



Tai Ping Carpets International Limited
Interim Report 2015

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Management Discussion & Analysis

The Board of Directors (the “Board”) of Tai Ping Carpets International Limited (the “Company”) hereby presents the Interim Report and condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2015. 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 2015, and the condensed consolidated statement of financial position as at 30 June 2015, 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 31 of this report.

The Group’s consolidated turnover for the six months ended 30 June 2015 was HK\$495 million, compared to HK\$594 million in 2014, down 17% compared to prior period.

Despite non-recurring costs of HK\$12 million linked to restructuring and real-estate down-sizing, streamlining and efficiency initiatives have driven a further reduction in operating expenses of HK\$23 million, a reduction of 9% compared to the first half of 2014.

The slow start to the year has resulted in an operating loss of HK\$68 million for the first six months compared with a loss of HK\$46 million for the corresponding period in 2014.

The Group’s loss attributable to the equity holders of the Company is HK\$67 million, an increase of HK\$11 million versus the previous period loss of HK\$56 million.

CARPET OPERATIONS

First half turnover from carpet operations was 17% behind 2014 at HK\$481 million due primarily to weak sales in the Hospitality sector in the first quarter and, in particular, a 22% decrease in Asia.

Global Commercial sales were down 21%, while Global Artisan and Aviation sales were down 8%. The gross profit margin was also down slightly from 42% to 39%.

The Americas

At HK\$196 million, turnover in the Americas was down 15% compared to the first half of 2014.

A slow start to the year meant that Artisan sales were down 14%, at HK\$88 million. Stronger bookings in the second quarter indicate improvement will follow through the balance of the year.

The American Hospitality business was down by 16% to HK\$108 million but the adverse impact of this was offset by a 3.5% improvement in gross margins, and a reduction in local expenses linked to efficiency initiatives. As at the end of June, bookings have caught up with prior year and the number of active U.S. projects is at its highest level for seven years. A strong resurgence in sales is projected through the second half.

Asia

Asia has remained particularly challenging, with turnover down 22% compared to the first half of 2014.

Hospitality and Commercial sales were down by 24% overall, reducing to HK\$183 million. Turnover in Thailand was down 18% to HK\$131 million, principally due to the deferral of expected model launches in the automotive sector and increased competitive pressure in Australasia. The rest of Asia was down 29% to HK\$52 million driven primarily by a slow-down in top-end hotel development in China and Macau. Consistent with the trend in recent years, order intake has markedly improved through the second quarter and this is expected to continue through the balance of the year.

The Asian Artisan business was up 27% driven by continued improvement from the new Shanghai showroom which was formally opened in March 2014.

Europe, the Middle East and Africa (“EMEA”)

First half turnover in EMEA was down 6% compared with prior period at HK\$88 million.

The U.K. and Germany ran ahead, with particularly strong performance in the Yacht sector, but the rest of the region continues to run slightly behind due to the weakness of the Euro.

Year over year reductions in operating expenses continue to be realised consistent with the streamlining of European cost structure to match longer-term business expectations.

Manufacturing Operations

The construction of our new Artisan workshop in Xiamen, China, is progressing on schedule with completion of phase one expected by the end of 2015. Conceived by the renowned French architect Jean-Marc Sandrolini, the new facility will be at the heart of our Artisan business.

NON-CARPET OPERATIONS

Other operations comprise mainly our Group’s U.S. based yarn-dyeing subsidiary and only represent 3% of the Group’s sales. The operation is close to break-even for the first half of the year.

OUTLOOK

While the start to the year was slower than expected, the increase in bookings in the second quarter and forecasted trend are consistent with previous years. Order intake has strengthened across all markets and the volume of pre-order activity, particularly in the U.S., is very encouraging.

Restructuring and efficiency initiatives will continue to drive lower operating expenses, with emphasis having recently shifted beyond headcount and currently focused upon a reduction of our global real-estate footprint.

With a considerably improved order book in hand, and the ongoing focus on cost efficiency, the second half will be considerably stronger.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the period (2014: Nil).

