

Tai Ping Carpets International Limited

Second Interim Report 2019

Incorporated in Bermuda with Limited Liability
Stock Code: 146



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Management Discussion & Analysis

The Board of Directors (the "Board") of Tai Ping Carpets International Limited (the "Company") announced on 19 August 2019 that the financial year end date of the Company has been changed from 31 December to 30 June.

This change aligns the Company's financial year end date with that of its major subsidiaries to support efficiency in the preparation of the consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group").

As a consequence of the change, the Board hereby presents the second interim report and condensed consolidated interim financial statements of the Group for the twelve months ended 31 December 2019 (the "period"), together with the comparative figures for the previous corresponding period. The interim financial statements of the Group are unaudited while the interim report comprising these financial statements has been reviewed by the Audit Committee of the Company.

BUSINESS REVIEW

The Group's consolidated turnover for the period was HK\$548 million, increased by 1% over the HK\$541 million reported in 2018.

Operating loss for the period was HK\$5 million, an improvement of HK\$38 million compared to the HK\$43 million incurred for the same period in 2018. The improvement was primarily driven by productivity gains at the Xiamen manufacturing operation, and the lower overheads achieved through business streamlining in our sales and distribution activities. Further progress was held back by the impact of the additional import tariffs imposed in the United States ("US") which is the Company's biggest market. Non-recurring and one-off costs for the period were HK\$7 million, a reduction of HK\$15 million as compared to HK\$22 million in 2018. During the period, the Company recorded a one-off gain on disposal of HK\$11 million in relation to the disposal of the asset held for sale.

The Group's loss attributable to the equity holders of the Company was HK\$8 million, significantly reduced when compared to the HK\$34 million loss reported in 2018.

CARPET OPERATIONS

Sales revenue in carpet operations for the period was HK\$531 million, a 2% increase compared to the HK\$520 million in 2018. The increase was greatest in Asia which delivered growth of 17%. However, this was substantially offset by a drop in sales in the US resulting from the trade dispute between the United States and China. Sales revenue for Europe, the Middle East and Africa (“EMEA”) increased by 4% from 2018.

Gross profit margins across almost all business segments and regions showed encouraging progress for the period as compared to 2018.

Manufacturing Operations

The performance of the Artisan workshop in Xiamen continues to improve as employee skill levels develop. Management remains focused on delivering further gains in efficiency, productivity and material utilisation at the new manufacturing location.

NON-CARPET OPERATIONS

Other operations comprise mainly Tai Ping’s US based yarn-dyeing subsidiary, Premier Yarn Dyers (“PYD”), contributing approximately 3% of total sales. The operation was unprofitable for the period due to the substantial reduction in sales to a key customer who has discontinued its outsourcing arrangement and taken this business back in-house. As reported previously the Company is investing in a local carpet manufacturing operation in the US which is located at the PYD facility. Its existing yarn operations serve as a foundation for the project and will support the carpet manufacturing investment.

GAIN ON DISPOSAL OF NON-CURRENT ASSET HELD FOR SALE

Non-current asset held for sale represented our minority shareholding in Philippine Carpet Manufacturing Corporation (“PCMC”). In February 2019, PCMC entered into a sale and purchase agreement to dispose of its principal property asset in Manila and the transaction was completed in May 2019. In December 2019, PCMC distributed the first installment of the proceeds after the gain on disposal was finalised. As the transaction has been substantially concluded, the Company recorded its share of the gain on disposal of HK\$11 million in December 2019. The balance of the proceeds shall be distributed by PCMC once all associated taxes have been settled.

OUTLOOK

Global trade frictions remain a concern, particularly as America is Tai Ping's biggest market while its manufacturing is located in China. The higher US tariffs will continue to affect business but mitigation measures are being deployed including local restructuring, and the establishment of the local US manufacturing footprint.

The recent outbreak of the Coronavirus will also impact the Company's activities, particularly in Asia. There has already been a delay in the start-up of our Artisan workshop located in Fujian Province after the Chinese New Year holiday. Supply will continue to be impacted during a period when the Company is taking stringent precautionary measures to ensure the health and safety of its employees, and supporting the steps taken by the Chinese government to control the further spread of the virus. The epidemic should not cause long-term damage to our business but there will inevitably be a short-term impact to performance and prospects in the first half of 2020.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the period (2018: Nil).

CAPITAL EXPENDITURE

Capital expenditure in the form of property, plant and equipment and construction in progress incurred by the Group totaled HK\$14 million during the period (2018: HK\$58 million). As at 31 December 2019, the aggregate net book value of the Group's property, plant and equipment, land use rights, construction in progress and intangible assets amounted to HK\$393 million (31 December 2018: HK\$418 million).

