Tai Ping Carpets International Limited

Annual Report 2019/20

TAI PING

Incorporated in Bermuda with limited liability | Stock code 146

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Vision

Tai Ping will be a leader in the creation and distribution of exceptional products and services for prestigious interiors ranging from royal palaces and private residences of discerning homeowners, the world's most exceptional yachts and aircraft, luxury boutique stores, corporate offices and high-end hospitality.

Sold globally under an array of market-leading brands, Tai Ping will maintain its reputation as a vibrant, well-respected, innovative company with an ambitious and realistic strategy for continued growth and prosperity.

Tai Ping will expand its custom project business through the introduction of new products, services and technologies, further strengthening its brand position and continuing to set the bar for quality, technique and design excellence. Standard product business will offer additional growth opportunities as new routes to market are introduced and new customer types gain access to the incomparable products and services offered by Tai Ping.

In attaining its vision, Tai Ping will hold steadfast to its ideals and to the well-being of its employees and the environment.

Peerless since 1956

Coraline I from the Tides Collection, Tai Ping
Handmade in Wool, Delicate Silk and Fine Lurex

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Tai Ping at-a-Glance

Tai Ping is a global leader in the premium custom carpet sector. The Company was founded in 1956 by a group of visionary businessmen and has been publicly traded since 1973. The Company's shares are traded under stock code 146 on The Stock Exchange of Hong Kong Limited.

Tai Ping focuses on handmade or traditionally woven carpets that target high-end business segments including luxury residential, private yachts and jets, boutique stores, and premium or VIP areas of corporate offices, luxury hotels and resorts. With its superior design and manufacturing capabilities, Tai Ping can transform the most complicated custom design into a work of art for the most discerning buyer.

FINANCIAL HIGHLIGHTS

In thousands of Hong Kong dollars except per share amounts

		For the eighteen months ended 30 June 2020[Δ]	For the year ended 31 December 2018
Per share	Net worth per share (HK$)	**1.82**	2.16
	Basic losses per share (HK cents)	**(17.49)**	(16.09)
	Final dividend declared per share (HK cents)	**–**	–
For the period/year	Turnover	**738,407**	540,932
	Loss for the period/year	**(39,174)**	(43,411)
	Loss attributable to owners of the Company	**(37,105)**	(34,136)
	Additions to land use rights, property, plant & equipment, construction in progress and intangible assets	**20,131**	58,355
As at 30 June 2020/ 31 December 2018	Capital & reserves attributable to owners of the Company	**369,505**	438,587
	Shares in issue (in thousands)	**212,187**	212,187
Ratio	Return on capital & reserves attributable to owners	**-10.0%**	-7.8%

Δ Pursuant to the announcement of the board of directors (the "Board") dated 19 August 2019, the financial year end of the Company has been changed from 31 December to 30 June commencing from the financial year of 2019/20.

Five-year Consolidated Financial Summary

Assets & Liabilities

	30 June 2020[Δ]	31 December 2018	31 December 2017	31 December 2016	31 December 2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**777,207**	733,447	917,212	1,245,484	1,264,446
Total liabilities	**390,287**	274,592	401,942	528,367	485,461
Total equity	**386,920**	458,855	515,270	717,117	778,985

Consolidated Income Statement

	For the eighteen months ended 30 June 2020[Δ]	For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
(Loss)/profit attributable to:					
Owners of the Company	**(37,105)**	(34,136)	194,251	(33,372)	18,958
Non-controlling interests	**(2,069)**	(9,275)	(4,507)	(4,336)	1,003
	(39,174)	(43,411)	189,744	(37,708)	19,961

Δ Pursuant to the announcement of the Board dated 19 August 2019, the financial year end of the Company has been changed from 31 December to 30 June commencing from the financial year of 2019/20.

Couture Origami II from the Atelier by FANG Collection by Yang Fang for Tai Ping
Handmade in Wool, Silk and Fine Lurex

Chairman's Statement

Tai Ping is pleased to announce its first annual report after the change in the Company's financial year from December to June. This report covers an 18 months period from 1 January 2019 to 30 June 2020.

During the 18 months period ending 30 June 2020, the total turnover for the Group was HK$738 million and the operating loss was HK$35 million. In the preceding financial year of 2018 the total turnover for the Group was HK$541 million and the operating loss was HK$43 million.

During the period, management achieved good progress in further reducing operating costs through the streamlining of sales and distribution activities, and also delivered productivity gains in the manufacturing operation. These improvements, coupled with the one-off gain on disposal of the non-current asset held for sale amounting to HK$11 million, led to a much smaller operating loss of HK$5 million in calendar year 2019, a significant improvement over the operating loss of HK$43 million in the previous year.

The first six months of 2020 began well with strategic deployment on track, and foundations in place for growth. Unfortunately, however, the COVID-19 pandemic has interrupted this progress in all regions. In response, Tai Ping's vertical integration has been a key strength. The Company's control of its own manufacturing, design, sales and distribution has allowed for swift damage control. With no dependency on an external supply-chain, production in China was resumed rapidly and without compromise to the health of our employees, while working hours were quickly flexed in all other areas to match the reduced demand. Stringent controls were put in place in all regions and departments to maintain financial liquidity, support day-to-day operations, and minimise losses.

These rapid actions minimised damage in the first half of 2020, but nevertheless the HK$5 million operating loss of the first 12 months increased to a figure of HK$35 million in the full 18 months period to 30 June 2020.

In sales and marketing, Tai Ping continued to participate in global design events throughout 2019, introducing a number of outstanding new design collections developed in-house and in collaboration with renowned external partners. Sadly, most of the design events and industry trade shows have been cancelled in 2020, but the Company has launched its new brand and heritage book to much acclaim, and also broadened its online presence through social media. Promotion of its key attributes including design leadership, heritage, craftsmanship, social responsibility and environmental stewardship has driven brand recognition, evidenced by a significant increase in on-line followers.

To reduce business risk and support growth in our United States ("US") market, a carpet manufacturing operation has been established and is now fully operational in Adairsville, Georgia. While its rationale was to serve US customers in the private aviation and residential markets, the facility will also mitigate the effect of increased US import tariffs.