CAPITAL EXPENDITURE

Capital expenditure in the form of property, plant and equipment, leasehold land and land use rights, construction in progress and intangible assets incurred by the Group totaled HK\$50 million during the six months ended 30 June 2015 (2014: HK\$34 million). As at 30 June 2015, the aggregate net book value of the Group's property, plant and equipment, leasehold land and land use rights, construction in progress and intangible assets amounted to HK\$411 million (as at 31 December 2014: HK\$409 million).

LIQUIDITY & FINANCIAL RESOURCES

The Group coordinates its financing and cash management activities at the corporate level. As at 30 June 2015, the Group had total net cash amounting to HK\$213 million (as at 31 December 2014: net cash HK\$147 million).

DETAILS OF CHARGES ON THE GROUP'S ASSETS

The Group had charges on bank deposits of HK\$7 million (as at 31 December 2014: HK\$5 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 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 gain of HK\$4 million, arising from overseas operations.

HUMAN RESOURCES & REMUNERATION POLICIES

The number of management and staff employees has reduced by 18 since the start of the year as a result of restructuring and efficiency initiatives. This has been offset by the recruitment of 18 trainees for the new workshop in Xiamen. The total number of employees at end of June 2015 stands at 2,891 compared to 3,000 at the same time last year.

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 2015, the Group's total contingent liabilities amounted to HK\$17 million (as at 31 December 2014: HK\$18 million).

James H. Kaplan
Chief Executive Officer

Hong Kong, 21 August 2015

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 months ended 30 June 2015 except the following:

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, the relevant Bye-laws of the Company require that every director would retire by rotation at least once every three years, which is in line with the CG Code.

In respect of code provision A.6.7 of the CG Code, all Non-executive Directors (including Independent Non-executive Directors) attended the annual general meeting of the Company (the “AGM”) held on 20 May 2015 except Mr. Andrew C. W. Brandler (Non-executive Director) due to other business engagement.

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding the Directors’ transactions in the securities of the Company (the “Tai Ping Code”) 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 Tai Ping Code during the six months ended 30 June 2015.

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 2015.

Change of Company Secretary

Mr. Lee Siu Kau resigned and Mr. Yip Wai Wan was appointed as Company Secretary of the Company with effect from 21 August 2015.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the six months ended 30 June 2015. 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 2015, 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
David C. L. Tong	431,910	–	0.204%
Lincoln C. K. Yung	30,000	–	0.014%
Nelson K. F. Leong	700,000	2,182,000 ¹	1.358%
John J. Ying	–	32,605,583 ²	15.366%
Aubrey K. S. Li	100,000	–	0.047%
James H. Kaplan	522,000	–	0.246%

Notes:

¹ The shares are held through companies which are controlled by Mr. Nelson K. F. Leong.

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

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

Substantial Shareholders

As at 30 June 2015, 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).

Dividend

The Board does not recommend the payment of an interim dividend for the period.

Condensed Consolidated Income Statement

For the six months ended 30 June

	Note	Unaudited	
		2015 HK\$'000	2014 HK\$'000
Revenue	6	494,584	594,273
Cost of sales		(260,190)	(329,976)
Gross profit		234,394	264,297
Distribution costs	7	(140,433)	(179,524)
Administrative expenses	7	(160,748)	(132,377)
Other (losses)/gains – net	8	(966)	1,843
Operating loss		(67,753)	(45,761)
Finance income		1,788	1,317
Finance costs		(1,001)	(698)
Finance income – net	9	787	619
Share of loss of an associate		–	–
Loss before income tax		(66,966)	(45,142)
Income tax expense	10	(2,460)	(11,277)
Loss for the period		(69,426)	(56,419)
(Loss)/profit attributable to:			
owners of the Company		(67,086)	(56,487)
non-controlling interests		(2,340)	68
		(69,426)	(56,419)
Loss per share attributable to the owners of the Company during the period (expressed in HK cents per share)			
Basic/diluted	12	(31.62)	(26.62)

The notes on pages 14 to 31 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June