LIQUIDITY & FINANCIAL RESOURCES

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

As at 31 December 2019, the Group had total cash and cash equivalents including short-term fixed deposits (with maturity within 12 months) amounting to HK\$110 million (31 December 2018: HK\$93 million) and had no unsecured bank borrowings (31 December 2018: Nil).

EXPOSURE TO FOREIGN EXCHANGE RISKS

The Group has overseas operations in the US, Europe and China. 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 US dollars and Euro, and to a lesser extent in a variety of other currencies.

HUMAN RESOURCES & REMUNERATION POLICIES

The total number of employees at the end of December 2019 was 768 compared to 829 at the end of 2018.

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.

The primary focus for Human Resources during the year was maintaining stability and retaining talent through a period of considerable organisational change.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group's total contingent liabilities amounted to HK\$0.3 million (31 December 2018: HK\$0.3 million).

Mark S. Worgan
Chief Executive Officer

Hong Kong, 21 February 2020

Corporate Governance & Other Information

CORPORATE GOVERNANCE

The Board of Directors and Management are committed to promoting good corporate governance to safeguard the interests of shareholders. The Company has complied with the applicable 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 twelve months ended 31 December 2019, 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.

Code provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors, as equal Board members, should attend the general meetings and develop a balanced understanding of the views of the shareholders.

Due to other business engagement, Mr. Roderic N. A. Sage and Mr. Aubrey K. S. Li, Independent Non-Executive Directors of the Company, did not attend the annual general meeting of the Company held on 17 May 2019.

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 twelve months ended 31 December 2019.

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, risk management 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 the interim financial information for the twelve months ended 31 December 2019.

CHANGE OF FINANCIAL YEAR END DATE

As announced on 19 August 2019, the Board resolved to change the financial year end date of the Company from 31 December to 30 June. The change is to align the Company's financial year end date with that of certain major subsidiaries of the Company, in order to facilitate the preparation of the consolidated financial statements of the Group. Accordingly, the next financial year end date of the Company will be 30 June 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the twelve months ended 31 December 2019. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

DIRECTORS' INTERESTS IN THE SHARE, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY

As at 31 December 2019, 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 as at 31 December 2019

No. of ordinary shares held (long position)

Name	Personal Interests (held as beneficial owner)	Corporate Interests (interests of controlled corporation)	% of the issued share capital of the Company
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 ³	–	0.047%

Notes:

- ¹ 2,000,000 shares are held by Gainsborough Associates Limited and 182,000 shares are held by Fontana Enterprises Limited, companies in which Mr. Nelson K. F. Leong holds 33.33% and 40% equity interests respectively and have controlling interest.
- ² The shares are held by 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).
- ³ The shares are jointly held by Mr. Aubrey K. S. Li and his spouse.

At no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company (including their spouse and children under 18 years of age) to hold any interests in the shares in, or debentures of, the Company or its specified undertakings or other associated corporation.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, 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 substantial shareholders' 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)	% of the issued share capital of the Company
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 twelve months period/year ended 31 December

		(Unaudited) 2019 HK\$'000	(Audited) 2018* HK\$'000
Revenue	6	547,718	540,932
Cost of sales		(248,679)	(247,081)
Gross profit		299,039	293,851
Distribution costs	7	(177,034)	(186,646)
Administrative expenses	7	(140,354)	(158,484)
Gain on disposal of non-current asset held for sale	8	11,089	–
Other gains – net	9	2,396	8,351
Operating loss		(4,864)	(42,928)
Finance income		81	507
Finance costs		(3,958)	(43)
Finance (costs)/income – net	10	(3,877)	464
Loss before income tax		(8,741)	(42,464)
Income tax expense	11	(1,237)	(947)
Loss for the period/year		(9,978)	(43,411)
Loss attributable to:			
Owners of the Company		(8,457)	(34,136)
Non-controlling interests		(1,521)	(9,275)
		(9,978)	(43,411)
Loss per share attributable to the owners of the Company during the period/year (expressed in HK cents per share)			
Basic/diluted	13	(3.99)	(16.09)

Note:

- * The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages 16 to 41 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the twelve months period/year ended 31 December

	(Unaudited) 2019 HK\$'000	(Audited) 2018* HK\$'000
Loss for the period/year	(9,978)	(43,411)
Other comprehensive income:		
Item that will not be reclassified subsequently to profit or loss		
Remeasurement of retirement benefit obligations	–	(329)
Item that may be reclassified to profit or loss		
Release of reserves attributable to the disposal of non-current asset held for sale	(14,743)	–
Currency translation differences	(9,878)	(12,734)
Other comprehensive loss for the period/year, net of tax	(24,621)	(13,063)
Total comprehensive loss for the period/year	(34,599)	(56,474)
Attributable to:		
Owners of the Company	(32,673)	(45,729)
Non-controlling interests	(1,926)	(10,745)
	(34,599)	(56,474)

