$148,845,000 (2011: HK$66,969,000).

14. Earnings/(Loss) Per Share

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

	2012	2011
Profit/(loss) attributable to owners of the Company (HK$'000)	**132,775**	(178,143)
Weighted average number of ordinary shares in issue (thousands)	**212,187**	212,187
Basic earnings/(loss) per share (HK cents)	**62.57**	(83.96)

As the Group had no equity-related instruments in issue as at 31 December 2012 and 2011, diluted earnings/(loss) per share is equivalent to basic earnings/(loss) per share.

15. Dividend

	2012 HK$'000	2011 HK$'000
Proposed final dividend of HK12 cents per share (2011: HK9 cents)	**25,462**	19,097

At the Board of Directors meeting held on 22 March 2013, the Directors declared a final dividend of HK12 cents per share amounting to a total dividend of HK$25,462,000, is to be proposed at the annual general meeting on 24 May 2013. 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 2012.

16. Land Use Rights

Group

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

	2012 HK$'000	2011 HK$'000
Outside Hong Kong, held on leases of between 10 and 50 years	**1,406**	3,516

	2012 HK$'000	2011 HK$'000
At 1 January	**3,516**	5,359
Exchange differences	**(8)**	255
Amortisation of land use rights (Note 6)	**(2,102)**	(2,098)
At 31 December	**1,406**	3,516

17. Property, Plant & Equipment and Construction in Progress

Group

	Property, plant & equipment						
	Buildings HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Furniture, fixtures & equipment HK$'000	Motor vehicles HK$'000	Property, plant & equipment total HK$'000	Construction in progress HK$'000
At 1 January 2011							
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
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 (Note 6 & 8b)	–	–	(10,024)	–	–	(10,024)	–
Depreciation (Note 6)	(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

Group

	Property, plant & equipment						
	Buildings HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Furniture, fixtures & equipment HK$'000	Motor vehicles HK$'000	Property, plant & equipment total HK$'000	Construction in progress HK$'000
Year ended 31 December 2012							
Opening net book amount	63,931	27,346	105,066	44,334	3,258	243,935	22,051
Exchange differences	815	2,332	5,696	411	54	9,308	3,711
Additions	–	16,054	16,716	12,937	380	46,087	76,539
Transfer from construction in progress	2,169	–	78,332	5,849	–	86,350	(86,350)
Disposals and assets written off	(168)	(767)	(2,876)	(16,579)	–	(20,390)	(48)
Reversal of Impairment (Note 6 & 8b)	–	–	7,143	–	–	7,143	–
Depreciation (Note 6)	(7,900)	(11,197)	(30,800)	(8,288)	(1,015)	(59,200)	–
Closing net book amount	58,847	33,768	179,277	38,664	2,677	313,233	15,903
At 31 December 2012							
Cost or valuation	171,288	82,110	640,032	112,827	11,728	1,017,985	15,903
Accumulated depreciation	(112,441)	(48,342)	(460,755)	(74,163)	(9,051)	(704,752)	–
Net book amount	58,847	33,768	179,277	38,664	2,677	313,233	15,903

Depreciation expenses of HK$38,720,000 (2011: HK$38,428,000) and HK$20,480,000 (2011: HK$21,711,000) 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$5,041,000 (2011: HK$5,148,000) 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	159,890	846,697	1,006,587
At valuation – 1989	11,398	–	11,398
At 31 December 2012	171,288	846,697	1,017,985
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

18. Intangible Assets

Group

	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 & 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 (Note 6)	(1,323)	(2,904)	–	(119)	(1,166)	(5,512)
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
Year ended 31 December 2012						
Opening net book amount	1,443	23,084	2,416	1,430	2,215	30,588
Additions	–	10,763	–	–	–	10,763
Amortisation (Note 6)	(1,443)	(5,271)	–	(130)	–	(6,844)
Impairment (Note 6)	–	–	–	–	(1,213)	(1,213)
Exchange differences	–	–	46	–	(16)	30
Closing net book amount	–	28,576	2,462	1,300	986	33,324
At 31 December 2012						
Cost	7,215	40,847	2,462	1,950	2,166	54,640
Accumulated amortisation & impairment	(7,215)	(12,271)	–	(650)	(1,180)	(21,316)
Net book amount	–	28,576	2,462	1,300	986	33,324

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

Amortisation expenses of HK$6,844,000 (2011: HK$5,512,000) have been charged in the administrative expenses.

