



Tai Ping Carpets International Limited
Interim Report 2013

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Management Discussion & Analysis

The Board of Directors (the “Board”) of Tai Ping Carpets International Limited (the “Company”) are pleased to present the Interim Report and condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2013. The condensed consolidated income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity of the Group for the six months ended 30 June 2013, and the condensed consolidated statement of financial position as at 30 June 2013, along with selected explanatory notes, all of which are unaudited and reviewed by the Audit Committee of the Company, can be found on pages 8 to 29 of this report.

Sales for the first six months of 2013 were virtually flat versus the strong first half of 2012, which saw a lot of backorder sales following the flooding of our factory in Thailand in October 2011. The Group’s consolidated turnover for the six months ended 30 June 2013 was HK\$668 million, a period-on-period increase of 0.2%, or HK\$2 million.

Turnover of carpet operations decreased by 0.5% period-on-period, while the turnover of non-carpet operations showed an increase of 34%. Overall gross margin increased from 36% to 43%, with margins improving in both the Commercial business and the Residential Boutique Contract (“RBC”) business.

Our shareholding in Weihai Shanhua has been completely disposed on 7 December 2012. The share of profits of Weihai Shanhua are no longer included in the Group’s results.

We reached a settlement agreement with our insurers on the value of the inventory claim relating to the Thailand flood and have made good progress towards settling the property damage claim. While we have not reached a definitive agreement with the insurers we have accounted for a further HK\$28 million in insurance recoveries, which is in line with the latest offer from the insurers. Including the HK\$113 million accounted for in 2012 we have now recognised HK\$141 million in recoveries. We expect to achieve final settlement for the remaining business interruption claim before reporting our final results for 2013.

The Group recorded an operating loss of HK\$1 million for the first six months compared with a loss of HK\$11 million for the corresponding period in 2012. The Group’s loss attributable to owners of the Company was HK\$12 million, an improvement of HK\$15 million from the previous period.

Carpet Operations

Total sales of the Commercial business decreased by 0.8%, or HK\$3 million, period-on-period, as the first half of last year included a lot of pent-up demand following the reopening of the factory. Turnover in the Americas dropped by 31% or HK\$56 million as major hospitality projects are expected to be completed in the second half of the year. Sales in Thailand and the rest of Asia continue to develop well and grew by 20% or HK\$52 million. Margins increased significantly, mainly due to the fact that margins in the prior year were depressed because of factory stock build-up and also due to strong margins in Asia.

Total sales of the RBC business increased by 0.1%, or HK\$0.3 million, period-on-period. Sales in the U.S. grew by 9%, offset by lower sales in Europe. Margins increased significantly as a result of mix, and the positive impact of currency movements, with the Euro strengthening against the U.S. dollar compared to the same period in the prior year.

Carpet operations delivered a small operating profit compared to a loss in the prior period, mainly due to better results in the Commercial business. Traditionally, the Group’s results in the second half of the year are stronger, due to the completion of major projects closer to the end of the year.

Operating expenses totalled HK\$277 million, an increase of 10% from the previous period, as labour related expenses rose.

The project to build a new artisan factory in Xiamen, P.R.C. is progressing according to schedule. Land acquisition has been completed and detailed design development is in progress. Ground breaking is expected to be early next year.

Other Operations

Other operations comprise mainly our Group's U.S.-based yarn-dyeing subsidiary and only represent 3% of the Group's sales. Turnover in other operations increased by 34% period-on-period, but is still well below pre-depression levels. The operations managed to return a small profit for the first six months of the year.

Outlook

Overall we remain cautiously optimistic for the year. We have seen more projects coming to the market in the key hospitality markets in the U.S. and Asia, but low quality/low price competition is strong. Sales in the yacht sector have been lower as less high-end yachts are scheduled to be completed this year. Demand for our products in the growing Aviation sector remains strong, but residential market demand in Europe and the Americas has been flat.

Prices for key raw material have been fairly stable and we have partly hedged our exposure in the commodity markets. The Euro has been stronger than expected vis-à-vis the U.S. dollar, but markets remain uncertain. We have hedged our exposure to the Euro for the balance of year.

With a strong order book in hand mostly for delivery in 2013 we expect the second half to be significantly better.

Dividend

The Board does not recommend the payment of an interim dividend for the period (2012: Nil).

Capital Expenditure

Capital expenditure in the form of property, plant & equipment, leasehold land & land use rights, construction in progress and intangible assets incurred by the Group totalled HK\$60 million during the six months ended 30 June 2013 (2012: HK\$69 million). As at 30 June 2013, the aggregate net book value of the Group's property, plant & equipment, leasehold land & land use rights, construction in progress and intangible assets (other than goodwill) amounted to HK\$383 million (as at 31 December 2012: HK\$364 million).