	Unaudited	
	2015	2014
	HK\$'000	HK\$'000
Loss for the period	(69,426)	(56,419)
Other comprehensive income:		
Item that will not be reclassified subsequently to profit or loss		
Deferred tax on remeasurement of post-employment benefit obligations	–	225
Item that may be reclassified to profit or loss		
Currency translation differences	(8,241)	803
Other comprehensive income for the period, net of tax	(8,241)	1,028
Total comprehensive income for the period	(77,667)	(55,391)
Attributable to:		
owners of the Company	(75,272)	(55,158)
non-controlling interests	(2,395)	(233)
	(77,667)	(55,391)

The notes on pages 14 to 31 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Financial Position

	Note	Unaudited 30 Jun 2015 HK\$'000	Audited 31 Dec 2014 HK\$'000
Assets			
Non-current assets			
Land use rights	13	32,543	32,871
Property, plant & equipment	14	259,931	277,655
Construction in progress	14	86,512	63,892
Intangible assets	15	32,444	34,875
Deferred income tax assets		10,281	10,948
Prepayments	16	8,770	6,328
Pledged bank deposits	17	314	314
		430,795	426,883
Current assets			
Inventories		278,359	234,347
Trade & other receivables	16	179,527	244,269
Derivative financial instruments		5	4,588
Financial assets at fair value through profit or loss		94,630	78,350
Current income tax assets		8,282	13,773
Pledged bank deposits	17	6,600	5,058
Fixed deposits	18	41,507	165,193
Cash & cash equivalents	19	213,499	146,879
		822,409	892,457
Non-current asset held for sale	20	17,192	17,192
		839,601	909,649
Total assets		1,270,396	1,336,532

The notes on pages 14 to 31 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Financial Position

	Note	Unaudited 30 Jun 2015 HK\$'000	Audited 31 Dec 2014 HK\$'000
Equity			
Equity attributable to owners of the Company			
Share capital	21	21,219	21,219
Reserves	22	369,043	377,229
Retained earnings:			
Proposed final dividend		–	25,462
Others		300,816	367,902
		691,078	791,812
Non-controlling interests		41,272	43,667
Total equity		732,350	835,479
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		5,678	5,634
Retirement benefit obligations		26,737	26,079
Other long-term liabilities		1,200	3,015
		33,615	34,728
Current liabilities			
Trade & other payables	23	347,542	330,529
Current income tax liabilities		9,253	14,968
Bank borrowings – unsecured	24	147,636	120,777
Derivative financial instruments		–	51
		504,431	466,325
Total liabilities		538,046	501,053
Total equity & liabilities		1,270,396	1,336,532
Net current assets		335,170	443,324
Total assets less current liabilities		765,965	870,207

The notes on pages 14 to 31 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		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2014	21,219	189,699	192,862	471,869	875,649	42,370	918,019
Comprehensive income							
(Loss)/profit for the period	-	-	-	(56,487)	(56,487)	68	(56,419)
Other comprehensive income for the period							
Currency translation differences	-	-	1,104	-	1,104	(301)	803
Deferred tax on actuarial loss of retirement benefit obligations	-	-	-	225	225	-	225
Total other comprehensive income for the period, net of tax	-	-	1,104	225	1,329	(301)	1,028
Total comprehensive income for the period	-	-	1,104	(56,262)	(55,158)	(233)	(55,391)
Total contributions by and distributions to owners of the Company, recognised directly in equity							
Dividends for 2013	-	-	-	(25,462)	(25,462)	-	(25,462)
Total transactions with owners	-	-	-	(25,462)	(25,462)	-	(25,462)
Balance at 30 June 2014	21,219	189,699	193,966	390,145	795,029	42,137	837,166
Balance at 1 January 2015	21,219	189,699	187,530	393,364	791,812	43,667	835,479
Comprehensive income							
Loss for the period	-	-	-	(67,086)	(67,086)	(2,340)	(69,426)
Other comprehensive income for the period							
Currency translation differences	-	-	(8,186)	-	(8,186)	(55)	(8,241)
Total other comprehensive income for the period, net of tax	-	-	(8,186)	-	(8,186)	(55)	(8,241)
Total comprehensive income for the period	-	-	(8,186)	(67,086)	(75,272)	(2,395)	(77,667)
Total contributions by and distributions to owners of the Company, recognised directly in equity							
Dividends for 2014	-	-	-	(25,462)	(25,462)	-	(25,462)
Total transactions with owners	-	-	-	(25,462)	(25,462)	-	(25,462)
Balance at 30 June 2015	21,219	189,699	179,344	300,816	691,078	41,272	732,350