Looking to the year ahead, our priorities begin with the health and safety of our employees, and management are continuing to monitor the human and economic impact of the pandemic. In the event that the outbreak extends through the winter the Company will take whatever steps are necessary to secure its short-term and long-term position.

Global trade frictions between America and China also remain a concern as the former is Tai Ping's biggest market, whereas the latter its primary source of supply. However, Tai Ping's new US manufacturing footprint creates a natural hedge and its expansion, alongside other options, remains under review.

On behalf of all the members of the Board, I would like to thank Tai Ping management and staff who, in a difficult period made worse by COVID-19, have executed significant change in the business to improve its resilience and support future growth. I would also like to thank the Directors for their continued advice and support.

Nicholas Timothy James Colfer
Chairman

Hong Kong, 25 September 2020

Pleo I from the Taxonomy Edition by Bec Brittain for Edward Fields
Handmade in Wool and Silk

Management Discussion & Analysis

CHANGE OF FINANCIAL YEAR END

The Board of the Company announced on 19 August 2019 that the financial year end of the Company has been changed from 31 December to 30 June.

This change supports efficiency in the preparation of the consolidated financial statements of the Group.

As a consequence of the change, this set of consolidated financial statements covers an 18 months period from the 1 January 2019 to the 30 June 2020, together with the comparative figures for the financial year 2018.

BUSINESS REVIEW

The Group's consolidated turnover for the 18 months period ending 30 June 2020 was HK$738 million, compared to HK$541 million for the year 2018.

During the 2019 calendar year, the Group's consolidated turnover was HK$548 million, up 1% from 2018, while its operating loss of HK$5 million was HK$38 million lower than the previous year. The improvement was primarily driven by productivity gains in the Company's manufacturing operation, and lower overheads resulting from business streamlining across sales and distribution activities. Further progress was held back by weak sales in the United States that were linked to the significant increase in import tariffs implemented there at the start of 2019. Non-recurring and one-off costs for the period were HK$7 million 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.

Throughout the first half of 2020, the Group's business has been heavily impacted by the COVID-19 pandemic. Business operations have been interrupted by government lock downs in most major cities around the world, while the Xiamen manufacturing facility was closed for an extended period following Chinese New Year, leading to shipment delays. The consolidated turnover for the Group for the first half of 2020 was HK$190 million, a decline of HK$52 million or 21% compared to the same period in 2019. To mitigate the impact of the outbreak, stringent control of operating expenses has been maintained through a range of actions including the negotiation of temporary rent reductions, staff furloughing and voluntary pay reductions (as permitted under the relevant local regulations). The operating loss for this particularly challenging six months period was HK$30 million.

In total, the operating loss for the 18 months ending 30 June 2020 was HK$35 million, compared to an operating loss of HK$43 million in the twelve months of 2018.

The Group's net loss attributable to the equity holders of the Company for the 18 months period ending 30 June 2020 was HK$37 million, compared to the HK$34 million loss reported in year 2018.

Management continues to monitor the Group's performance in the context of the uncertainty around the COVID-19 pandemic. Further cost reductions will be considered should the economic downturn extend for a more prolonged period.

CARPET OPERATIONS

For the 18 months period ending 30 June 2020, turnover in the Group's carpet operations was HK$716 million, compared to HK$520 million in the twelve months of 2018.

For calendar year 2019, sales revenue was HK$531 million, a 2% increase compared to the HK$520 million in 2018. The increase was greatest in Asia which delivered a growth of 17%, but this was substantially offset by a drop in sales in the United States 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.

Sales revenue in all regions experienced a decline during the first half of 2020 due to the business interruptions caused by the COVID-19 outbreak.

Overall gross margin for the 18 months period was 54%, matching 2018. Improved gross margins through the first 12 months linked to sales mix and efficiency improvement in manufacturing operations were offset by deterioration during the COVID-19 outbreak driven by the temporary closure of the Xiamen facility and the reduction in sales volume.

Gain on Disposal of Non-Current Asset Held for Sale

The Group's minority shareholding in the Philippine Carpet Manufacturing Corporation ("PCMC") had been a non-current asset held for sale for throughout the previous reporting periods. In February 2019 PCMC entered 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 confirmed. With the transaction substantially concluded, the Company recorded its share of the gain on disposal of HK$11 million in December 2019. The balance of the proceeds will be distributed by PCMC once all associated taxes have been settled.

Manufacturing Operations

The performance of the Xiamen workshop continues to improve with management remaining focused on delivering further gains in efficiency, productivity and material utilisation. Although the COVID-19 pandemic caused an extended closure after the 2020 Chinese New Year, production was restored shortly after the domestic travel restriction was lifted in March. Resumption was possible through careful adherence to the medical supervision guidelines imposed by the local government, and with the health and safety of employees secured, the factory order book was back to normal within two months.

The Company continued to invest in a new carpet manufacturing operation in the US during the period. Located at its Premier Yarn Dyers ("PYD") facility in Georgia, the unit is now fully operational supported by the pre-existing yarn dyeing facility. The new manufacturing facility has been established to support long-term growth plans in the local market.

Total headcount for manufacturing operations as of the 30 June 2020 was 580, compared to 663 at the end of 2018.

The termination of the former joint venture at Nanhai in Southern China is progressing. Final closure will be subject to approval from the relevant government authorities.

Human Resources

The number of employees at the end of June 2020 was 740, a reduction of 11% from 829 at the end of 2018, which was the result of business streamlining and productivity improvement at the manufacturing operations.

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 period has been in establishing stability and retaining talent through continued organisational change.

A special taskforce led by the Chief Executive Officer has monitored the COVID-19 outbreak, deploying policies and protocols in all regions to protect the health and safety of employees.

Information Technology

Since the Datatex factory ERP system went live in 2018, the focus has shifted to its integration with the Oracle system used in sales and distribution. The current focus is on establishing improved communication, reporting and business efficiency.

Oracle ERP has also been extended to incorporate the new US manufacturing unit and system enhancement projects are currently being deployed to improve control and support productivity improvement and cost reduction.

Design and Marketing

During this financial period, Tai Ping has continued to maintain its position as a creative leader through design and marketing.