Liquidity & Financial Resources

The Group coordinates its financing and cash management activities at the corporate level. Net cash generated from operating activities was positive. Net cash reduced as a result of the acquisition of land for Xiamen, the purchase of machinery and construction in progress. As at 30 June 2013, the Group had total net cash amounting to HK\$283 million (as at 31 December 2012: net cash HK\$349 million).

Details of Charges on the Group's Assets

The Group had charges on bank deposits of HK\$6 million (as at 31 December 2012: HK\$13 million) made to secure banking facilities granted to the Group.

Exposure to Foreign Exchange Risks

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

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

The Group recorded a net exchange loss of HK\$4 million, arising from overseas operations. The Group's main exposure is to the Euro, which strengthened against the U.S. dollar versus prior period. We have partly hedged our operating exposure against the Euro for 2013 by the use of forward contracts and the Group will closely monitor exchange rate movements and take appropriate action to manage any material exposure that may arise.

Employee & Remuneration Policies

As at 30 June 2013, the Group employed 3,170 employees (as at 31 December 2012: 3,180 employees). Employees are remunerated according to the nature of the job and market trends, with built-in merit components incorporated as an annual incentive to reward and motivate individual performance.

Contingent Liabilities

As at 30 June 2013, the Group's total contingent liabilities amounted to HK\$7 million (as at 31 December 2012: HK\$9 million).

James H, Kaplan
Chief Executive Officer

Hong Kong, 23 August 2013

Corporate Governance & Other Information

Corporate Governance

The Company is committed to maintain high standards of corporate governance. The Company has complied with the code provisions in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the six month ended 30 June 2013 except the following:

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. The Company’s non-executive directors are not appointed for a specific term but are subject to retirement by rotation at general meetings of the shareholders and re-election by shareholders pursuant to the Company’s Bye-laws. Every director of the Company is subject to retirement by rotation at least once every three years.

Model Code for Securities Transactions

The Company adopted a code of conduct regarding the Directors’ transactions in the securities of the Company (the “Code of Conduct”) 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 Code of Conduct during the six months ended 30 June 2013.

Audit Committee

The Company has set up an Audit Committee on 23 September 2005 and the terms of reference of the 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.

The Audit Committee, together with the management of the Company, has reviewed the accounting principles and practices adopted by the Company as well as the internal control procedures of the Company, and discussed financial reporting matters, including the review of interim financial information for the six months ended 30 June 2013.

Changes in Directors’ Biographical Details

Changes in directors’ biographical details since the date of the 2012 annual report of the Company which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Mr. Lincoln C. K. Yung, an independent non-executive director of the Company, was elected as Fellow of The Hong Kong Institute of Bankers on 26 March 2013.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Constitutional Documents

In order to be more consistent with code provision A.4.2 of the CG Code, the amendment of bye-laws 190(iii) and 190(vii)(A)(1) of the Company was approved by shareholders of the Company at the annual general meeting on 24 May 2013. An up-to-date consolidated version of the Memorandum of Association and Bye-laws of the Company has been published on the websites of the Company (www.taipingcarpets.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) on 24 May 2013.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the six months ended 30 June 2013. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company's shares during the period.

Directors' Interests in Equity Securities

As at 30 June 2013, the interests of the Directors in the shares of the Company and its associated corporations (within the meaning of the Part XV of Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Ordinary shares of HK\$0.10 each in the Company

Number of ordinary shares held (long position)

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

Notes:

¹ The shares are held through a company which is controlled by Mr. Nelson K. F. Leong.

² The shares are held through Peak Capital Partners I, L.P. of which Mr. John J. Ying is the sole shareholder of the general partner of Peak Capital Partners I, L.P. and is deemed to have an interest in the shares held by Peak Capital Partners I, L.P. (the Company is advised that the term "general partner" commonly refers to the entity liable for all the debts and obligations of a limited partnership and has power to bind a limited partnership).

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

Substantial Shareholders

As at 30 June 2013, the register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO showed that the Company had been notified of the following interests, being 5% or more in the issued ordinary share capital of the Company.