The notes on pages 14 to 31 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June

	Note	Unaudited	
		2015 HK\$'000	2014 HK\$'000
Cash flows from operating activities			
Cash generated from operations		9,082	84,449
Net receipt/(payment) for derivative financial instruments		4,673	(2,602)
Retirement benefit paid		(113)	(349)
Income tax paid		(3,547)	(12,301)
Interest paid		(1,001)	(698)
Net cash generated from operating activities		9,094	68,499
Cash flows from investing activities			
Purchases of property, plant & equipment and construction in progress		(46,418)	(30,386)
Acquisition of intangible assets		(2,110)	(3,452)
Proceeds from disposal of property, plant & equipment		224	418
Proceeds from disposal of financial assets at fair value through profit or loss		303,649	322,704
Purchase of financial assets at fair value through profit or loss		(318,758)	(398,844)
Repayment of other long-term liabilities		(3,015)	-
Decrease/(increase) in fixed deposits		123,686	(77,285)
Interest received		1,788	1,317
Net cash generated from/(used in) investing activities		59,046	(185,528)
Cash flows from financing activities			
Proceeds from borrowings		894,927	33,997
Repayments of borrowings		(868,068)	(31,010)
Increase in pledged bank deposits		(1,542)	(128)
Dividend paid to the Company's shareholders		(25,130)	(25,259)
Net cash generated from/(used in) financing activities		187	(22,400)
Net increase/(decrease) in cash & cash equivalents		68,327	(139,429)
Cash & cash equivalents at beginning of period		146,879	306,760
Exchange losses on cash & cash equivalents		(1,707)	(1,598)
Cash & cash equivalents at end of period	19	213,499	165,733

The notes on pages 14 to 31 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, manufacture and sale of yarns and sale of leather.

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 33rd Floor, Global Trade Square, 21 Wong Chuk Hang Road, Wong Chuk Hang, 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 have been approved for issue by the Board of Directors on 21 August 2015.

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 2015 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 2014, 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. Changes in Accounting Standards

Except as described below, accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2014, 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 period beginning 1 January 2015 but have no material impact to the Group.

HKAS 19 (2011) (Amendment)	Defined Benefit Plans: Employee Contributions ¹
Annual Improvements Project	Annual Improvements 2010 – 2012 Cycle ¹
Annual Improvements Project	Annual Improvements 2011 – 2013 Cycle ¹

Note:

¹ Effective for the Group for annual period beginning on 1 July 2014

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 2014, with the exception of changes in estimates that are required in determining the provision for income taxes (see Note 10).

5. Financial Risk Management

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 2014.

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

(a) 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 statement of financial position 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 end of the financial period, the Group held cash and cash equivalents of HK\$213,499,000 (as at 31 December 2014: HK\$146,879,000) (Note 19) that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the condensed consolidated statement of financial position date 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:

As at 30 June 2015	Repayable on demand HK\$'000	Less than 1 year HK\$'000	Between 1 & 2 years HK\$'000	Between 2 & 5 years HK\$'000	Total HK\$'000
Trade & other payables	-	153,230	-	-	153,230
Bank borrowings – unsecured	4,261	143,375	-	-	147,636
	4,261	296,605	-	-	300,866
As at 31 December 2014	Repayable on demand HK\$'000	Less than 1 year HK\$'000	Between 1 & 2 years HK\$'000	Between 2 & 5 years HK\$'000	Total HK\$'000
Trade & other payables	-	179,903	-	-	179,903
Bank borrowings – unsecured	117,000	3,777	-	-	120,777
	117,000	183,680	-	-	300,680

(b) 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)

Notes to the Condensed Consolidated Financial Statements

5. Financial Risk Management

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2015.

As at 30 June 2015	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	94,630	–	–	94,630
Derivative financial instruments:				
Foreign currency forward contracts	–	5	–	5
	94,630	5	–	94,635

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2014.