In terms of design, the Company has introduced new collections including *Tides*, inspired by the mystery and magnificence of our planet's most essential and enigmatic force of nature; *Atelier by FANG*, which embodied the ancient art of origami; *Raw*, created in collaboration with the well-known international designer Noé Duchaufour-Lawrance; the *Taxonomy* edition, introduced by Edward Fields in collaboration with well-known lighting designer, Bec Brittain; and *Botanical Rugs*, launched by La Manufacture Cogolin in collaboration with Glithero co-founders and designers Tim Simpson and Sara van Gameren.

On the marketing side, Tai Ping's brand messages of craftsmanship, heritage and responsibility were reinforced with the much acclaimed launch and distribution of its new book combined with a significantly increased focus on social media. Additionally, new products at new price-points and supported by tailored promotional plans were deployed into carefully targeted clients and sectors. The next year will see continued targeting of new opportunities supported by an updated website and increased leverage of digital media and channels.

NON CARPET OPERATIONS

The Company's other operations comprise mainly its US based yarn-dyeing subsidiary, PYD which contributes approximately 3% of total sales. The operation was unprofitable for the period due to a weakening of sales linked to a major customer who decided to take their business back in-house. The new carpet manufacturing facility located at PYD will absorb some of the dyeing capacity that this has released.

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.

At the end of the financial year, the Group had total cash and bank balances amounting to HK$136 million (2018: HK$93 million) and unsecured bank borrowings of HK$31 million (2018: Nil).

Mark Stuart Worgan
Chief Executive Officer

Hong Kong, 25 September 2020

Custom Aviation Project for Dassault Falcon F6X
Inspired by the Fret Collection, Tai Ping

Board of Directors

Chairman & Non-Executive Director

Nicholas Timothy James Colfer: aged 60
Chairman since 2005; Non-Executive Director since 2003; Chairman of the Executive and Nomination Committees

Mr. Colfer is a Director of Sir Elly Kadoorie & Sons Ltd., a Non-Executive Director of The Hongkong and Shanghai Hotels, Ltd. and serves on several other corporate boards in Hong Kong. He holds a Master of Arts degree from the University of Oxford.

Chief Executive Officer & Executive Director

Mark Stuart Worgan: aged 56
Chief Executive Officer and Executive Director since 2018; Member of the Executive Committee

Mr. Worgan joined Tai Ping in 2008 and was the Vice President of Operations and Chief Operation Officer of Tai Ping. He is a director of a number of subsidiaries of Tai Ping. He has over 30 years of experience in textiles and floorcovering industry and prior to joining Tai Ping, he held various positions including global operations director, and chief executive officer of the US operations of Brintons Carpets Ltd. He holds a Bachelor of Science degree from the University of Aston in Birmingham, United Kingdom.

Non-Executive Director

John Jeffrey Ying: aged 58
Non-Executive Director since 1999; Member of the Audit Committee

Mr. Ying is the Managing Director of Peak Capital, a private investment firm focused on investments in Greater China and Chairman of the Asian Republican Coalition. He was the Chairman of Bracell Ltd. He holds a Master of Business Administration degree from the Wharton School, a Master of Arts degree from the University of Pennsylvania and a Bachelor of Science degree from the Massachusetts Institute of Technology.

Non-Executive Director

Andrew Clifford Winawer Brandler: aged 64
Non-Executive Director since 2014

Mr. Brandler is a Director and Chairman of Sir Elly Kadoorie & Sons Ltd., a Non-Executive Director and Deputy Chairman of The Hongkong and Shanghai Hotels, Ltd. and a Non-Executive Director of CLP Holdings Ltd. and an Independent Non-Executive Director of MTR Corporation Ltd. He has had an extensive career as an international banker and company executive. He is a Chartered Accountant, and holds Bachelor of Arts and Master of Arts degrees from the University of Cambridge and a Master of Business Administration degree from Harvard Business School.

Non-Executive Director

Tong Chi Leung David: aged 49
Non-Executive Director since 1997; Member of the Executive and Remuneration Committees

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

Non-Executive Director
Leong Kwok Fai Nelson: aged 56
Non-Executive Director since 2012; Member of the Executive Committee

Mr. Leong is an Executive Director of Henry G. Leong Estates, Ltd., a Director of Fontana Enterprises Ltd., Gainsborough Associates Ltd. and a number of companies involved in real estate in Hong Kong and North America. He holds a Master of Business Administration degree from the University of Toronto and a Bachelor of Arts degree from Brown University.

Independent Non-Executive Director
Fung Yeh Yi Hao Yvette: aged 59
Independent Non-Executive Director since 2004; Member of the Remuneration and Nomination Committees

Mrs. Fung is a Director of Hsin Chong International Holdings Ltd. and Chair of The Yeh Family Philanthropy Ltd., a member of various boards in the education and non-profit sectors. She holds both a Juris Doctor and a Bachelor of Arts degree from Stanford University and a Master of Business Administration degree from the University of California, Los Angeles.

Independent Non-Executive Director
Daniel George Green: aged 46
Independent Non-Executive Director since 2018; Member of the Executive Committee

Mr. Green is the Managing Director of Arnhold Holdings Ltd. Mr. Green joined Arnhold in 2002 and has served as an Executive Director since 2006. Prior to joining Arnhold, he worked in New York as a strategy consultant for Andersen Consulting (now Accenture), and as an equity analyst for Sofaer Capital's Global Hedge Fund. He is currently on the General Committee of The Hong Kong Exporters' Association. He graduated with honors from the University of Pennsylvania with a degree in Systems Engineering.

Independent Non-Executive Director
Roderic Noel Anthony Sage: aged 67
Independent Non-Executive Director since 2005; Chairman of the Remuneration and Audit Committees

Mr. Sage is an Independent Non-Executive Director of Guoco Group Ltd. He was an Independent Non-Executive Director of Alpha Real Trust Ltd. and the Executive Chairman of a specialist tax, corporate services and trust consultancy firm in Hong Kong. Prior to that, he had worked with KPMG Hong Kong for over 20 years as a senior partner and member of the management board. He has been granted fellow status with the Institute of Chartered Accountants in England and Wales and with the Hong Kong Institute of Certified Public Accountants. He is also an associate member of the Institute of Taxation in England.