19. Investments in Subsidiaries and Amounts Due from/to Subsidiaries

Company

	2012	2011
	HK$'000	HK$'000
Unlisted shares at Directors' valuation in 1990	**242,800**	242,800

Details of principal subsidiaries are set out on page 106.

The amounts due from/to subsidiaries are unsecured, interest free, denominated in Hong Kong dollars and repayable on demand.

20. Amounts Due to Non-controlling Shareholders

The amounts are unsecured, interest-free, denominated in Hong Kong dollars and repayable on demand.

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

Group

	2012	2011
	HK$'000	HK$'000
At 1 January	**18,723**	17,489
Share of (loss)/profit	**(2,779)**	1,234
Currency translation differences	**3,026**	–
At 31 December	**18,970**	18,723

No dividend income was received from the associate during the year (2011: Nil).

The amount due from an associate is unsecured, interest-free, denominated in US dollars 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 2012 and 2011, is as follows:

	2012 **HK$'000**	2011 HK$'000
Group's share of operating results		
Turnover	**15,831**	18,520
Group's share of (loss)/profit for the year	**(2,779)**	1,234
Group's share of financial position		
Non-current assets	**14,230**	11,282
Current assets	**13,634**	16,012
Non-current liabilities	**(4,801)**	(5,780)
Current liabilities	**(4,093)**	(2,791)
Group's share of net assets	**18,970**	18,723

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

Group

	2012 **HK$'000**	2011 HK$'000
Interests in jointly controlled entities		
As at 1 January	–	322,078
Share of profit	–	19,838
Dividend received	–	(17,325)
Loss on dissolution of a jointly controlled entity (Note 6)	–	(1,825)
Exchange difference	–	18,825
	–	341,591
Less: Impairment of interests in jointly controlled entities (Note 6)	–	(29,687)
	–	311,904
Transfer to non-current assets held for sale	–	(311,904)
As at 31 December	–	–

	2012 **HK$'000**	2011 HK$'000
Amounts due from jointly controlled entities		
As at 1 January	–	19,495
Impairment of amounts due from jointly controlled entities (Note 6)	–	(19,495)
As at 31 December	–	–

Weavers Guild LLC was dissolved in 2011 and resulted in a loss on dissolution of HK$1,825,000.

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

On 17 November 2011, the Board of Directors has resolved to accept a non-binding offer for the Group 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).

Management then reclassified all the Group's interests in the jointly controlled entities as non-current assets held for sale as at 31 December 2011, 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.

An impairment charge of HK$49,182,000 was recorded in 2011 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 withholding tax payable and professional fee) involved in the sale. The transaction was completed on 7 December 2012 and resulted in a gain on disposal of HK$64,975,000 (Note 9).

23. Inventories

Group

	2012	2011
	HK$'000	HK$'000
Raw materials	**115,010**	103,619
Work in progress	**31,126**	21,670
Finished goods	**143,272**	95,802
Consumable stores	**10,222**	10,431
	299,630	231,522
Less: provision for impairment of inventories	**(18,016)**	(35,629)
	281,614	195,893

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$694,959,000 (2011: HK$452,136,000).

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

	2012 HK$'000	2011 HK$'000
At 1 January	**35,629**	21,121
Impairment of inventories	**885**	21,020
Recovery of impairment previously recognised	**(18,609)**	(6,512)
Inventories written off	**111**	–
At 31 December	**18,016**	35,629

24. Trade & Other Receivables

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Trade receivables	**248,902**	159,177	**–**	–
Less: provision for impairment of trade receivables	**(13,788)**	(15,362)	**–**	–
Trade receivables – net	**235,114**	143,815	**–**	–
Prepayments	**25,252**	31,633	**–**	133
Value added tax receivables	**8,849**	10,536	**–**	–
Rental deposits	**7,746**	4,247	**–**	–
Insurance recoveries receivables	**47,614**	–	**–**	–
Other receivables	**10,047**	14,878	**–**	–
	334,622	205,109	**–**	133

The trade receivables approximate fair values as at 31 December 2012 and 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:

	2012 HK$'000	2011 HK$'000
0 to 30 days	**124,240**	79,237
31 to 60 days	**45,731**	22,842
61 to 90 days	**22,056**	7,031
91 to 365 days	**46,626**	29,287
More than 365 days	**10,249**	20,780
	248,902	159,177

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

	2012 HK$'000	2011 HK$'000
Amounts past due but not impaired:		
Less than 30 days past due	**51,955**	30,755
31 to 60 days past due	**19,455**	16,210
61 to 90 days past due	**10,304**	3,550
91 to 365 days past due	**40,359**	30,929
More than 365 days past due	**10,005**	18,212
	132,078	99,656

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

As at 31 December 2012, trade receivables of approximately HK$132,078,000 (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 should be fully recovered.