Note:

- * The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages 16 to 41 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Financial Position

As at 31 December

	Note	(Unaudited) 2019 HK\$'000	(Audited) 2018* HK\$'000
Assets			
Non-current assets			
Land use rights	14	25,943	27,138
Property, plant & equipment	15	255,704	267,574
Construction in progress	15	100,430	107,893
Intangible assets	16	10,649	15,064
Prepayments	17	5,263	5,816
Other receivable	17	4,887	–
Right-of-use assets	3	68,095	–
Lease receivables		1,859	–
		472,830	423,485
Current assets			
Inventories		67,699	83,646
Trade & other receivables	17	83,334	111,936
Lease receivables		3,469	–
Current income tax assets		3,013	3,787
Pledged bank deposits	18	398	393
Cash & cash equivalents		109,939	93,008
		267,852	292,770
Non-current asset held for sale		–	17,192
		267,852	309,962
Total assets		740,682	733,447

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Condensed Consolidated Statement of Financial Position

	Note	(Unaudited) 2019 HK\$'000	(Audited) 2018* HK\$'000
Equity			
Equity attributable to owners of the Company			
Share capital	19	21,219	21,219
Reserves	20	251,483	275,699
Retained earnings		133,228	141,669
		405,930	438,587
Non-controlling interests		18,342	20,268
Total equity		424,272	458,855
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		2,427	2,225
Retirement benefit obligations		3,446	3,460
Lease liabilities	3	50,311	–
		56,184	5,685
Current liabilities			
Trade & other payables	21	144,675	183,687
Contract liabilities – Deposits received in advance		84,446	83,164
Derivative financial instruments		107	251
Current income tax liabilities		1,777	1,805
Lease liabilities	3	29,221	–
		260,226	268,907
Total liabilities		316,410	274,592
Total equity & liabilities		740,682	733,447
Net current assets		7,626	41,055
Total assets less current liabilities		480,456	464,540

Note:

* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages 16 to 41 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

For the year/twelve months period ended 31 December

	Attributable to owners of the Company					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
(Audited)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2018	21,219	189,699	97,264	176,075	484,257	31,013	515,270
Comprehensive income							
Loss for the year	-	-	-	(34,136)	(34,136)	(9,275)	(43,411)
Other comprehensive income for the year							
Remeasurement of retirement benefit obligations	-	-	-	(329)	(329)	-	(329)
Currency translation differences	-	-	(11,264)	-	(11,264)	(1,470)	(12,734)
Total other comprehensive loss for the year, net of tax	-	-	(11,264)	(329)	(11,593)	(1,470)	(13,063)
Total comprehensive loss for the year	-	-	(11,264)	(34,465)	(45,729)	(10,745)	(56,474)
Total contributions by and distributions to owners of the Company recognised directly in equity							
Dividend forfeited	-	-	-	59	59	-	59
Balance at 31 December 2018*	21,219	189,699	86,000	141,669	438,587	20,268	458,855
(Unaudited)							
Balance at 1 January 2019	21,219	189,699	86,000	141,669	438,587	20,268	458,855
Comprehensive income							
Loss for the period	-	-	-	(8,457)	(8,457)	(1,521)	(9,978)
Other comprehensive loss for the period							
Release of reserves attributable to the disposal of non-current asset held for sale	-	-	(14,743)	-	(14,743)	-	(14,743)
Currency translation differences	-	-	(9,473)	-	(9,473)	(405)	(9,878)
Total other comprehensive loss for the period, net of tax	-	-	(24,216)	-	(24,216)	(405)	(24,621)
Total comprehensive loss for the period	-	-	(24,216)	(8,457)	(32,673)	(1,926)	(34,599)
Total contributions by and distributions to owners of the Company recognised directly in equity							
Dividend forfeited	-	-	-	16	16	-	16
Balance at 31 December 2019	21,219	189,699	61,784	133,228	405,930	18,342	424,272

Note:

* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages 16 to 41 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the twelve months period/year ended 31 December

		(Unaudited) 2019 HK\$'000	(Audited) 2018* HK\$'000
	Note		
Cash flows from operating activities			
Cash generated from operations		56,267	9,334
Income tax paid		(546)	(13,101)
Interest paid		(96)	(814)
Net cash generated/(used in) operating activities		55,625	(4,581)
Cash flows from investing activities			
Purchases of property, plant & equipment and construction in progress		(14,628)	(52,748)
Acquisition of intangible assets		–	(12)
Proceeds from disposal of property, plant & equipment		41	166
Proceeds from disposal of non-current asset held for sale		8,651	–
(Increase)/decrease in derivative financial instruments		(241)	1,992
Interest received		81	507
Net cash used in investing activities from discontinued operation	25	–	(52,182)
Net cash used in investing activities		(6,096)	(102,277)
Cash flows from financing activities			
Capital element of lease rentals paid		(34,215)	–
Interest element of lease rentals paid		(4,135)	–
Capital element of lease rentals received		3,989	–
Interest element of lease rentals received		285	–
Proceeds from borrowings		15,560	46,780
Repayments of borrowings		(15,560)	(108,780)
Decrease in pledged bank deposits		–	294
Dividend paid to the Company's shareholders		–	(596)
Net cash used in financing activities		(34,076)	(62,302)
Net increase/(decrease) in cash & cash equivalents		15,453	(169,160)
Cash & cash equivalents at beginning of period/year		93,008	264,338
Exchange gain/(loss) on cash & cash equivalents		1,478	(2,170)
Cash & cash equivalents at end of period/year		109,939	93,008