Independent Non-Executive Director
Yung Lincoln Chu Kuen, JP, FHKIB: aged 74
Non-Executive Director (1980-2004) and Independent Non-Executive Director since 2004; Member of the Nomination and Audit Committees

Mr. Yung is currently Deputy Managing Director of Nanyang Holdings Ltd., a Director of The Shanghai Commercial & Savings Bank, Ltd. (whose shares had been listed on the Taiwan Stock Exchange in October 2018), Honorary President of HK Wuxi Trade Association Ltd. and the Executive Vice-chairman of Federation of HK Jiangsu Community Organisations Ltd. He has extensive experience in the textile, banking and investment industries and serves on various committees and boards. He is an Honorary Advisory Vice President and Fellow of The Hong Kong Institute of Bankers and holds a Master of Business Administration degree from the University of Chicago and is a graduate of Cornell University. He was appointed an Adjunct Professor of The Hong Kong Polytechnic University (School of Accounting and Finance).

Corporate Governance

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") throughout the eighteen months ended 30 June 2020 (the "Period"), except for the deviation as disclosed in this report.

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 to all 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 throughout the Period.

BOARD OF DIRECTORS

The Board of Directors (the "Board") is accountable to the shareholders for the leadership and management and control of the business of the Company. The Board delegates to the Chief Executive Officer ("CEO") and his management team day-to-day management of the Company's business, including the preparation of annual and interim financial statements and implementation of internal controls, in accordance with the strategy, policies and programmes approved by the Board.

Mr. Li Kwok Sing Aubrey retired as Independent Non-Executive Director and ceased as a member of the audit committee of the Company with effect from 18 May 2020. Mr. Yung Lincoln Chu Kuen, Independent Non-Executive Director of the Company was appointed as a member of the audit committee of the Company with effect from 18 May 2020. The Board currently consists of ten members. Among them, one is Executive Director, five are Non- Executive Directors and four are Independent Non-Executive Directors.

The Board possesses, both as individual Directors and collectively, appropriate experience, competencies and personal qualities, including professionalism and integrity, to discharge its responsibilities adequately and effectively. In addition, the Board collectively has adequate knowledge and expertise relevant to the material business activities of the Group and the associated risks in order to ensure effective governance and oversight.

Members of the Board, who come from a variety of different backgrounds, have a diverse range of business, and professional expertise. Brief biographical particulars of the Directors, together with information relating to the relationship among them, are set out on pages 20 to 21 in this Annual Report. During the Period, all Directors have given sufficient time and attention to the Company's affairs.

The Board considers that its diversity, including gender diversity, is a vital asset to the business. The Board adopted a Board Diversity Policy for better transparency and governance. Board appointments are based on merit and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company remains committed to meritocracy in the boardroom, which requires a diverse and inclusive culture where Directors believe that their views are heard, their concerns are attended to and they serve in an environment where bias, discrimination and harassment on any matter are not tolerated.

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

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

CHAIRMAN & CHIEF EXECUTIVE OFFICER

The posts of Chairman and CEO are separate and are not held by the same individual to ensure their independence, accountability and responsibility. The Chairman of the Board is Mr. Nicholas Timothy James Colfer and the CEO is Mr. Mark Stuart Worgan. To comply with code provision A.2.1 of the CG Code, the division of responsibilities between the Chairman and the CEO was formally set out in writing. Essentially, the Chairman takes the lead to oversee the Board functions while the CEO, supported by his management team, is responsible for the day-to-day management of the business of the Company.

NON-EXECUTIVE DIRECTORS

The Company's Non-Executive Directors are not appointed for specific terms as required by code provision A.4.1 of the CG Code. However, the relevant Bye-laws of the Company require that every Director would retire by rotation at the annual general meeting of the Company (the "AGM") 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 to gain and develop a balanced understanding of the views of shareholders.

Due to other business engagements, Mr. Roderic Noel Anthony Sage, Independent Non-Executive Director and Mr. Li Kwok Sing Aubrey, former Independent Non-Executive Director of the Company, did not attend the AGM held on 17 May 2019.

The Company considers that its Non-Executive Directors and Independent Non-Executive Directors bring to the Board a good mix of expertise and experience in the fields of accounting, investment and business. At least one of the Independent Non-Executive Directors has appropriate accounting or related financial management expertise as required under Rule 3.10 (2) of the Listing Rules. Pursuant to the requirements of the Listing Rules, Mrs. Fung Yeh Yi Hao Yvette, Mr. Roderic Noel Anthony Sage, Mr. Yung Lincoln Chu Kuen and Mr. Daniel George Green, Independent Non-Executive Directors, have given the Company annual written confirmations of their independence. The Company considers all the Independent Non-Executive Directors to be independent with due regard to the guidelines as set out in Rule 3.13 of the Listing Rules.

To the best knowledge of the Company, there is no financial, business, family or other material or relevant relationships among members of the Board.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

BOARD MEETINGS

The Board held a total of six Board meetings during the Period in which three meetings were held to approve the interim and final results of the Group; the other meetings were held to consider financial and operating performances of the Group. The Chief Financial Officer ("CFO") and the Company Secretary, attended all Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial perspectives.

The attendance of individual Directors during the Period is set out in the table below. All businesses transacted at the Board meetings are well-documented and the records are maintained in accordance with applicable laws and regulations.

	No. of meetings attended
Chairman & Non-Executive Director	
Nicholas Timothy James Colfer	6/6
Chief Executive Officer & Executive Director	
Mark Stuart Worgan	6/6
Non-Executive Directors	
Leong Kwok Fai Nelson	6/6
Tong Chi Leung David	6/6
John Jeffrey Ying	6/6
Andrew Clifford Winawer Brandler	4/6
Independent Non-Executive Directors	
Fung Yeh Yi Hao Yvette	5/6
Roderic Noel Anthony Sage	5/6
Yung Lincoln Chu Kuen	6/6
Daniel George Green	5/6
Li Kwok Sing Aubrey[1]	4/5

Note:
1 Mr. Li Kwok Sing Aubrey retired as Independent Non-Executive Director of the Company on 18 May 2020.

The proceedings of the Board at the meetings are conducted by the Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and also equal opportunities are being given to Directors to speak, express their views and share their concerns. Minutes of the Board meetings record in sufficient detail the matters considered by the Board and the decisions reached. The draft minutes of each Board meeting are sent to all Directors for comments.