As at 31 December 2014	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	78,350	–	–	78,350
Derivative financial instruments:				
Foreign currency forward contracts	–	4,588	–	4,588
	78,350	4,588	–	82,938
Liabilities				
Derivative financial instruments:				
Foreign currency forward contracts	–	(51)	–	(51)
	–	(51)	–	(51)

There are no transfer between level 1 and 2 during the period.

The fair value of mutual funds which are traded in active markets is based on quoted market prices at the end of financial period. The fair value measurement for these listed mutual funds held by the Group is the current bid price and is 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.

6. Revenue & Segment Information

(a) Revenue

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Sale of carpets	439,352	523,314
Sale of underlays	6,289	9,239
Installation of carpets	13,776	12,532
Interior furnishings	19,064	22,429
Sale of yarns	13,982	20,889
Sale of raw materials	1,992	5,781
Other	129	89
	494,584	594,273

(b) Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors which are used to assess performance and allocate resources. The Board of Directors assesses the performance in the following geographical areas: Asia, Europe, the Middle East and Africa ("EMEA"), North America and South America.

The Board of Directors assesses the performance of the operating segments based on a measure of segment results. Segment results represent the operating profit/loss of each business segment and the effects of gain/loss and income/expenditure which are considered relevant in assessing the segment's performance.

Notes to the Condensed Consolidated Financial Statements

6. Revenue & Segment Information

The segment information provided to the management for the reportable segments for the six months ended 30 June 2015 and 2014 is as follows:

For the six months ended 30 June 2015

	Asia HK\$'000	EMEA HK\$'000	North America HK\$'000	South America HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenue from external customers	196,183	88,580	200,923	8,898	-	494,584
Cost of production ¹	(146,872)	(40,197)	(111,070)	(5,875)	-	(304,014)
Segment gross margin	49,311	48,383	89,853	3,023	-	190,570
Segment results	(16,811)	(12,452)	(25,686)	(2,898)	-	(57,847)
Unallocated expenses ²						(9,906)
Operating loss						(67,753)
Finance income						1,788
Finance costs						(1,001)
Loss before income tax						(66,966)
Income tax expense						(2,460)
Loss for the period						(69,426)
Capital expenditure	(19,877)	(2,499)	(2,881)	(34)	(24,437)	(49,728)
Depreciation of property, plant & equipment (Note 14)	(21,752)	(1,838)	(4,079)	(8)	(233)	(27,910)
Amortisation of land use rights (Note 13)	-	-	-	-	(340)	(340)
Amortisation of intangible assets (Note 15)	(4,198)	-	(65)	-	-	(4,263)
Recovery of/(allowance for) impairment of trade receivables	60	610	(1)	(9)	-	660

Notes to the Condensed Consolidated Financial Statements

6. Revenue & Segment Information

For the six months ended 30 June 2014

	Asia HK\$'000	EMEA HK\$'000	North America HK\$'000	South America HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenue from external customers	251,494	93,893	235,407	13,479	–	594,273
Cost of production ¹	(177,325)	(41,995)	(117,273)	(8,485)	–	(345,078)
Segment gross margin	74,169	51,898	118,134	4,994	–	249,195
Segment results	1,991	(26,316)	(20,336)	(1,691)	–	(46,352)
Unallocated expenses ²						591
Operating loss						(45,761)
Finance income						1,317
Finance costs						(698)
Loss before income tax						(45,142)
Income tax expense						(11,277)
Loss for the period						(56,419)
Capital expenditure	(21,213)	(4,655)	(3,395)	(8)	(4,567)	(33,838)
Depreciation of property, plant & equipment (Note 14)	(23,362)	(2,136)	(4,916)	(18)	(167)	(30,599)
Amortisation of land use rights	–	–	–	–	(340)	(340)
Amortisation of intangible assets (Note 15)	(871)	–	(65)	–	(2,735)	(3,671)
(Allowance for)/recovery of impairment of trade receivables	(68)	2,042	122	(37)	–	2,059

Notes:

- ¹ Cost of production comprises cost of sales, transportation and administrative expenses of the factories, which are classified as distribution costs and administrative expenses in the condensed consolidated income statement.
- ² Unallocated expenses include corporate expenses and income of the Group.