Note:

- * The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages 16 to 41 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 design, 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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda. The principal office in Hong Kong is located at Units 1801-1804, 18th Floor, 909 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon, Hong Kong.

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

On 19 August 2019, the Board of Directors of the Company has resolved to change the financial year end date of the Company from 31 December to 30 June. The change is to align the Company’s financial year end date with that of certain major subsidiaries of the Company, in order to facilitate the preparation of the consolidated financial statements of the Group. Accordingly, the current interim financial period covers a twelve months period from 1 January 2019 to 31 December 2019 with the comparative financial period from 1 January 2018 to 31 December 2018.

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 of the Company on 21 February 2020.

These condensed consolidated interim financial statements have not been audited.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the twelve months period ended 31 December 2019 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 consolidated financial statements for the year ended 31 December 2018, 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 2018, as described in those annual consolidated financial statements.

The HKICPA has issued a new HKFRS, HKFRS 16 "Leases" and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16 "Leases", none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this consolidated interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 "Leases"

HKFRS 16 replaces HKAS 17 "Leases" and the related interpretations, HK(IFRIC) 4 "Determining whether an arrangement contains a lease", HK(SIC) 15 "Operating leases – incentives", and HK(SIC) 27 "Evaluating the substance of transactions involving the legal form of a lease". It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 from 1 January 2019. The Group has elected to use the modified retrospective approach to measure the right-of-use assets at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Therefore, the adoption of HKFRS 16 does not result in an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

3. CHANGES IN ACCOUNTING STANDARDS (CONTINUED)

HKFRS 16 "Leases" (Continued)

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to right-of-use assets.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically miscellaneous office equipment. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

3. CHANGES IN ACCOUNTING STANDARDS (CONTINUED)

HKFRS 16 "Leases" (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting (Continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value;
- right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value; and
- right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3. CHANGES IN ACCOUNTING STANDARDS (CONTINUED)

HKFRS 16 "Leases" (Continued)

(a) Changes in the accounting policies (Continued)

(iii) Lessor accounting

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset.

(b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.09%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

3. CHANGES IN ACCOUNTING STANDARDS (CONTINUED)

HKFRS 16 "Leases" (Continued)

(b) Transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in Note 24 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019
	HK\$'000
Operating lease commitments at 31 December 2018	129,008
Less: effective rent for rent free period under operating lease	(485)
Less: commitments relating to leases exempt from capitalisation	
Short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(595)
Less: total future interest expenses	(14,378)
Total lease liabilities recognised at 1 January 2019	113,550

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

3. CHANGES IN ACCOUNTING STANDARDS (CONTINUED)

HKFRS 16 "Leases" (Continued)

(b) Transitional impact (Continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

Condensed Consolidated Statement of Financial Position (extracted)	Carrying amount as at 31 December 2018 HK\$'000	Capitalisation of operating lease contracts HK\$'000	Carrying amount as at 1 January 2019 HK\$'000
Right-of-use assets	–	99,694	99,694
Lease receivables (non-current)	–	5,379	5,379
Total non-current assets	423,485	105,073	528,558
Lease receivables (current)	–	4,051	4,051
Total current assets	309,962	4,051	314,013
Total equity	(458,855)	(1,263)	(460,118)
Trade and other payables	(183,687)	5,689	(177,998)
Lease liabilities (current)	–	(33,955)	(33,955)
Current liabilities	(268,907)	(28,266)	(297,173)
Net current assets	41,055	(24,215)	16,840
Total assets less current liabilities	464,540	80,858	545,398
Lease liabilities (non-current)	–	(79,595)	(79,595)
Total non-current liabilities	(5,685)	(79,595)	(85,280)
Net assets	458,855	–	458,855

As at 1 January 2019 and 31 December 2019, the Group was the lessee in respect of a number of lease agreements mainly for the use of offices and showrooms.