Apart from the above mentioned Board meetings, the Chairman of the Board held a meeting with all the Independent Non-Executive Directors without the presence of the Executive Director and Non-Executive Directors during the Period for discussing, amongst other matters, Directors' time commitment and contribution in performing their responsibilities to the Company, and the Group's strategy.

BOARD COMMITTEES

The Company currently has four Board committees, namely, Executive Committee, Remuneration Committee, Audit Committee and Nomination Committee.

1. Executive Committee

The Executive Committee was established in August 2005 and operates as an executive management committee under the Board to monitor and control the financial and operational performance of the Group.

During the Period, it held ten meetings and the attendances of the members are as follows:

	No. of meetings attended
Nicholas Timothy James Colfer (Chairman)	10/10
Mark Stuart Worgan	10/10
Tong Chi Leung David	10/10
Leong Kwok Fai Nelson	8/10
Daniel George Green	8/10

2. Remuneration Committee

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

– to make recommendation on the Company's policy and structure for remuneration of the Directors and senior executives
– to determine remuneration of all Executive Directors and senior executives
– to review and approve performance-based remuneration
– to review and approve compensation in connection with any loss or termination of office or appointment of any Executive Directors and senior executives

The committee evaluates the remuneration packages of the Executive Director and the senior executives by linking their performance against corporate objectives, the profits of the Group and their potential contribution to the development of the Group. The fees for the Non-Executive Directors and the Independent Non-Executive Directors are determined on the basis of market benchmarks, experience, responsibilities and workload.

During the Period, the members of the Remuneration Committee and their attendances are set as follows:

	No. of meetings attended
Roderic Noel Anthony Sage (Chairman)	3/3
Fung Yeh Yi Hao Yvette	3/3
Tong Chi Leung David	3/3

3. Audit Committee

The Company has set up an Audit Committee on 23 September 2005 and the terms of reference of Audit Committee are aligned with the CG Code. Under these terms of reference, the responsibilities of the Audit Committee include overseeing the relationship with the Company's external auditor (including making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and approving the audit fee and reviewing the audit scope), review of financial information of the Group, oversight of the Group's financial reporting system, risk management and internal control systems. Detailed terms of reference of Audit Committee are accessible on the Company's website.

During the Period, the Audit Committee held five meetings with management and the representatives of the external auditor for reviewing the interim and annual reports before submission to the Board for consideration and approval, reviewing the annual audit plan and scope of work of both external auditor and internal auditor, and discussing issues arising from the audits including financial reporting, risk management and internal control.

During the Period, the members of the Audit Committee and their attendances are set as follows:

	No. of meetings attended
Roderic Noel Anthony Sage (Chairman)	5/5
John Jeffrey Ying	5/5
Li Kwok Sing Aubrey[1]	4/4
Yung Lincoln Chu Kuen[2]	1/1

Notes:

1 Mr. Li Kwok Sing Aubrey ceased as a member of the Audit Committee on 18 May 2020.

2 Mr. Yung Lincoln Chu Kuen was appointed as a member of the Audit Committee on 18 May 2020.

4. Nomination Committee

The Company has set up a Nomination Committee on 31 March 2012 and the terms of reference of Nomination Committee are aligned with the CG Code. Detailed terms of reference of Nomination Committee are accessible on the Company's website and the Nomination Committee has also adopted a nomination policy. Given below are main duties of the Nomination Committee and when considering matters related to nomination, the members of the Nomination Committee and the Board will have regard to these principles:

- to review the structure, size, composition and diversity of perspectives (including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy
- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships
- to assess the independence of Independent Non-Executive Directors
- to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the chief executive

During the Period, the members of the Nomination Committee and their attendances are set as follows:

	No. of meeting attended
Nicholas Timothy James Colfer (Chairman)	2/2
Yung Lincoln Chu Kuen	2/2
Fung Yeh Yi Hao Yvette	2/2

AUDITOR'S REMUNERATION

For the Period under review, the fees charged to the financial statements of the Company and its subsidiaries by the Group's external auditor, KPMG and other member firms under KPMG, for services provided are analysed as follows:

	HK$'000
KPMG:	
Audit service	2,617
Non-audit services	1,029

COMPANY SECRETARY

Mr. Lung Chi Sing Alex ("Mr. Lung") has been the Company Secretary of the Company since November 2016. Mr. Lung is the CFO of the Company. The Company Secretary is responsible to the Board for ensuring the Board procedures are followed and that the Board is briefed on legislative, regulatory and corporate governance developments. Mr. Lung has been in full compliance with the requirements of Rule 3.29 of the Listing Rules during the Period.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company for the eighteen months ended 30 June 2020 have been reviewed by the Audit Committee and audited by the external auditor, KPMG. The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group and they are not aware of any events or conditions that may cast significant doubt upon its ability to continue as a going concern.

The independent auditor's report is on page 58 to 64.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the risk management and internal control systems of the Group and reviewing their effectiveness. The internal control systems of the Group are designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. Such systems are designed to manage, rather than eliminate, the risks associated in failing to achieve certain business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has overall responsibility for evaluating and determining the nature and extent of the risks that the Group is willing to take in achieving its strategic objectives, and establishing and maintaining the appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management as well as overseeing the formation, implementation and monitoring of the risk management and internal control systems.

The management of the Company performs the risk assessment process and implements the systems of internal control and has reported and confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the Period.

The internal audit function conducts reviews of the effectiveness of the Group's risk management and internal control systems based on the internal audit plan and ad hoc requests from the Audit Committee and senior executives. The annual internal audit plan is developed based on an assessment of various business and operational risks of the Group and is approved by the Audit Committee. The Audit Committee reviews the findings and opinion from the internal audit in respect of the effectiveness of the Group's risk management and internal control systems periodically, and reports to the Board the key findings of such reviews.

The Board, as supported by the Audit Committee, assessed the effectiveness of the risk management and internal control systems by reviewing the respective reports from management and internal audit and considered that, for the Period, the risk management and internal control systems of the Company were effective and adequate. The Audit Committee also reviewed the adequacy of resources, qualifications, experience and training programme arranged for internal audit staff and accounting and financial reporting staff and considered that the staffing was adequate and the staffs were competent to carry out their roles and responsibilities.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group has a policy in place for handling and dissemination of inside information. The Group has taken various procedures and measures, including arousing employees' awareness to preserve confidentiality of inside information within the Group, sending blackout period and securities dealing restrictions notification to the relevant directors and employees regularly, disseminating information to specified persons on a need-to-know basis in accordance with the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission.