7. Expenses by Nature

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Depreciation of property, plant & equipment (Note 14)	27,910	30,599
Amortisation of land use rights (Note 13)	340	340
Amortisation of intangible assets (Note 15)	4,263	3,671
Recovery of impairment of trade receivables	(660)	(2,059)
(Recovery of)/allowance for impairment of inventories	(1,415)	2,275
Inventories written off	–	172
Bad debts written off	319	2,042

8. Other (Losses)/Gains – Net

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Gain on disposal of financial assets at fair value through profit or loss	1,171	1,146
Loss on disposal of property, plant & equipment	(7,715)	(16)
Gain on change in fair value of derivative financial instruments	141	347
Net foreign exchange gain/(loss)	3,611	(1,071)
Others	1,826	1,437
	(966)	1,843

9. Finance Income – Net

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Finance costs – interests on bank loans & overdrafts wholly repayable within five years	(1,001)	(698)
Finance income – interest income from banks	1,788	1,317
Finance income – net	787	619

10. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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	
	2015 HK\$'000	2014 HK\$'000
Current income tax		
Hong Kong	–	6,203
PRC & overseas	2,026	5,192
Under/(over)provision in prior years	860	(4,746)
Deferred income tax (income)/expense	(426)	4,628
Income tax expense	2,460	11,277

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 2015 is 28% (2014: 18%).

11. Dividend

The Board does not recommend the payment of an interim dividend for the period (2014: Nil). The 2014 final dividend was paid on 19 June 2015.

Moreover, the Board reviewed the Company's liquidity and financial resources in the context of its future needs, in particular the Artisan factory in Xiamen, and with regard to the proceeds received from the Shanhua joint venture sale in 2012. As a result of this review, the Board approved the payment of a special dividend of HK40 cents per share, amounting to a total of HK\$84,875,000, at the Board meeting held on 22 August 2014. The special dividend was paid on 29 September 2014.

12. 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	
	2015	2014
Loss attributable to owners of the Company (HK\$'000)	(67,086)	(56,487)
Weighted average number of ordinary shares in issue (thousands)	212,187	212,187
Basic loss per share (HK cents)	(31.62)	(26.62)

The Group had no dilutive potential shares outstanding during the period ended 30 June 2015 and 2014.

13. Land Use Rights

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

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Outside Hong Kong, held on leases of between 10 and 50 years	32,543	32,871

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
At beginning of the period/year	32,871	33,667
Exchange differences	12	(116)
Amortisation of land use rights (Note 7)	(340)	(680)
At end of the period/year	32,543	32,871

14. Property, Plant & Equipment and Construction in Progress

For the six months ended 30 June 2015

	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 2015					
Cost or valuation	169,093	839,102	1,008,195	63,892	1,072,087
Accumulated depreciation	(113,031)	(617,509)	(730,540)	-	(730,540)
Net book amount	56,062	221,593	277,655	63,892	341,547
Period ended 30 June 2015					
Opening net book amount	56,062	221,593	277,655	63,892	341,547
Additions	2,500	15,527	18,027	29,591	47,618
Transfer from construction in progress	1,079	5,761	6,840	(6,840)	-
Disposals and assets written off	-	(7,933)	(7,933)	-	(7,933)
Depreciation (Note 7)	(1,846)	(26,064)	(27,910)	-	(27,910)
Exchange differences	(4,038)	(2,710)	(6,748)	(131)	(6,879)
Closing net book amount	53,757	206,174	259,931	86,512	346,443
At 30 June 2015					
Cost or valuation	169,790	813,828	983,618	86,512	1,070,130
Accumulated depreciation	(116,033)	(607,654)	(723,687)	-	(723,687)
Net book amount	53,757	206,174	259,931	86,512	346,443