3. CHANGES IN ACCOUNTING STANDARDS (CONTINUED)

HKFRS 16 "Leases" (Continued)

(c) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 31 December 2019		At 1 January 2019	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	29,221	32,255	33,955	38,103
Later than one year and not later than five years	34,267	40,260	58,261	66,300
Later than five years	16,044	17,255	21,334	23,525
	79,532	89,770	113,550	127,928
Less: total future interest expenses	–	(10,238)	–	(14,378)
Present value of lease liabilities	79,532	79,532	113,550	113,550

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 2018.

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 2018.

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

(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\$109,939,000 (as at 31 December 2018: HK\$93,008,000) that are expected to readily generate cash inflows for managing liquidity risk.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(a) Liquidity risk (Continued)

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 31 December 2019 (Unaudited)	Repayable on demand HK\$'000	Less than 1 year HK\$'000	Total HK\$'000
Trade & other payables	–	60,701	60,701
As at 31 December 2018 (Audited)	Repayable on demand HK\$'000	Less than 1 year HK\$'000	Total HK\$'000
Trade & other payables	–	83,075	83,075

All of the Group's non-trading gross settled derivative financial instruments (Note 5(b)) are in hedge relationships and are due to settle within 12 months of the consolidated statement of financial position date. These contracts require undiscounted contractual cash inflows of HK\$7,043,000 (2018: HK\$3,672,000) and undiscounted contractual cash outflow of HK\$7,002,000 (2018: HK\$3,890,000).

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk factors (Continued)

(b) Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2019, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into these levels within a fair value hierarchy as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2019.

	Level 2 HK\$'000
Liabilities	
Derivative financial instruments:	
Foreign currency forward contracts	(107)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2018.

	Level 2 HK\$'000
Liabilities	
Derivative financial instruments:	
Foreign currency forward contracts	(251)

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

	(Unaudited)	(Audited)
	2019	2018
	HK\$'000	HK\$'000
Sale of carpets	472,410	466,535
Sale of underlays	3,707	3,293
Installation of carpets	13,859	13,327
Interior furnishings	41,334	36,459
Sale of yarns	15,421	21,318
Others	987	–
	547,718	540,932

(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") and America.

The segment results represent the operating profit/loss of each business segment and the effects of income/expenditure which are considered relevant in assessing the segment's performance.

6. REVENUE & SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

The segment information provided to the management for the reportable segments for the twelve months period/year ended 31 December 2019 and 2018 is as follows:

For the twelve months period ended 31 December 2019

(Unaudited)	Asia HK\$'000	EMEA HK\$'000	America HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenue from external customers	112,206	209,752	225,760	–	547,718
Cost of production ¹	(52,756)	(94,530)	(97,276)	–	(244,562)
Segment gross margin	59,450	115,222	128,484	–	303,156
Segment results	15,536	5,326	5,693	–	26,555
Unallocated expenses ²					(31,419)
Operating loss					(4,864)
Finance income					81
Finance costs					(3,958)
Loss before income tax					(8,741)
Income tax expense					(1,237)
Loss for the period					(9,978)
Capital expenditure	(5,942)	(2,982)	(4,609)	–	(13,533)
Depreciation of property, plant & equipment (Note 15)	(11,877)	(2,975)	(4,204)	(4,665)	(23,721)
Amortisation of land use rights (Note 14)	(613)	–	–	–	(613)
Amortisation of intangible assets (Note 16)	(4,204)	–	(130)	–	(4,334)
(Allowance for)/recovery of impairment of trade receivables, net	(118)	2,345	(328)	–	1,899

6. REVENUE & SEGMENT INFORMATION (CONTINUED)

(b) Segment information (Continued)

For the year ended 31 December 2018

(Audited)	Asia HK\$'000	EMEA HK\$'000	America HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenue from external customers	96,181	202,042	242,709	–	540,932
Cost of production ¹	(47,555)	(96,335)	(114,704)	–	(258,594)
Segment gross margin	48,626	105,707	128,005	–	282,338
Segment results	13,155	4,394	(1,349)	–	16,200
Unallocated expenses ²					(59,128)
Operating loss					(42,928)
Finance income					507
Finance costs					(43)
Loss before income tax					(42,464)
Income tax expense					(947)
Loss for the year					(43,411)
Capital expenditure	(54,329)	(1,558)	(2,456)	–	(58,343)
Depreciation of property, plant & equipment (Note 15)	(13,687)	(2,750)	(4,514)	(66)	(21,017)
Amortisation of land use rights (Note 14)	(640)	–	–	–	(640)
Amortisation of intangible assets (Note 16)	(4,203)	–	(130)	–	(4,333)
Allowance for impairment of trade receivables, net	–	(880)	(855)	–	(1,735)

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

	(Unaudited)	(Audited)
	2019	2018
	HK\$'000	HK\$'000
Depreciation of right-of-use assets	31,956	–
Depreciation of property, plant & equipment (Note 15)	23,721	21,017
Amortisation of land use rights (Note 14)	613	640
Amortisation of intangible assets (Note 16)	4,334	4,333
(Recovery of)/allowance for impairment of trade receivables, net	(1,899)	1,735
Allowance for/(recovery of) impairment of inventories, net	3,083	(4,351)
Bad debts written off	1,627	402

8. GAIN ON DISPOSAL OF NON-CURRENT ASSET HELD FOR SALE

On 13 December 2013, the Directors approved the disposal of the Group's investment in 33% equity 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.