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

Notes:

- ¹ Bermuda Trust Company Limited is deemed to be interested in the same 40,014,178 shares in which Acorn Holdings Corporation is interested. The Mikado Private Trust Company Limited and Harneys Trustees Limited are deemed to be interested in the same 77,674,581 shares in which Lawrencium Holdings Limited is interested. For the purpose of the SFO, the spouse of the Hon. Sir Michael Kadoorie has a duty of disclosure in Hong Kong in relation to the 77,674,581 shares. The interest disclosed by the spouse of the Hon. Sir Michael Kadoorie is that of the Hon. Sir Michael Kadoorie attributed to her under the SFO. Except the above, she has no interest, legal or beneficial in those shares.
- ² Mr. John J. Ying (a non-executive director of the Company) is the sole shareholder of the general partner of Peak Capital Partners I, L.P. and is deemed to have an interest in the shares held by Peak Capital Partners I, L.P. (the Company is advised that the term “general partner” commonly refers to the entity liable for all the debts and obligations of a limited partnership and has power to bind a limited partnership).

Condensed Consolidated Income Statement

For the six months ended 30 June

	Note	Unaudited	
		2013 HK\$'000	2012 HK\$'000 (As restated)
Revenue	6(a)	667,877	666,474
Cost of sales		(381,488)	(425,687)
Gross profit		286,389	240,787
Distribution costs	7	(53,159)	(55,131)
Administrative expenses	7	(256,578)	(238,031)
Gain in relation to Thailand flooding – net	8	27,921	41,974
Other losses – net	9	(5,838)	(925)
Operating loss		(1,265)	(11,326)
Finance income		682	120
Finance costs		(1,071)	(585)
Finance costs – net	10	(389)	(465)
Share of loss of an associate		(202)	(979)
Loss before income tax		(1,856)	(12,770)
Income tax expense	11	(10,825)	(13,012)
Loss for the period		(12,681)	(25,782)
(Loss)/profit attributable to:			
owners of the Company		(11,666)	(26,403)
non-controlling interests		(1,015)	621
		(12,681)	(25,782)
Loss per share attributable to owners of the Company (expressed in HK cents per share)			
basic/diluted	13	(5.50)	(12.44)

The notes on pages 14 to 29 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June

	Unaudited	
	2013	2012
	HK\$'000	HK\$'000
Loss for the period	(12,681)	(25,782)
Other comprehensive income net of tax:		
Items that may be reclassified subsequently to profit and loss		
currency translation differences	(2,796)	814
Total comprehensive income for the period net of tax	(15,477)	(24,968)
Total comprehensive income for the period attributable to:		
owners of the Company	(13,691)	(25,353)
non-controlling interests	(1,786)	385
	(15,477)	(24,968)

The notes on pages 14 to 29 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Financial Position

	Note	Unaudited 30 Jun 2013 HK\$'000	Audited 31 Dec 2012 HK\$'000
Assets			
Non-current assets			
Land use rights	14	33,923	1,406
Property, plant & equipment	15	293,667	313,233
Construction in progress	15	21,608	15,903
Intangible assets	16	33,887	33,324
Interest in an associate		18,222	18,970
Deferred income tax assets		10,973	15,261
Pledged bank deposits	18	1,586	1,038
		413,866	399,135
Current assets			
Inventories		290,125	281,614
Trade & other receivables	17	273,484	334,622
Financial assets at fair value through profit or loss		537	556
Current income tax assets		4,352	2,829
Pledged bank deposits	18	4,814	11,639
Fixed deposits	19	133,013	4,345
Cash & cash equivalents	19	278,217	453,162
		984,542	1,088,767
Total assets		1,398,408	1,487,902

The notes on pages 14 to 29 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Financial Position

	Note	Unaudited 30 Jun 2013 HK\$'000	Audited 31 Dec 2012 HK\$'000
Equity			
Equity attributable to owners of the Company			
Share capital	20	21,219	21,219
Reserves	21	401,187	403,212
Retained earnings:			
Proposed final dividend		–	25,462
Others		415,205	426,871
		837,611	876,764
Non-controlling interests		56,553	58,339
Total equity		894,164	935,103
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		571	123
Retirement benefit obligations		23,806	23,271
Other long-term liabilities		3,015	3,015
		27,392	26,409
Current liabilities			
Bank borrowings – unsecured	22	134,413	120,916
Trade & other payables	23	331,688	394,926
Dividend payable		483	285
Current income tax liabilities		5,818	4,212
Derivative financial instruments		92	1,693
Amounts due to non-controlling interests shareholders		4,358	4,358
		476,852	526,390
Total liabilities		504,244	552,799
Total equity & liabilities		1,398,408	1,487,902
Net current assets		507,690	562,377
Total assets less current liabilities		921,556	961,512

The notes on pages 14 to 29 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June