CHANGE OF ADDRESS OF REGISTERED OFFICE

The address of registered office of the Company was changed from Canon's Court, 22 Victoria Street, Hamilton HM EX, Bermuda to Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda with effect from 15 July 2019.

CHANGE OF ADDRESS AND COMPANY NAME OF PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

The address of principal share registrar and transfer agent of the Company (the "Principal Share Registrar and Transfer Agent") was changed from Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda to Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda on 15 July 2019 and the company name of the Principal Share Registrar and Transfer Agent was changed from Estera Management (Bermuda) Limited to Ocorian Management (Bermuda) Limited on 6 April 2020.

COMMUNICATION WITH SHAREHOLDERS

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

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

For both institutional and retail investors, the Company's website at www.taipingcarpets.com provides up-to-date information on the Group. All key information such as announcements, annual and interim reports can be downloaded from it.

During the Period, the Company held the AGM on 17 May 2019. Directors, including the Chairman of the Board and chairman of the committees, attended the AGM to answer questions and proposals raised by the shareholders of the Company with the exception of Mr. Roderic Noel Anthony Sage and Li Kwok Sing Aubrey, who were absent from the AGM due to their other business engagements.

SHAREHOLDERS' RIGHTS

1. Procedure for shareholders to convene a Special General Meeting ("SGM")

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

If within twenty-one days of such deposit the Board fails to proceed to convene the SGM, the requisitionists or any of them representing more than one half of the total voting rights of all of them, may themselves convene an SGM, but any meeting so convened shall be held within three months from the date of the original deposit.

2. Procedures for putting forward proposals at shareholders' meeting

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

The written requisition must state the resolution, accompanied by a statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at the shareholders' meeting. It must also be signed by all of the shareholders concerned and be deposited at the Company's office in Hong Kong at Units 1801-1804, 18th Floor, 909 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon, Hong Kong, for the attention of the Company Secretary not less than six weeks before the shareholders' meeting in case of a requisition requiring notice of a resolution and not less than one week before the shareholders' meeting in case of any other requisition.

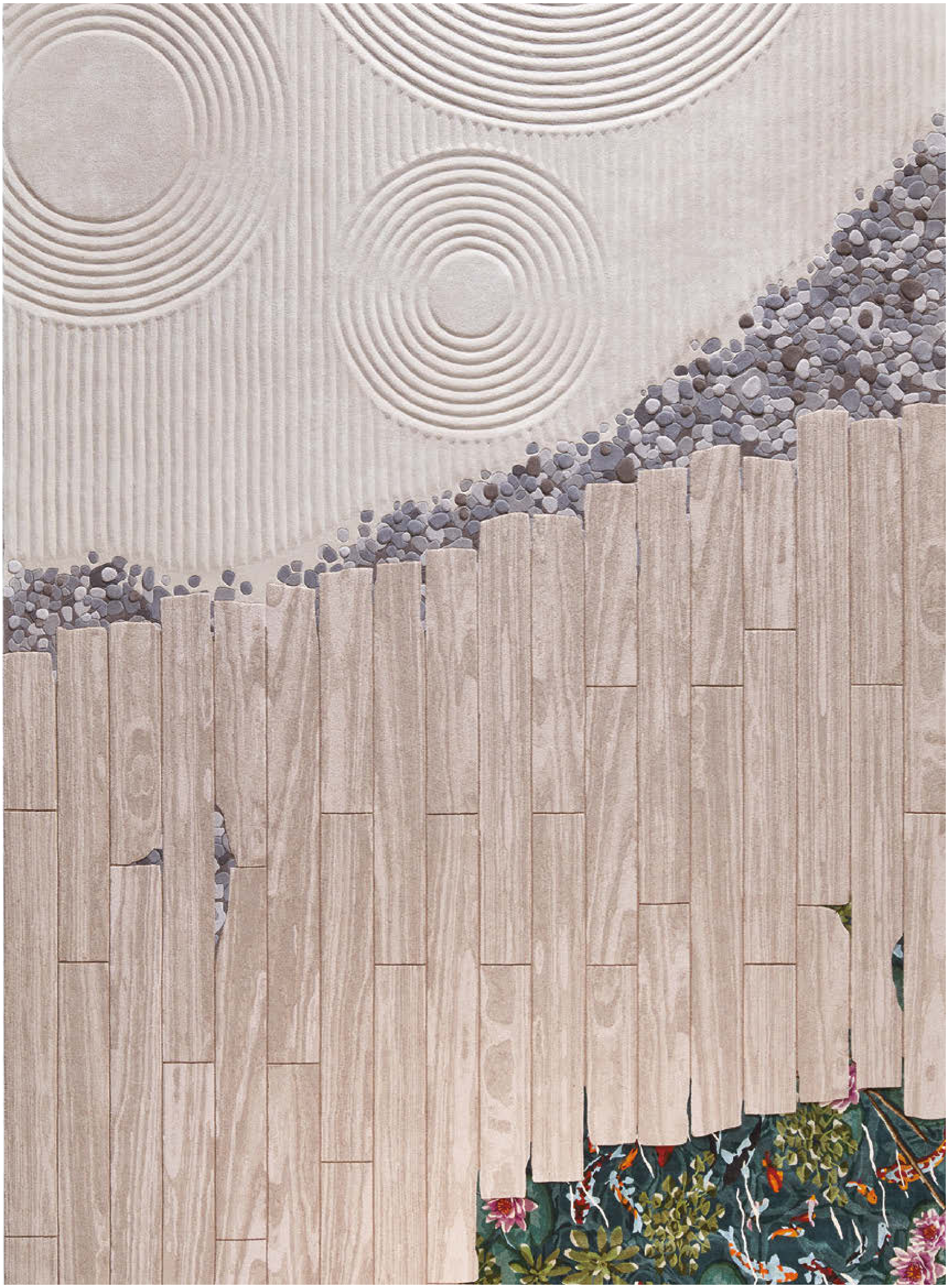
The shareholders concerned must deposit a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned under applicable laws and rules.