In February 2019, PCMC entered into a sale and purchase agreement to dispose of its principal property asset in Manila (the "disposal") and the transaction was completed in May 2019. In December 2019, PCMC distributed the first installment of the proceeds after the gain on disposal was finalised. The balance of the proceeds should be distributed after PCMC has received all tax clearances for the disposal. As the transaction has been substantially concluded, the Company recorded its share of the gain on disposal of HK\$11 million in December 2019. The balance of the outstanding proceeds of HK\$5 million was recorded as long-term other receivable as at 31 December 2019.

The gain on disposal of non-current asset held for sale is as follows:

	(Unaudited)
	2019
	HK\$'000
Consideration of the disposal	34,256
Less: Direct expenses in relation to the disposal	(20,718)
Net consideration	13,538
Carrying value of the non-current asset held for sale	(17,192)
Release of reserves attributable to the disposal of non-current asset held for sale	14,743
Gain on disposal	11,089

9. OTHER GAINS – NET

	(Unaudited)	(Audited)
	2019	2018
	HK\$'000	HK\$'000
Gain from derecognition of right-of-use assets	1,263	–
Net foreign exchange gain	1,524	297
(Loss)/gain on change in fair value of derivative financial instruments	(97)	493
Property, plant and equipment written off	(1,169)	(1,047)
Loss on disposal of property, plant & equipment	(587)	–
Refund of unvested benefits of defined contribution plan	–	148
Others	1,462	8,460
	2,396	8,351

10. FINANCE (COSTS)/INCOME – NET

	(Unaudited)	(Audited)
	2019	2018
	HK\$'000	HK\$'000
Finance income – interest income from banks	81	507
Finance costs – interest expenses for leases, net	(3,862)	–
Finance costs – interests on bank loans & overdrafts wholly repayable within five years	(96)	(43)
Finance (costs)/income – net	(3,877)	464

11. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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.

	(Unaudited)	(Audited)
	2019	2018
	HK\$'000	HK\$'000
Current income tax		
Hong Kong	148	1,732
PRC & overseas	884	2,984
Over-provision in prior years	–	(2,595)
Deferred income tax expense/(credit)	205	(1,174)
Income tax expense	1,237	947

12. DIVIDEND

No interim dividend was declared for the twelve months period ended 31 December 2019 (2018: Nil).

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/year.

	(Unaudited) 2019	(Audited) 2018
Loss attributable to owners of the Company (HK\$'000)	(8,457)	(34,136)
Weighted average number of ordinary shares in issue (thousands)	212,187	212,187
Basic loss per share (HK cents)	(3.99)	(16.09)

The Group had no dilutive potential shares outstanding during the twelve months period/year ended 31 December 2019 and 2018.

14. LAND USE RIGHTS

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

	(Unaudited) 2019 HK\$'000	(Audited) 2018 HK\$'000
At beginning of the period/year	27,138	29,090
Amortisation of land use rights (Note 7)	(613)	(640)
Exchange differences	(582)	(1,312)
At end of the period/year	25,943	27,138

15. PROPERTY, PLANT & EQUIPMENT AND CONSTRUCTION IN PROGRESS

For the twelve months period ended 31 December 2019

(Unaudited)	Property, plant & equipment		Property, plant & equipment total HK\$'000	Construction in progress HK\$'000
	Buildings HK\$'000	Other assets HK\$'000		
At 1 January 2019				
Cost or valuation	218,471	312,817	531,288	107,893
Accumulated depreciation	(38,583)	(225,131)	(263,714)	-
Net book amount	179,888	87,686	267,574	107,893
Period ended 31 December 2019				
Opening net book amount	179,888	87,686	267,574	107,893
Additions	1,307	7,870	9,177	4,356
Transfer from construction in progress	6,150	3,628	9,778	(9,778)
Disposals	-	(628)	(628)	-
Assets written off	-	(1,169)	(1,169)	-
Depreciation (Note 7)	(5,210)	(18,511)	(23,721)	-
Exchange differences	(3,792)	(1,515)	(5,307)	(2,041)
Closing net book amount	178,343	77,361	255,704	100,430
At 31 December 2019				
Cost or valuation	221,136	310,392	531,528	100,430
Accumulated depreciation	(42,793)	(233,031)	(275,824)	-
Net book amount	178,343	77,361	255,704	100,430