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

	2012 HK$'000	2011 HK$'000
At 1 January	**15,362**	13,801
Impairment of trade receivables (Note 6)	**3,616**	4,056
Recovery of impairment previously recognised (Note 6)	**(2,997)**	(1,936)
Receivables written off as uncollectible	**(2,193)**	(559)
At 31 December	**13,788**	15,362

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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
US dollars	**117,556**	84,775	–	–
Hong Kong dollars	**8,912**	9,127	–	133
Euro	**43,173**	32,467	–	–
Pound Sterling	**15,749**	11,571	–	–
Renminbi	**15,456**	30,657	–	–
Thai Baht	**109,762**	20,020	–	–
Macau Patacas	**6,494**	2,302	–	–
Other	**17,520**	14,190	–	–
	334,622	205,109	–	133

25. Derivative Financial Instruments

Group

	2012	2011
	HK$'000	HK$'000
Financial assets		
– Foreign currency forward contracts	–	1,022
Financial liabilities		
– Foreign currency forward contracts	**(1,693)**	(263)
	(1,693)	759

The notional principal amounts of outstanding forward foreign exchange contracts of financial assets and liabilities at 31 December 2012 were HK$nil (2011: HK$39,156,000) and HK$48,760,000 (2011: HK$17,970,000) respectively.

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

26. Financial Assets at Fair Value through Profit or Loss

Group

	2012	2011
	HK$'000	HK$'000
Mutual funds in overseas	556	40,752

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.

27. Pledged Bank Deposits

Group

	2012	2011
	HK$'000	HK$'000
Pledged bank deposits	12,677	1,344
Less: non-current pledged bank deposits	(1,038)	(1,344)
	11,639	–

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 during the period from 29 March 2013 to 30 June 2016 (2011: 29 March 2013).

As at 31 December 2012, the effective interest rate on the Group's pledged bank deposit is 0.67% (2011: 1.60%) and these deposits had an average maturity of 540 days (2011: 637 days).

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

	2012	2011
	HK$'000	HK$'000
Euro	2,809	–
Singapore dollars	1,631	1,344
US dollars	7,288	–
Other	949	–
	12,677	1,344

28. Fixed Deposits and Cash & Cash Equivalents

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash & cash equivalents	**453,162**	117,164	**1,405**	360
Fixed deposits with maturity over one year	**4,317**	7,865	**–**	–
Fixed deposits with maturity over three months and less than one year	**28**	1,642	**–**	–
Total fixed deposits and cash & cash equivalents	**457,507**	126,671	**1,405**	360

The amounts approximate to their respective fair values as at 31 December 2012 and 2011.

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
US dollars	**313,231**	41,956	**5**	5
Hong Kong dollars	**20,748**	33,428	**1,400**	355
Euro	**9,643**	4,972	**–**	–
Pound Sterling	**9,019**	15,442	**–**	–
Renminbi	**91,686**	24,623	**–**	–
Thai Baht	**1,341**	524	**–**	–
Argentine Peso	**637**	3,309	**–**	–
Singapore dollars	**7,014**	1,589	**–**	–
Macau Patacas	**1,625**	23	**–**	–
Other	**2,563**	805	**–**	–
	457,507	126,671	**1,405**	360

As at 31 December 2012, the Group's cash and bank balances included HK$42,931,000 (2011: HK$24,623,000) placed with certain banks in the PRC by certain subsidiaries of the Group. These balances are subject to exchange controls.

As at 31 December 2012, the effective interest rate on Group's bank deposits is 0.61% (2011: 4.03%) and these deposits had an average maturity of 20 days (2011: 467 days).