	Unaudited							
	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total	Total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2012	21,219	189,699	263,095	338,655	812,668	48,516	861,184	
(Loss)/profit for the period	-	-	-	(26,403)	(26,403)	621	(25,782)	
Other comprehensive income for the period								
Currency translation differences	-	-	1,050	-	1,050	(236)	814	
Total comprehensive income for the period	-	-	1,050	(26,403)	(25,353)	385	(24,968)	
Total contributions by and distributions to owners of the Company, recognised directly in equity								
Dividends relating to 2011	-	-	-	(19,097)	(19,097)	-	(19,097)	
Total transactions with owners	-	-	-	(19,097)	(19,097)	-	(19,097)	
Balance at 30 June 2012	21,219	189,699	264,145	293,155	768,218	48,901	817,119	
Balance at 1 January 2013	21,219	189,699	213,513	452,333	876,764	58,339	935,103	
Loss for the period	-	-	-	(11,666)	(11,666)	(1,015)	(12,681)	
Other comprehensive income for the period								
Currency translation differences	-	-	(2,025)	-	(2,025)	(771)	(2,796)	
Total comprehensive income for the period	-	-	(2,025)	(11,666)	(13,691)	(1,786)	(15,477)	
Total contributions by and distributions to owners of the Company, recognised directly in equity								
Dividends relating to 2012	-	-	-	(25,462)	(25,462)	-	(25,462)	
Total transactions with owners	-	-	-	(25,462)	(25,462)	-	(25,462)	
Balance at 30 June 2013	21,219	189,699	211,488	415,205	837,611	56,553	894,164	

The notes on pages 14 to 29 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June

		Unaudited	
	Note	2013 HK\$'000	2012 HK\$'000
Net cash generated from/(used in) operating activities		18,815	(144,599)
Net cash used in investing activities		(60,277)	(28,308)
Net cash (used in)/generated from financing activities		(134,158)	126,904
Decrease in cash & cash equivalents		(175,620)	(46,003)
Cash & cash equivalents at beginning of period		453,162	117,164
Exchange gain/(loss) on cash & cash equivalents		675	(354)
Cash & cash equivalents at 30 June	19	278,217	70,807

The notes on pages 14 to 29 are an integral part of these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

1. General Information

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

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon’s Court, 22 Victoria Street, P.O. Box HM 1179, Hamilton HM EX, Bermuda. The principal office in Hong Kong is located at 8/F, Tower 1, Kowloon Commerce Centre, 51-53 Kwai Cheong Road, Kwai Chung, Hong Kong.

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

These condensed consolidated interim financial statements are presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated. These condensed consolidated interim financial statements were approved for issue by the Board of Directors on 23 August 2013.

These condensed consolidated interim financial statements have not been audited.

2. Basis of Preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2013 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

3. Accounting Policies

Except as described below, accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2012, as described in those annual consolidated financial statements.

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

New and amended standards and interpretations which are mandatory for the first time for the financial year beginning 1 January 2013 but have no material impact to the Group.

HKFRSs (Amendment)	Annual Improvements to HKFRSs 2009-2011 Cycle
HKAS 1 (Amendment)	Presentation of Financial Statements
HKAS 19 (Revised 2011)	Employee Benefits
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
HKFRS 7 (Amendment)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
Amendments to HKFRS 10, HKFRS 11 & HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance

4. Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012, with the exception of changes in estimates that are required in determining the provision for income taxes (see Note 11).

5. Financial Risk Management

5.1 Financial risk factors

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

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2012.

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

(a) Liquidity risk

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

6. Revenues & Segment Information

(a) Revenues

	Six months ended	
	30 June	
	2013	2012
	HK\$'000	HK\$'000
Sale of carpets	591,232	606,034
Sale of underlays	11,538	7,491
Installation of carpets	16,844	14,056
Interior furnishings	21,628	21,354
Sale of yarns	18,759	16,013
Sale of raw materials	6,497	645
Other	1,379	881
	667,877	666,474

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the Board 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, RBC and Others (including manufacturing and trading of yarn).