15. PROPERTY, PLANT & EQUIPMENT AND CONSTRUCTION IN PROGRESS (CONTINUED)

For the year ended 31 December 2018

(Audited)	Property, plant & equipment		Property, plant & equipment total HK\$'000	Construction in progress HK\$'000
	Buildings HK\$'000	Other assets HK\$'000		
At 1 January 2018				
Cost or valuation	227,803	287,091	514,894	96,728
Accumulated depreciation	(35,237)	(223,360)	(258,597)	–
Net book amount	192,566	63,731	256,297	96,728
Year ended 31 December 2018				
Opening net book amount	192,566	63,731	256,297	96,728
Additions	876	18,793	19,669	38,674
Transfer from construction in progress	–	23,554	23,554	(23,554)
Disposals	–	(166)	(166)	–
Assets written off	–	(1,047)	(1,047)	–
Depreciation (Note 7)	(5,228)	(15,789)	(21,017)	–
Exchange differences	(8,326)	(1,390)	(9,716)	(3,955)
Closing net book amount	179,888	87,686	267,574	107,893
At 31 December 2018				
Cost or valuation	218,471	312,817	531,288	107,893
Accumulated depreciation	(38,583)	(225,131)	(263,714)	–
Net book amount	179,888	87,686	267,574	107,893

16. INTANGIBLE ASSETS

For the twelve months period ended 31 December 2019

(Unaudited)	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 2019						
Cost	7,197	69,543	2,152	1,945	2,880	83,717
Accumulated amortisation & impairment	(7,197)	(58,060)	–	(1,426)	(1,970)	(68,653)
Net book amount	–	11,483	2,152	519	910	15,064
Period ended 31 December 2019						
Opening net book amount	–	11,483	2,152	519	910	15,064
Amortisation (Note 7)	–	(4,205)	–	(129)	–	(4,334)
Exchange differences	–	–	(57)	–	(24)	(81)
Closing net book amount	–	7,278	2,095	390	886	10,649
At 31 December 2019						
Cost	7,197	69,543	2,095	1,945	2,830	83,610
Accumulated amortisation & impairment	(7,197)	(62,265)	–	(1,555)	(1,944)	(72,961)
Net book amount	–	7,278	2,095	390	886	10,649

16. INTANGIBLE ASSETS (CONTINUED)

For the year ended 31 December 2018

(Audited)	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 2018						
Cost	7,169	69,946	2,250	1,937	3,013	84,315
Accumulated amortisation & impairment	(7,169)	(54,230)	–	(1,292)	(2,064)	(64,755)
Net book amount	–	15,716	2,250	645	949	19,560
Year ended 31 December 2018						
Opening net book amount	–	15,716	2,250	645	949	19,560
Additions	–	12	–	–	–	12
Amortisation (Note 7)	–	(4,203)	–	(130)	–	(4,333)
Write off	–	(39)	–	–	–	(39)
Exchange differences	–	(3)	(98)	4	(39)	(136)
Closing net book amount	–	11,483	2,152	519	910	15,064
At 31 December 2018						
Cost	7,197	69,543	2,152	1,945	2,880	83,717
Accumulated amortisation & impairment	(7,197)	(58,060)	–	(1,426)	(1,970)	(68,653)
Net book amount	–	11,483	2,152	519	910	15,064

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

17. TRADE & OTHER RECEIVABLES

	(Unaudited) 2019 HK\$'000	(Audited) 2018 HK\$'000
Trade receivables	61,804	71,986
Less: allowance for impairment of trade receivables	(5,456)	(9,448)
Trade receivables – net	56,348	62,538
Prepayments	8,181	11,934
Value added tax receivables	6,563	23,630
Rental deposits	6,817	5,645
Other receivables	15,575	14,005
	93,484	117,752
Less: Non-current portion prepayments	(5,263)	(5,816)
Less: Non-current portion other receivable	(4,887)	–
	83,334	111,936

Other receivables included non-current portion of prepayments and other receivable amounted to HK\$5,263,000 and HK\$4,887,000 (as at 31 December 2018: HK\$5,816,000 and Nil) respectively.

The carrying amounts of trade receivables approximate their fair values as at 31 December 2019 and 31 December 2018. 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/year, the ageing analysis of the trade receivables based on invoice date is as follows:

	(Unaudited) 2019 HK\$'000	(Audited) 2018 HK\$'000
0 to 30 days	38,458	36,197
31 to 60 days	5,035	7,070
61 to 90 days	3,476	4,305
91 to 365 days	9,461	14,608
More than 365 days	5,374	9,806
	61,804	71,986

18. PLEDGED BANK DEPOSITS

Pledged bank deposits of approximated HK\$398,000 (as at 31 December 2018: HK\$393,000) represented deposits made to a bank to pledge for utilities of factory in the US.