29. Share Capital

Group & Company

	No. of shares	HK$'000
Authorised – Ordinary shares of HK$0.10 each:		
At 31 December 2011 & 2012	400,000,000	40,000
Issued and fully paid – Ordinary shares of HK$0.10 each:		
At 31 December 2011 & 2012	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 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
Balance at 1 January 2012	189,699	71,625	4,161	16,000	171,309	452,794
Currency translation differences	–	–	–	–	8,042	8,042
Release of reserves attributable to disposal of non-current assets held for sale	–	(15,697)	–	–	(41,927)	(57,624)
Balance at 31 December 2012	189,699	55,928	4,161	16,000	137,424	403,212

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 2011, 31 December 2011 & 31 December 2012	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

	2012	2011
	HK$'000	HK$'000
Deferred tax assets:		
– Deferred tax assets to be recovered within 12 months	**6,336**	26,314
– Deferred tax assets to be recovered after more than 12 months	**8,925**	6,722
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**(123)**	(425)
Deferred tax assets – net	**15,138**	32,611

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

	2012	2011
	HK$'000	HK$'000
At 1 January	**32,611**	6,174
Exchange differences	**(216)**	(1,304)
Credited to the consolidated income statement (Note 12)	**(17,257)**	27,741
At 31 December	**15,138**	32,611

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**	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**425**	–	**–**	117	**–**	5,480	**425**	5,597
Charged/(credited) to the consolidated income statement	**(302)**	425	**–**	(117)	**–**	(5,480)	**(302)**	(5,172)
Exchange differences	**–**	–	**–**	–	**–**	–	**–**	–
At 31 December	**123**	425	**–**	–	**–**	–	**123**	425

Deferred tax assets

	Impairment of assets		Tax losses		Others		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**23,203**	–	**3,412**	6,047	**6,421**	5,724	**33,036**	11,771
(Charged)/credited to the consolidated income statement	**(16,790)**	23,512	**(769)**	(2,396)	**–**	1,453	**(17,559)**	22,569
Exchange differences	**(238)**	(309)	**(31)**	(239)	**53**	(756)	**(216)**	(1,304)
At 31 December	**6,175**	23,203	**2,612**	3,412	**6,474**	6,421	**15,261**	33,036

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$202,728,000 (2011: HK$190,153,000) in respect of tax losses of approximately HK$616,333,000 (2011: HK$576,149,000) that can be carried forward against future taxable income. The expiry dates of the tax losses of the subsidiaries range from 2013 to 2032.

Deferred income tax liabilities of HK$3,323,000 (2011: HK$34,104,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries totalled approximately HK$33,229,000 (2011: HK$345,583,000). Such amounts are not currently intended to be distributed to the subsidiaries outside PRC.

32. Retirement Benefit Obligations

	2012	2011
	HK$'000	HK$'000
Balance sheet obligations for:		
Pension benefits plan (a)	**23,271**	20,009

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 is valued at 31 December 2011 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:

	2012	2011
	HK$'000	HK$'000
Present value of unfunded obligation	**23,271**	20,009

The movement in defined benefit obligations are as follows:

	2012	2011
	HK$'000	HK$'000
As 1 January	**20,009**	18,281
Current service costs	**1,893**	2,050
Interest costs	**829**	744
Exchange differences	**730**	(321)
Benefit paid	**(190)**	(745)
At 31 December	**23,271**	20,009

	2012	2011
	HK$'000	HK$'000
The amounts recognised in the consolidated statement of financial position were determined as follows:		
Present value of defined benefit obligations	**23,271**	20,009
Fair value of plan assets at end of the period	**–**	–
Present value of defined obligations	**23,271**	20,009
Liabilities on the consolidated statement of financial position	**23,271**	20,009

	2012	2011
	HK$'000	HK$'000
The amounts recognised in the consolidated income statements are as follows:		
Current service costs	**1,893**	2,050
Interest costs	**829**	744
Total, included in employee benefit expenses (Note 7)	**2,722**	2,794

The principal actuarial assumptions were as follows:

	2012	2011
Discount rate	**4.2% - 4.75%**	4.2% - 4.75%
Inflation rate	**2% - 3%**	2% - 3%
Expected return on plan assets	**N/A**	N/A
Salary growth	**2% - 8%**	2% - 8%
Turnover rates	**0% - 30%**	0% - 30%

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

	2012 HK$'000	2011 HK$'000
Non-current portion		
Repayable between 2-5 years	**3,015**	–
Repayable between 5-10 years	–	2,584
	3,015	2,584
Current portion	–	1,267
	3,015	3,851

Non-current portion of other long-term liabilities in both years of 2012 and 2011 mainly represent provision for reinstatement costs for the Group's head office in Hong Kong. The current portion represent discounted basic consideration and contingent consideration payable to the sellers in respect of the acquisition of JSL in 2008.