Notes to the Condensed Consolidated Financial Statements

6. Revenues & Segment Information

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

The Board assesses the performance of the operating segments based on a measure of segment results. Segment results represent the operating profit/loss of each business segment after excluding shared expenses for global operations, and the effects of gain/loss and income/expenditure that considered are relevant in assessing the segment 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 six months ended 30 June 2013 and 2012 is as follows:

For the six months ended 30 June 2013

	Commercial HK\$'000	RBC HK\$'000	Total carpet HK\$'000	Others HK\$'000	Group HK\$'000
Revenue from external customers	443,077	206,575	649,652	18,225	667,877
Segment results	24,002	(20,616)	3,386	4,159	7,545
Unallocated expenses ¹					(36,731)
Gain in relation to Thailand flooding – net	27,921	–	27,921	–	27,921
Operating loss					(1,265)
Finance income					682
Finance costs					(1,071)
Share of loss of an associate	(202)	–	(202)	–	(202)
Loss before income tax					(1,856)
Income tax expense					(10,825)
Loss for the period					(12,681)
Capital expenditure	(9,897)	(9,492)	(19,389)	(40,294)	(59,683)
Depreciation of property, plant & equipment (Note 15)	(23,219)	(8,202)	(31,421)	(1,125)	(32,546)
Amortisation of land use rights (Note 14)	(530)	(531)	(1,061)	(225)	(1,286)
Amortisation of intangible assets (Note 16)	(57)	(44)	(101)	(3,274)	(3,375)
Recovery of impairment/(impairment) of trade receivables	1,651	(7,625)	(5,974)	–	(5,974)

Notes to the Condensed Consolidated Financial Statements

6. Revenues & Segment Information

For the six months ended 30 June 2012

	Commercial HK\$'000	RBC HK\$'000	Total carpet HK\$'000	Others HK\$'000	Group HK\$'000
Revenue from external customers	446,594	206,298	652,892	13,582	666,474
Segment results	(8,066)	(7,572)	(15,638)	(1,391)	(17,029)
Unallocated expenses ¹					(36,271)
Gain in relation to Thailand flooding – net	41,974	–	41,974	–	41,974
Operating loss					(11,326)
Finance income					120
Finance costs					(585)
Share of loss of an associate	(979)	–	(979)	–	(979)
Loss before income tax					(12,770)
Income tax expense					(13,012)
Loss for the period					(25,782)
Capital expenditure	(59,099)	(5,881)	(64,980)	(4,401)	(69,381)
Depreciation of property, plant & equipment (Note 15)	(24,314)	(3,817)	(28,131)	(977)	(29,108)
Amortisation of land use rights	(1,053)	–	(1,053)	–	(1,053)
Amortisation of intangible assets (Note 16)	(2,536)	(1,115)	(3,651)	–	(3,651)
Recovery of impairment of trade receivables	71	847	918	–	918

Note:

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

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

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

7. Expenses by Nature

	Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Depreciation of property, plant & equipment (Note 15)	32,546	29,108
Amortisation of land use rights (Note 14)	1,286	1,053
Amortisation of intangible assets (Note 16)	3,375	3,651
Impairment of trade receivables	10,403	1,094
Recovery of impairment of property, plant & equipment (Note 15)	–	(2,162)
Property, plant & equipment written off	–	1,507
Impairment/(recovery of impairment) of inventories	1,723	(917)
Impairment of intangible assets (Note 16)	–	1,158
Inventories written off	–	1,057
Bad debts written off	4,124	396
Recovery of impairment of trade receivables previously recognised	(4,429)	(2,012)

8. Gain in Relation to Thailand Flooding – Net

	Notes	Six months ended 30 June	
		2013 HK\$'000	2012 HK\$'000
Gain in relation to Thailand flooding – insurance recoveries	(a)	27,921	75,475
Loss in relation to Thailand flooding – expenses incurred	(b)	–	(33,501)
Gain in relation to Thailand flooding – net		27,921	41,974

(a) Insurance recoveries in relation to Thailand flooding

During the financial period ended 30 June 2012, the insurance companies agreed to advance 300,000,000 Thai Baht (approximately HK\$75,475,000) in respect of the claims submitted by the Group to various insurance companies in relation to the loss incurred due to the severe flooding in Thailand. As at June 2012, the Group had received cash advances of 165,000,000 Thai Baht (approximately HK\$41,800,000). The remaining 135,000,000 Thai Baht (approximately HK\$34,200,000) was received in July 2012. Base on the management assessment, these advances represent the minimum settlement amount of inventory loss claims and are recognised as income in the condensed consolidated income statement for the six months ended 30 June 2012. The inventory loss claims of 436,000,000 Thai Baht (approximately HK\$112,000,000) are finalised and conclusive in 2012.

During the financial period ended 30 June 2013, the Group received a settlement proposal of property loss claims of 108,143,000 Thai Baht (approximately HK\$27,921,000). Base on the management assessment, this represent the minimum settlement amount of property loss claims and is recognised as income in the condensed consolidated income statement for the six months ended 30 June 2013.