As at 31 December 2019, the effective interest rate on the Group's pledged bank deposits was 2.37% p.a. (as at 31 December 2018: 0.18% p.a.) and these deposits will mature in 249 days (2018: 129 days).

The carrying amounts of the Group's pledged bank deposit are denominated in US\$.

19. SHARE CAPITAL

	No. of shares	HK\$'000
Authorised – Ordinary shares of HK\$0.10 each:		
At 31 December 2018 & 2019	400,000,000	40,000
Issued & fully paid – Ordinary shares of HK\$0.10 each:		
At 31 December 2018 & 2019	212,187,488	21,219

20. 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
(Audited)						
Balance at 1 January 2018	189,699	55,928	4,161	8,000	29,175	286,963
Currency translation differences	–	–	–	–	(11,264)	(11,264)
Balance at 31 December 2018	189,699	55,928	4,161	8,000	17,911	275,699
(Unaudited)						
Balance at 1 January 2019	189,699	55,928	4,161	8,000	17,911	275,699
Release of reserves attributable to the disposal of non-current asset held for sale	–	(6,214)	(4,161)	–	(4,368)	(14,743)
Currency translation differences	–	–	–	–	(9,473)	(9,473)
Balance at 31 December 2019	189,699	49,714	–	8,000	4,070	251,483

21. TRADE & OTHER PAYABLES

	(Unaudited)	(Audited)
	2019	2018
	HK\$'000	HK\$'000
Trade payables	23,477	42,301
Accrued expenses	71,633	78,082
Other payables	49,565	63,304
	144,675	183,687

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

	(Unaudited)	(Audited)
	2019	2018
	HK\$'000	HK\$'000
0 to 30 days	15,148	12,526
31 days to 60 days	3,700	15,278
61 days to 90 days	1,637	5,021
More than 90 days	2,992	9,476
	23,477	42,301

22. CAPITAL COMMITMENTS

	(Unaudited)	(Audited)
	2019	2018
	HK\$'000	HK\$'000
Authorised but not contracted for in respect of property, plant & equipment	1,710	7,176
Contracted but not provided for in respect of property, plant & equipment	1,528	1,963
	3,238	9,139

23. CONTINGENT LIABILITIES

	(Unaudited)	(Audited)
	2019	2018
	HK\$'000	HK\$'000
Performance bonds issued by banks	309	300

24. OPERATING LEASE COMMITMENTS

The total future minimum lease payments under non-cancellable operating leases payable as at 31 December 2018 were as follows:

	(Audited)	
	31 Dec 2018	
	Property	Other assets
	HK\$'000	HK\$'000
Not later than one year	38,371	624
Later than one year and not later than five years	65,911	568
Later than five years	23,534	–
	127,816	1,192

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases and the related adjustments are presented in Note 3 CHANGES IN ACCOUNTING STANDARDS – HKFRS 16 “Leases” (b) *Transitional impact*. From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in Note 3.

25. DISCONTINUED OPERATION

The Group completed the disposal of its Commercial Business in the year 2017 (“the Disposal”). The analysis of the cash outflows in regard of the Disposal is set out below:

	(Unaudited)	(Audited)
	2019	2018
	HK\$'000	HK\$'000
Net cash used in investing activities	–	(52,182)
Total cash outflows	–	(52,182)

26. 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

	(Unaudited) 2019 HK\$'000	(Audited) 2018 HK\$'000
Sale of carpets:		
The Hongkong and Shanghai Hotels, Limited ("HSH") ¹	8,681	5,700

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

	(Unaudited) 2019 HK\$'000	(Audited) 2018 HK\$'000
Trade receivable from related party:		
HSH	2,541	–

(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:

	(Unaudited) 2019 HK\$'000	(Audited) 2018 HK\$'000
Salaries & other short-term employee benefits	24,851	23,086

Corporate Information

Board of Directors

Chairman & Non-Executive Director
Mr. Nicholas T. J. Colfer

Chief Executive Officer & Executive Director
Mr. Mark S. Worgan

Non-Executive Directors
Mr. David C. L. Tong
Mr. John J. Ying
Mr. Nelson K. F. Leong
Mr. Andrew C. W. Brandler

Independent Non-Executive Directors
Mr. Roderic N. A. Sage
Mr. Lincoln C. K. Yung
Mr. Aubrey K. S. Li
Mr. Daniel G. Green
Mrs. Yvette Y. H. Fung

Executive Committee

Mr. Nicholas T. J. Colfer (*Committee Chairman*)
Mr. Mark S. Worgan
Mr. David C. L. Tong
Mr. Nelson K. F. Leong
Mr. Daniel G. Green

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*)
Mr. David C. L. Tong
Mrs. Yvette Y. H. Fung

Nomination Committee

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

Company Secretary

Mr. Chi Sing Alex Lung

Auditor

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

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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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