Notes to the Condensed Consolidated Financial Statements

14. Property, Plant & Equipment and Construction in Progress

For the six months ended 30 June 2014

	Property, plant & equipment			Construction in progress	Total
	Buildings HK\$'000	Other assets HK\$'000	Sub-total HK\$'000		
At 1 January 2014					
Cost or valuation	170,889	817,080	987,969	16,037	1,004,006
Accumulated depreciation	(109,803)	(586,982)	(696,785)	-	(696,785)
Net book amount	61,086	230,098	291,184	16,037	307,221
Period ended 30 June 2014					
Opening net book amount	61,086	230,098	291,184	16,037	307,221
Additions	-	14,365	14,365	16,021	30,386
Transfer from construction in progress	-	9,571	9,571	(9,571)	-
Disposals and assets written off	-	(434)	(434)	-	(434)
Depreciation (Note 7)	(2,713)	(27,886)	(30,599)	-	(30,599)
Exchange differences	488	1,244	1,732	(48)	1,684
Closing net book amount	58,861	226,958	285,819	22,439	308,258
At 30 June 2014					
Cost or valuation	171,671	841,551	1,013,222	22,439	1,035,661
Accumulated depreciation	(112,810)	(614,593)	(727,403)	-	(727,403)
Net book amount	58,861	226,958	285,819	22,439	308,258

15. Intangible Assets

For the six months ended 30 June 2015

	Vendor	Computer	Brands	Design	Other	Total
	relationships	software		library	intangible	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015						
Cost	7,215	55,719	2,266	1,950	2,812	69,962
Accumulated amortisation & impairment	(7,215)	(25,626)	-	(910)	(1,336)	(35,087)
Net book amount	-	30,093	2,266	1,040	1,476	34,875
Period ended 30 June 2015						
Opening net book amount	-	30,093	2,266	1,040	1,476	34,875
Additions	-	2,110	-	-	-	2,110
Amortisation (Note 7)	-	(4,070)	-	(65)	(128)	(4,263)
Written off	-	(6)	-	-	-	(6)
Exchange differences	-	1	(191)	(7)	(75)	(272)
Closing net book amount	-	28,128	2,075	968	1,273	32,444
At 30 June 2015						
Cost	7,169	57,771	2,075	1,937	2,642	71,594
Accumulated amortisation & impairment	(7,169)	(29,643)	-	(969)	(1,369)	(39,150)
Net book amount	-	28,128	2,075	968	1,273	32,444

Notes to the Condensed Consolidated Financial Statements

15. Intangible Assets

For the six months ended 30 June 2014

	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 2014						
Cost	7,215	49,279	2,570	1,950	2,626	63,640
Accumulated amortisation & impairment	(7,215)	(18,118)	–	(780)	(1,188)	(27,301)
Net book amount	–	31,161	2,570	1,170	1,438	36,339
Period ended 30 June 2014						
Opening net book amount	–	31,161	2,570	1,170	1,438	36,339
Additions	–	3,194	–	–	258	3,452
Amortisation (Note 7)	–	(3,516)	–	(65)	(90)	(3,671)
Exchange differences	–	(3)	(32)	–	(12)	(47)
Closing net book amount	–	30,836	2,538	1,105	1,594	36,073
At 30 June 2014						
Cost	7,215	52,467	2,538	1,950	2,852	67,022
Accumulated amortisation & impairment	(7,215)	(21,631)	–	(845)	(1,258)	(30,949)
Net book amount	–	30,836	2,538	1,105	1,594	36,073

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

16. Trade & Other Receivables

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Trade receivables	121,346	202,535
Less: allowance for impairment of trade receivables	(5,846)	(6,441)
Trade receivables – net	115,500	196,094
Prepayments	27,623	20,257
Value added tax receivables	9,349	7,659
Rental deposits	9,223	6,835
Other receivables	26,602	19,752
	188,297	250,597

Prepayments included in non-current assets amounted to HK\$8,770,000 (as at 31 December 2014: HK\$6,328,000).

Notes to the Condensed Consolidated Financial Statements

16. Trade & Other Receivables

The carrying amounts of trade receivables approximate their fair values as at 30 June 2015 and 31 December 2014. The credit terms of the Group range from 0 to 90 days, depending on the credit status and repayment history of customers. At the end of the financial period, the ageing analysis of the trade receivables based on invoice date is as follows:

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
0 to 30 days	64,200	144,506
31 to 60 days	27,561	27,568
61 to 90 days	10,626	11,489
91 to 365 days	14,076	13,467
More than 365 days	4,883	5,505
	121,346	202,535

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

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Amounts past due but not impaired:		
Less than 30 days past due	32,408	41,960
31 to 60 days past due	11,844	10,206
61 to 90 days past due	6,169	6,861
91 to 365 days past due	10,253	8,602
More than 365 days past due	431	411
	61,105	68,040

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

As at 30 June 2015, trade receivables of approximately HK\$61,105,000 (as at 31 December 2014: HK\$68,040,000) 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.