Notes to the Condensed Consolidated Financial Statements

8. Gain in Relation to Thailand Flooding – Net

(b) Costs in relation to Thailand flooding

The severe flooding in Thailand had led the Group to suspend its production facility in Pathumthani, near Bangkok on 17 October 2011. The loss in relation to this flooding for the period ended 30 June 2012 is as follows:

	Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Direct labour costs incurred for idle staff	–	11,536
Cost of purchasing replacement carpets	–	5,744
Recovery of impairment of inventories	–	(1,805)
Inventories written off	–	1,057
Recovery of impairment of property, plant & equipment	–	(2,162)
Loss on disposal of property, plant & equipment	–	1,507
Repairs & maintenance of property, plant & equipment	–	5,944
Others	–	11,680
	–	33,501

9. Other Losses – Net

	Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Gain on disposal of financial assets at fair value through profit or loss	16	239
Loss on disposal of property, plant & equipment	(884)	(70)
(Loss)/gain on change in fair value of derivative financial instruments	(83)	546
Net foreign exchange losses	(3,958)	(1,908)
Others	(929)	268
	(5,838)	(925)

10. Finance Costs – Net

	Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Finance costs – interest on bank loans & overdrafts wholly repayable within five years	(1,071)	(585)
Finance income – interest income from banks	682	120
Finance costs – net	(389)	(465)

11. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Current income tax		
Hong Kong	3,470	4,160
PRC & overseas	3,986	787
(Over)/under provision in prior years	(848)	885
Deferred income tax expense	4,217	7,180
Income tax expense	10,825	13,012

Income tax expense is recognised based on management's estimate of the weighted average income tax rate expected for the full financial period. The estimated weighted average income tax rate for the period ended 30 June 2013 is 22% (2012: 23%).

12. Dividend

The Board does not recommend the payment of an interim dividend for the period (2012: Nil). The 2012 final dividend was paid on 21 June 2013.

13. Loss Per Share

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

	Six months ended 30 June	
	2013	2012
Loss attributable to owners of the Company (HK\$'000)	(11,666)	(26,403)
Weighted average number of ordinary shares in issue (thousands)	212,187	212,187
Basic loss per share (HK cents)	(5.50)	(12.44)

The Group had no outstanding share options as at 30 June 2013 and 2012. As a result, diluted loss per share is equivalent to basic loss per share.

14. Land Use Rights

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

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
Outside Hong Kong, held on leases of between 10 and 50 years	33,923	1,406
	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
At beginning of the period/year	1,406	3,516
Additions	33,812	–
Exchange differences	(9)	(8)
Amortisation of land use rights (Note 7)	(1,286)	(2,102)
At end of the period/year	33,923	1,406

15. Property, Plant & Equipment and Construction in Progress

For the six months ended 30 June 2013

	Property, plant & equipment			Construction in progress HK\$'000	Total HK\$'000
	Buildings HK\$'000	Other assets HK\$'000	Sub-total HK\$'000		
At 1 January 2013					
Cost or valuation	171,288	846,697	1,017,985	15,903	1,033,888
Accumulated depreciation	(112,441)	(592,311)	(704,752)	–	(704,752)
Net book amount	58,847	254,386	313,233	15,903	329,136
Period ended 30 June 2013					
Opening net book amount	58,847	254,386	313,233	15,903	329,136
Exchange differences	(644)	(1,233)	(1,877)	(217)	(2,094)
Additions	–	9,478	9,478	12,416	21,894
Transfer from construction in progress	–	6,494	6,494	(6,494)	–
Disposals & assets written off	–	(1,115)	(1,115)	–	(1,115)
Depreciation (Note 7)	(3,503)	(29,043)	(32,546)	–	(32,546)
Closing net book amount	54,700	238,967	293,667	21,608	315,275
At 30 June 2013					
Cost or valuation	169,822	850,896	1,020,718	21,608	1,042,326
Accumulated depreciation	(115,122)	(611,929)	(727,051)	–	(727,051)
Net book amount	54,700	238,967	293,667	21,608	315,275