34. Bank Borrowings – Unsecured

Group

	2012 HK$'000	2011 HK$'000
Current		
Outstanding bills payables repayable within 60 days	**836**	866
Short-term bank loans	**120,080**	–
	120,916	866

The amounts approximated their respective fair values as at 31 December 2012 and 2011. The amounts are unsecured, bear interests at 1.71% - 3.53% (2011: 1%) per annum and are denominated in Thai Baht, Hong Kong dollars and US dollars.

At 31 December 2012, the Group has trade and loan finance facilities of HK$486,329,000 (2011: HK$288,653,000), of which HK$120,916,000 (2011: HK$866,000) were utilised.

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

	2012 HK$'000	2011 HK$'000
US dollars	**78,000**	–
Hong Kong dollars	**10,000**	–
Thai Baht	**32,916**	866
	120,916	866

35. Trade & Other Payables

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**69,566**	56,139	**–**	–
Deposits received in advance	**149,614**	133,983	**–**	–
Accrued expenses	**127,049**	96,487	**2,044**	4,397
Other payables	**48,697**	60,290	**–**	–
	394,926	346,899	**2,044**	4,397

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

	2012	2011
	HK$'000	HK$'000
0 to 30 days	**49,772**	48,382
31 days to 60 days	**11,264**	4,996
61 days to 90 days	**1,745**	1,512
More than 90 days	**6,785**	1,249
	69,566	56,139

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
US dollars	**148,698**	135,295	**–**	–
Hong Kong dollars	**45,123**	38,261	**2,044**	4,397
Euro	**44,325**	43,406	**–**	–
Pound sterling	**13,734**	24,259	**–**	–
Renminbi	**54,806**	44,491	**–**	–
Thai Baht	**67,603**	46,076	**–**	–
Others	**20,637**	15,111	**–**	–
	394,926	346,899	**2,044**	4,397

36. Notes to the Consolidated Statement of Cash Flows

(a) Cash generated from operations

	2012 HK$'000	2011 HK$'000
Profit/(loss) before income tax	**174,487**	(205,128)
Adjustments for:		
Amortisation of intangible assets	**6,844**	5,512
Amortisation of land use rights	**2,102**	2,098
Impairment of trade & other receivables	**619**	–
Bad debts written off	**3,162**	3,423
Retirement benefit obligation	**3,262**	1,728
Depreciation of property, plant & equipment	**59,200**	60,139
Loss on disposal of property, plant & equipment	**4,012**	1,011
Gain on disposal of non-current assets held for sale	**(64,975)**	(5,904)
Share of loss/(profit) of		
– an associate	**2,779**	(1,234)
– jointly controlled entities	**–**	(19,838)
Impairment of intangible assets	**1,213**	–
(Recovery of impairment)/impairment of inventories	**(17,724)**	19,603
Inventories written off	**(704)**	59,357
(Recovery of impairment)/impairment of property, plant & equipment	**(7,143)**	10,024
Property, plant & equipment written off	**–**	4,028
Impairment of interests in jointly controlled entities	**–**	51,007
Write off of amount due from an associate	**356**	–
Write off of amount due to non-controlling shareholders	**(9,088)**	–
Gain on disposal of financial assets at fair value through profit or loss	**(698)**	(1,645)
(Gain)/loss on change in fair value of derivative financial instruments	**(260)**	338
Finance costs	**1,974**	81
Finance income	**(288)**	(410)
Operating profit/(loss) before changes in working capital	**159,130**	(15,810)
Inventories	**(73,290)**	(77,671)
Trade & other receivables	**(139,573)**	29,840
Trade & other payables	**50,428**	87,443
Prepayments – non-current	**9,391**	(9,391)
Cash generated from operations	**6,086**	14,411

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

	2012	**2012**	2011	2011
	Assets held for sale	**Property, plant & equipment**	Asset held for sale	Property, plant & equipment
	HK$'000	**HK$'000**	HK$'000	HK$'000
Net book amount	**254,280**	**20,438**	25,411	1,674
Gain/(loss) on disposal	**64,975**	**(4,012)**	5,904	(1,011)
Proceeds from disposal	**319,255**	**16,426**	31,315	663

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

	2012	**2012**	2011	2011
	Property	**Other assets**	Property	Other assets
	HK$'000	**HK$'000**	HK$'000	HK$'000
Not later than one year	**37,444**	**1,325**	29,521	1,150
Later than one year and not later than five years	**81,030**	**2,110**	96,969	1,705
Later than five years	**33,503**	**–**	45,386	–
	151,977	**3,435**	171,876	2,855