3. Shareholders' enquiry

Shareholders should direct their questions about their shareholdings to the Company's Registrar. Shareholders and the investment community may at any time make a request for the Company's information to the extent that such information is publicly available. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's office in Hong Kong at Units 1801-1804, 18th Floor, 909 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon, Hong Kong.

CONSTITUTIONAL DOCUMENTS

In order to bring the Bye-laws of the Company in alignment with Rule 4(2) of Part A of Appendix 13 of the Listing Rules and the Companies Act 1981 of Bermuda (as amended), the amendment of Bye-law 67 of the Company was approved by shareholders of the Company at the AGM on 17 May 2019. An up-to-date consolidated version of the Memorandum of Association and Bye-laws of the Company has been published on the websites of the Company (www.taipingcarpets.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) on 17 May 2019.



Mizu-Mon, designed by Winch Design for Tai Ping Yacht
Handmade in Wool, Silk, Dull Silk and Steele

Environmental, Social & Governance Report

ABOUT THIS REPORT

Tai Ping is pleased to present our Environmental, Social and Governance ("ESG") report, covering our ESG management approach and performance for the financial year 2019/20. This report has summarised measures undertaken by the Group in its pursuit of sustainability and the evaluation of the environmental and social impact as a result of these actions.

Reporting Period

This report covers Tai Ping's ESG management approach and performance for the period from 1 January 2019 to 30 June 2020 ("the Reporting Period").

Scope of this Report

The scope of this report primarily covers Tai Ping's core business, including the key manufacturing workshop based in Xiamen, China, as well as showrooms and sales offices located in major cities around the world including New York, Paris, Hong Kong and Shanghai.

Reporting Guidelines

This report is compiled in accordance with the ESG Reporting Guide under Appendix 27 of the Main Board Listing Rules issued by the Stock Exchange of Hong Kong Limited ("HKEX"), meeting the "comply or explain" provision of the ESG Reporting Guide. This report summaries the initiatives, quantitative data, and approach that the Group undertakes to managing its material ESG issues, as well as discloses environmental quantitative information related to its sustainability performance and involvement which aims to provide the transparency and accountability of the Group's actions to stakeholders. For more information relating to the Group's business and its corporate governance practices, please refer to the Corporate Governance section in this Annual Report.

Endorsement and Approval

The board of directors (the "Board") is responsible for overseeing the statutory compliance, stakeholder engagement, ESG performance and risk management. The approval of this ESG report from the Board was obtained on 25 September 2020.

Feedback for this Report

The overall direction of the development is set according to the stakeholders' views and insights, and to address their concerns wherever possible. Tai Ping values stakeholder engagement as it provides valuable input which contributes to steering the Group's development in the ESG aspects. Any comments and suggestions regarding this report are welcome and any enquiries shall be mailed to Tai Ping's Hong Kong office at Units 1801-1804, 18th Floor, 909 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon, Hong Kong.

ENVIRONMENTAL PROTECTION

Climate change is striking harder and now considered one of the significant risks to businesses. Tai Ping strives to navigate the shift to a low-carbon economy by implementing energy and water efficiency initiatives as well as reducing the amount of waste we produce.

The Group strictly follows the national and local laws and regulations on environmental protection, including the Environmental Protection Law of the People's Republic of China (the "PRC"), the Law of the PRC on the Prevention and Control of Air Pollution, the Law of the PRC on the Prevention and Control of Water Pollution and the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste. During the Reporting Period, the Group complied with relevant environmental laws and regulations of the countries where it operates.

An Environmental, Health and Safety ("EHS") department has been established to oversee policies and procedures that drive environmental protection initiatives and responsible stewardship of local resources. In addition, policies and procedures defining the environmental management system are formulated to monitor activities, which are certified in line with the relevant internationally recognised standards such as the ISO 14001 standard. In practice, environmental guidelines supplemented with clear instructions are followed to implement the appropriate procedures to minimise environmental impacts.

GHG Reduction and Energy Conservation

Tai Ping implements processes to reduce its GHG emissions primarily generated from manufacturing and transportation. Regional production facilities are established in the United States, Europe and Asia to improve proximity to the market. Besides, shipments are consolidated to reduce heavy crating and wrapping materials as well as eliminate extraneous journeys.

The Group also advocate the philosophy of energy conservation and GHG emissions reduction in daily operations at the manufacturing workshop in Xiamen. Furthermore, various measures are taken to conserve energy, such as adopting energy-efficient LED lighting systems and switching off idle electric appliances. Machinery scheduling is implemented to increase energy efficiency. To reduce energy wastage during the daytime, modern glass facades are installed to maximise the use of natural light.

Tai Ping's state-of-the-art manufacturing workshop in Xiamen – designed by Paris-based Sandrolini Architecture – features environmentally-friendly elements, such as evaporative cooling systems and north-facing ventilation methods reduce energy consumption significantly. In addition, the heating, ventilation and air conditioning (HVAC) system is limited to critical areas (dyestuff storage, dyeing and the control room), while other work areas feature air circulating fans, the use of water and plants, natural air vents, projected shade and atrium spaces that draw in fresh air, reducing unnecessary energy consumption.

The Group strives to reduce emissions and pollutants from the source through innovative technologies. For example, our carpets emit less volatile organic compounds (VOCs) and provide cushioning, anti-slip, acoustic and thermal benefits to homes. In addition, the Group strives to block allergens and allergy sufferers in carpets and are therefore beneficial to asthma and allergy sufferers.

Water Resource Management

The environmental impact of climate change further jeopardises the stability of water supplies in water-stressed regions, which would affect the manufacturing of carpets in the future. In view of this, proactive measures at the manufacturing workshop are adopted to actively facilitate maximum protection of water resources, such as the reduction on the use of underground water and increase in the application of recycled water, as well as the optimisation and upgrade of manufacturing technologies to reduce water consumption in the production on an annual basis.