17. Pledged Bank Deposits

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Pledged bank deposits	6,914	5,372
Less: non-current pledged bank deposits	(314)	(314)
Current portion	6,600	5,058

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 13 July 2015 to 23 July 2018 (2014: during the period from 16 July 2014 to 20 July 2018).

18. Fixed Deposits

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Fixed deposits with maturity over three months but less than one year	41,507	165,193

19. Cash & Cash Equivalents

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Cash & cash equivalents	213,499	146,879

20. Non-current Asset Held for Sale

On 13 December 2013, the Directors approved the disposal of the Group's investment in Philippine Carpet Manufacturing Corporation ("PCMC"). Accordingly, management reclassified all the Group's investment in PCMC as non-current asset held for sale as at 31 December 2013, as the carrying amount would be recovered principally through sale, the investment is available for immediate sale at their present conditions and such sale is considered highly probable. The disposal has not yet been completed as at 30 June 2015.

21. Share Capital

	No. of shares	HK\$'000
Authorised – Ordinary shares of HK\$0.10 each:		
At 1 January 2015 & 30 June 2015	400,000,000	40,000
Issued & fully paid – Ordinary shares of HK\$0.10 each:		
At 1 January 2015 & 30 June 2015	212,187,488	21,219

22. 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 2014	189,699	55,928	4,161	16,000	116,773	382,561
Currency translation differences	-	-	-	-	1,104	1,104
Balance at 30 June 2014	189,699	55,928	4,161	16,000	117,877	383,665
Balance at 1 January 2015	189,699	55,928	4,161	8,000	119,441	377,229
Currency translation differences	-	-	-	-	(8,186)	(8,186)
Balance at 30 June 2015	189,699	55,928	4,161	8,000	111,255	369,043

23. Trade & Other Payables

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Trade payables	50,900	67,431
Deposits received in advance	151,702	96,051
Accrual for expenses	89,359	83,743
Other payables	55,581	83,304
	347,542	330,529

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

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
0 to 30 days	34,854	49,625
31 days to 60 days	7,665	14,482
61 days to 90 days	3,543	1,170
More than 90 days	4,838	2,154
	50,900	67,431

24. Bank Borrowings – Unsecured

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Current		
Outstanding bills payables repayable within 60 days	4,261	3,777
Short-term bank borrowings	143,375	117,000
	147,636	120,777

25. Capital Commitments

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Authorised but not contracted for in respect of property, plant & equipment	41,271	41,537
Contracted but not provided for in respect of property, plant & equipment	81,983	83,361
	123,254	124,898

26. Contingent Liabilities

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Performance bonds issued by banks	16,868	18,039

27. 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 2015		31 Dec 2014	
	Property HK\$'000	Other assets HK\$'000	Property HK\$'000	Other assets HK\$'000
Not later than one year	37,889	557	37,414	1,471
Later than one year and not later than five years	90,369	2,441	98,918	2,128
Later than five years	54,420	–	66,127	–
	182,678	2,998	202,459	3,599

28. Related Party Transactions

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

The following transactions were carried out with related parties:

(a) Sale of goods & services

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Sale of carpets:		
The Hongkong and Shanghai Hotels, Limited (“HSH”) ¹	488	770

Note:

¹ By virtue of the fact that HSH is under common control with the Company, the transactions of the Company’s subsidiaries with HSH and its subsidiaries are related party transactions.

(b) 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	
	2015 HK\$'000	2014 HK\$'000
Salaries & other short-term employee benefits	10,063	12,919

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

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Trade receivables from related party:		
HSH	-	28

Corporate Information

Board of Directors

Executive Director

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

Non-executive Directors

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

Mr. David C. L. Tong

Mr. John J. Ying

Mr. Nelson K. F. Leong

Mr. Andrew C. W. Brandler

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. Yip Wai Wan

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
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Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited

Principal Share Registrar and Transfer Agent

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Branch Share Registrar

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