38. Capital Commitments

Group

	2012	2011
	HK$'000	HK$'000
Authorised but not contracted for in respect of land use rights and property, plant & equipment	**204,763**	11,993
Contracted but not provided for in respect of property, plant & equipment	**939**	–
	205,702	11,993

39. Contingencies

Group

(a) Contingent liabilities

	2012 HK$'000	2011 HK$'000
Performance bonds issued by banks	**9,073**	7,172

Company

(a) Corporate guarantee

The Company provides guarantees in respect of banking facilities granted to its subsidiaries, and approximately HK$136 million (2011: HK$57 million) of which was utilised as at 31 December 2012.

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

	2012 HK$'000	2011 HK$'000
Sale of carpets:		
an associate[1]	**46**	26
The Hongkong and Shanghai Hotels, Limited ("HSH")[2]	**2,913**	1,480
	2,959	1,506

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

	2012 HK$'000	2011 HK$'000
Purchase of goods:		
jointly controlled entities[1]	–	19,738
an associate[1]	223	14
	223	19,752

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:

	2012 HK$'000	2011 HK$'000
Salaries & other short-term employee benefits	25,998	31,658

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

	2012 HK$'000	2011 HK$'000
Trade receivables from related parties:		
HSH	23	97
Trade payables to related parties:		
jointly controlled entities	–	8,970

Principal Subsidiaries & an Associate

The table lists below the principal subsidiaries and an associate of the Group as at 31 December 2012 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				
Carpets International Thailand Public Company Limited	Thailand	Carpet manufacturing & trading	10,000,000 shares of Baht 10 each	99%[1]
Foshan Nanhai Tai Ping Carpets Company Limited[2]	The People's Republic of China	Carpet manufacturing	US$5,000,000	80%[1]
Premier Yarn Dyers, Inc.	United States of America	Yarn dyeing	1,100 shares of US$100 each	100%[1]
Tai Ping Carpets Americas, Inc.	United States of America	Carpet trading	220,000 shares of US$1 each	100%[1]
Tai Ping Carpets Europe	France	Carpet trading	Euro 603,341	100%[1]
Tai Ping Carpets Interieur GmbH	Germany	Carpet trading	Euro 511,292	100%[1]
Tai Ping Carpets UK Limited	United Kingdom	Carpet trading	GBP 20,000	100%[1]
Tai Ping Carpets Latin America S. A.	Argentina	Carpet trading	Pesos 1,818,530	100%[1]
Tai Ping Carpets Limited	Hong Kong	Carpet trading	2,000,000 shares of HK$10 each	100%[1]
TPC Macau Limitada	Macau	Carpet trading	MOP25,000	100%[1]
Tai Ping Carpets (S) Pte. Limited	Singapore	Carpet trading	S$5,000,000	100%[1]
Manufacture des Tapis de Cogolin SAS	France	Carpet trading	Euro 200,000	100%[1]

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%[1]

Notes:

1 Indirectly held by the Company

2 Registered as foreign equity joint ventures under PRC Law

3 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. Marcel G. J. Lebon	Chief Financial Officer & Human Resources Director	51	2009	Financial management & human resource management
Mr. William J. Palmer	Global Managing Director, Commercial	51	1999	Sales & business development
Mr. Alan Porto	Chief Information Officer	47	2009	Information technology
Ms. Simone S. Rothman	Chief Marketing Officer	53	2004	Marketing, PR & business development
Ms. Catherine Vergez	Managing Director, EMEA	50	1991	Sales & business development
Mr. Mark S. Worgan	Senior Vice President, Global Operations	49	2008	Carpet manufacturing & logistics

Note:
1 Age as at 22 March 2013

Remuneration to senior management

The remuneration to senior management fell within the following bands:

	No. of individuals	
	2012	2011
Remuneration bands		
HK$500,001 – HK$1,000,000	**–**	1
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**–**	3
HK$2,000,001 – HK$2,500,000	**1**	2
HK$2,500,001 – HK$3,000,000	**3**	2
HK$3,000,001 – HK$3,500,000	**1**	3
HK$3,500,001 – HK$4,000,000	**–**	–
HK$4,000,001 – HK$4,500,000	**1**	–

Corporate Information

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Certified Public Accountants
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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 Thomas

Registrar and Transfer Agent
HSBC Securities Services (Bermuda) Limited
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Bermuda

Branch Share Registrar
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