Notes to the Condensed Consolidated Financial Statements

15. Property, Plant & Equipment and Construction in Progress

For the six months ended 30 June 2012

	Property, plant & equipment			Construction in progress HK\$'000	Total HK\$'000
	Buildings HK\$'000	Other assets HK\$'000	Sub-total HK\$'000		
At 1 January 2012					
Cost or valuation	164,899	777,379	942,278	22,051	964,329
Accumulated depreciation	(100,968)	(597,375)	(698,343)	-	(698,343)
Net book amount	63,931	180,004	243,935	22,051	265,986
Period ended 30 June 2012					
Opening net book amount	63,931	180,004	243,935	22,051	265,986
Exchange differences	(404)	(4,813)	(5,217)	(31)	(5,248)
Additions	-	17,089	17,089	48,750	65,839
Transfer from construction in progress	254	8,058	8,312	(8,312)	-
Disposals & assets written off	-	(1,577)	(1,577)	-	(1,577)
Recovery of impairment (Note 7)	-	2,162	2,162	-	2,162
Depreciation (Note 7)	(3,204)	(25,904)	(29,108)	-	(29,108)
Closing net book amount	60,577	175,019	235,596	62,458	298,054
At 30 June 2012					
Cost or valuation	164,112	768,994	933,106	62,458	995,564
Accumulated depreciation	(103,535)	(593,975)	(697,510)	-	(697,510)
Net book amount	60,577	175,019	235,596	62,458	298,054

16. Intangible Assets

For the six months ended 30 June 2013

	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 2013					
Cost	7,215	40,847	2,462	1,950	2,166	54,640
Accumulated amortisation	(7,215)	(12,271)	-	(650)	(1,180)	(21,316)
Net book amount	-	28,576	2,462	1,300	986	33,324
Period ended 30 June 2013						
Opening net book amount	-	28,576	2,462	1,300	986	33,324
Exchange differences	-	10	(36)	-	(13)	(39)
Additions	-	3,977	-	-	-	3,977
Impairment	-	-	-	-	-	-
Amortisation (Note 7)	-	(3,310)	-	(65)	-	(3,375)
Closing net book amount	-	29,253	2,426	1,235	973	33,887
At 30 June 2013						
Cost	7,215	44,842	2,426	1,950	2,101	58,534
Accumulated amortisation	(7,215)	(15,589)	-	(715)	(1,128)	(24,647)
Net book amount	-	29,253	2,426	1,235	973	33,887

Notes to the Condensed Consolidated Financial Statements

16. Intangible Assets

For the six months ended 30 June 2012

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

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

17. Trade & Other Receivables

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
Trade receivables	186,690	248,902
Less: provision for impairment of trade receivables	(19,248)	(13,788)
Trade receivables – net	167,442	235,114
Prepayments	23,911	25,252
Value added tax receivables	6,054	8,849
Rental deposits	8,381	7,746
Insurance recoveries receivables	53,375	47,614
Other receivables	14,321	10,047
	273,484	334,622

Notes to the Condensed Consolidated Financial Statements

17. Trade & Other Receivables

The trade receivables approximate fair values as at 30 June 2013 and 31 December 2012. 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 is as follows:

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
0 to 30 days	78,045	124,240
31 to 60 days	30,029	45,731
61 to 90 days	14,135	22,056
91 to 365 days	42,751	46,626
More than 365 days	21,730	10,249
	186,690	248,902

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

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
Amounts past due at the reporting date but not impaired:		
Less than 30 days past due	28,806	51,955
31 to 60 days past due	12,770	19,455
61 to 90 days past due	9,083	10,304
91 to 365 days past due	38,876	40,359
More than 365 days past due	19,966	10,005
	109,501	132,078

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

As at 30 June 2013, trade receivables of approximately HK\$109,501,000 (as at 31 December 2012: HK\$132,078,000) were past due but not impaired. The balances were related to a number of customers that have a good track record with the Group. Based on the past experience, management estimates that the carrying amounts could be fully recovered.

18. Pledged Bank Deposits

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
Pledged bank deposits	6,400	12,677
Less: non-current pledged bank deposits	(1,586)	(1,038)
	4,814	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 31 July 2013 to 31 October 2017 (2012: during the period from 29 March 2013 to 30 June 2016).

19. Fixed Deposits and Cash & Cash Equivalents

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
Cash & cash equivalents	278,217	453,162
Fixed deposits with maturity over one year	–	4,317
Fixed deposits with maturity over three months but less than one year	133,013	28
Total fixed deposits and cash & cash equivalents	411,230	457,507

20. Share Capital

	No. of shares	HK\$'000
Authorised – Ordinary shares of HK\$0.10 each:		
At 1 January 2013 & 30 June 2013	400,000,000	40,000
Issued & fully paid – Ordinary shares of HK\$0.10 each:		
At 1 January 2013 & 30 June 2013	212,187,488	21,219

21. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Properties revaluation reserve HK\$'000	General reserve HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
Balance at 1 January 2013	189,699	55,928	4,161	16,000	137,424	403,212
Currency translation differences	–	–	–	–	(2,025)	(2,025)
Balance at 30 June 2013	189,699	55,928	4,161	16,000	135,399	401,187
	Share premium HK\$'000	Capital reserve HK\$'000	Properties revaluation reserve HK\$'000	General reserve HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
Balance at 1 January 2012	189,699	71,625	4,161	16,000	171,309	452,794
Currency translation differences	–	–	–	–	1,050	1,050
Balance at 30 June 2012	189,699	71,625	4,161	16,000	172,359	453,844

22. Bank Borrowings – Unsecured

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
Current		
Outstanding bills payable repayable within 60 days	1,876	836
Short-term bank loan	132,537	120,080
	134,413	120,916

23. Trade & Other Payables

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
Trade payables	53,072	69,566
Deposits received in advance	151,010	149,614
Accrued expenses	74,787	127,049
Other payables	52,819	48,697
	331,688	394,926

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

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
0 to 30 days	34,436	49,772
31 days to 60 days	14,159	11,264
61 days to 90 days	1,091	1,745
More than 90 days	3,386	6,785
	53,072	69,566

24. Contingent Liabilities

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
Performance bonds issued by banks	7,072	9,073

25. Capital Commitments

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
Authorised but not contracted for in respect of land use right and property, plant & equipment	161,298	204,763
Contracted but not provided for in respect of property, plant & equipment	17,399	939
	178,697	205,702

26. Operating Lease Commitments

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

	30 Jun 2013	30 Jun 2013	31 Dec 2012	31 Dec 2012
	Property HK\$'000	Other assets HK\$'000	Property HK\$'000	Other assets HK\$'000
Not later than one year	36,379	1,700	37,444	1,325
Later than one year and not later than five years	95,985	2,271	81,030	2,110
Later than five years	29,361	–	33,503	–
	161,725	3,971	151,977	3,435

27. Related Party Transactions

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

The following transactions were carried out with related parties:

(a) Sale of goods & services

	Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Sale of carpets:		
an associate ¹	–	34
The Hongkong and Shanghai Hotels, Limited (“HSH”) ²	623	573
	623	607

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.

27. Related Party Transactions

(b) Purchase of goods

	Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Purchase of goods:		
an associate ¹	–	223
jointly controlled entities ¹	–	2,596
	–	2,819

Note:

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

(c) Key management compensation

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

	Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Salaries & other short-term employee benefits	7,945	20,507

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

	30 Jun 2013 HK\$'000	31 Dec 2012 HK\$'000
	Trade receivables from related parties:	
HSH	58	23
	58	23

Corporate Information

Board of Directors

Executive Director

Mr. James H. Kaplan (*Chief Executive Officer*)

Non-executive Directors

Mr. Nicholas T. J. Colfer (*Chairman*)

Mr. Ian D. Boyce

Mr. David C. L. Tong

Mr. John J. Ying

Mr. Nelson K. F. Leong

Independent Non-executive Directors

Mrs. Yvette Y. H. Fung

Mr. Roderic N. A. Sage

Mr. Lincoln C. K. Yung

Mr. Aubrey K. S. Li

Executive Committee

Mr. Nicholas T. J. Colfer (*Committee Chairman*)

Mr. James H. Kaplan

Mr. David C. L. Tong

Mr. John J. Ying

Mr. Nelson K. F. Leong

Audit Committee

Mr. Roderic N. A. Sage (*Committee Chairman*)

Mr. Aubrey K. S. Li

Mr. John J. Ying

Remuneration Committee

Mr. Roderic N. A. Sage (*Committee Chairman*)

Mrs. Yvette Y. H. Fung

Mr. David C. L. Tong

Nomination Committee

Mr. Nicholas T. J. Colfer (*Committee Chairman*)

Mr. Lincoln C. K. Yung

Mrs. Yvette Y. H. Fung

Company Secretary

Mr. Lee Siu Kau Thomas

Auditor

PricewaterhouseCoopers

Certified Public Accountants

22nd Floor, Prince's Building

Central, Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited

Standard Chartered Bank (Hong Kong) Limited

Registrar and Transfer Agent

HSBC Securities Services (Bermuda) Limited

6 Front Street

Hamilton HM 11

Bermuda

Branch Share Registrar

Computershare Hong Kong Investor Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

Registered Office

Canon's Court

22 Victoria Street

P.O. Box HM 1179

Hamilton HM EX

Bermuda

Principal Office in Hong Kong

8th Floor, Tower 1, Kowloon Commerce Centre

51-53 Kwai Cheong Road

Kwai Chung, Hong Kong

Tel: (852) 2848 7668

Fax: (852) 2845 9363

Company Website

www.taipingcarpets.com

Stock Code: 146