Wastewater Treatment and Pollution Prevention

The Xiamen manufacturing workshop is a zero-pollutant discharge facility where 100% of water needs are met through recycling and rainwater harvesting. An environmental consultancy firm was appointed to formulate an advanced wastewater solution and assisted in building a high-efficiently wastewater treatment plant that can process around 200 tonnes of wastewater per day throughout the year. Wastewater treatment process is strictly monitored to ensure compliance to regulations related to wastewater discharge and avoid pollution of other natural resources. The wastewater treatment plant incorporates settlement, filtration, ultra-filtration, aeration and flocculation, chemical and biological treatments and reverse-osmosis to remove all colour and pollutants. PH meters are installed in our wastewater treatment process to monitor the water quality. Water quality analysis is conducted weekly to ensure compliance with national standards.

Water discharged from the system is neutralised, and soft-water is upcycled for use in bathrooms and irrigation systems to water the grounds and outdoor employee rest areas. This helps significantly reduce the amount of effluent discharged to the environment.

Tai Ping's fully-integrated dyeing process results in better quality yarns and shorter supply times with industry-leading colour management and colour dye performance. All colourants used in dyeing comply with the Ecological and Toxicological Association of Dyes (ETAD) recommendations, which help to reduce heavy metal impurities in organic dyestuffs and pigment preparations and EU Directive 2002/61/EC, which prohibits the use of azo dyes containing 22 aryl amines.

Waste Management

Relevant requirements for the treatment of waste and packaging materials were implemented. Wastes such as fibre, fabric, glue, plastic, solid waste and sludge are generated from winding, trimming, packaging, office operation and wastewater treatment. Internal policies and proper workflow are in place to strengthen related measures and minimise environmental impacts caused by wastes.

Recycling is actively promoted to achieve waste reduction at the source using the recycled materials in the manufacturing process. A continuous improvement program for waste reduction is also implemented by imposing stringent control of the weight and length of input materials and, standardise the method of carpet fabrication. Offcuts (yarn and other materials) are reused in manufacturing through re-dyeing or in other projects. Any materials not reused or recycled are donated or sold as raw materials to selected partners or innovators, which are used for bedding materials, flexible outdoor sports surfaces and art installations, such as sculptures.

A waste segregation system is in place under which employees are required to collect and separate waste according to different categories. Different hazardous wastes are stored separately by category. Both hazardous wastes and non- hazardous wastes are collected by third-party contractors, who are authorised by a regulatory body, for proper processing and disposal to fulfil environmental protection requirements.

SOCIAL RESPONSIBILITY

Employment

Employees are the greatest strength contributing to the long-term success of the Group. The Group adheres to the Labour Contract Law of the People's Republic of China and all employment regulations in markets it operates. Employee Handbook is accessible to all employees, and covers policies related to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

Tai Ping relies heavily on its dedicated employees to execute the corporate strategies and deliver product and service excellence. As such, the Group endeavours to create an inclusive and supportive workplace, free of harassment, intimidation, bias and discrimination on the grounds of age, gender, disability, religion, family status and obligations, race and colour. The Code of Conduct is communicated to all new employees and is refreshed annually during the declaration for complying with the Group's Global Code of Conduct. Any employment-related decisions such as recruitment, compensation, promotion, and performance evaluation are conducted solely based on employees' merits and qualifications. The Code of Conduct also outlines an employee's expected behaviour, as well as anti-harassment, sexual harassment and personal relationship guidelines. The Group has zero tolerance towards any forms of discrimination or harassment in the workplace.

A wide range of benefits are made available to the employees. For example, accommodation for workers who are relocated from different provinces, meal plans, paid leave, medical insurance plans, regular body check-up and transportation subsidies for migrant workers to visit families at home. Family-friendly initiatives such as paternity leave for male employees are also introduced.

The Group also promotes an active and healthy lifestyle through a wide variety of different interest groups, such as fishing association, basketball club, and square-dancing association. These benefits help build a cohesive work environment and maintain a low employee turnover rate. To foster a spirit of togetherness, social activities such as Spring Festival reunion dinners, monthly birthday gatherings, Mid-autumn Festival party and lucky draws, and Christmas celebrations are organised. In addition, female employees are grant half-day leave on the International Women's Day.

During the Reporting Period, there were no known material instances of non-compliance with relevant employment, labour practice laws and regulations regarding compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare in any of the countries where the Group operates.

Safeguarding against the Coronavirus

The COVID-19 pandemic has caused unprecedented disruption in people's lives and business operations worldwide. Tai Ping's highest priority remains the safety and wellbeing of its employees, clients, suppliers, and the broader community. Although we have tried our best to maintain a "business as usual" approach to do our part in keeping projects on track, we have urged our employees to "act with speed and clear-mindedness" in taking sensible precautions to safeguard their health. The Group has set up a registered emergency team to evaluate the situation and take necessary actions to safeguard employees from the pandemic.

Tai Ping worked tirelessly to ensure a safe and healthy workplace, and to support employees with stable jobs and sources of income. The Group actively connects with relevant government departments and keeps track of policies and regulations on epidemic prevention and control through various channels. A comprehensive coronavirus emergency plan has been established, such as setting up a temperature checkpoint at the security gate and a quarantine and health observation room. All employees and visitors are required to wear surgical face masks and conduct twice-daily temperature body check with internet logging of results. Even during difficult circumstances, the global purchase of face masks and sanitising packages have been organised for employees. Face masks have been provided to employees who resumed duties daily.

The disinfection of the factory and the office has been conducted regularly. During the epidemic prevention and control period, special arrangements on social distancing to ensure at least a two-meter working gap at the factory and a two-meter separation of all employees when eating (with no face to face allowed) has been made. A healthy working policy with supporting training to minimise the risk of contracting or passing on infection has also been conducted.

Flexible working options are also provided to employees in case they or, their family members or close contacts display relevant symptoms, or when they are in self-quarantine following a recent trip to a high-risk location. The senior management team convenes regular meetings to follow up on the latest development of the pandemic and oversee the implementation of all necessary protocols to maintain a safe working environment.

Occupational Health and Safety

The wellbeing of employees is of paramount importance to Tai Ping and ensuring their safety at the workplace is Tai Ping's utmost priority. Comprehensive policies and procedures such as the Control Procedures for Environmental Operation, Hazardous Chemicals EHS Management Regulations and the Control Procedures for Occupational Health and Safety (OHS) Operation have been established to ensure compliance with applicable occupational health and safety laws and regulations. Besides, workers are required to wear protective gear, including safety shoes, safety glasses, ear protection, gloves and task-specific protection, at all times when in the manufacturing site to ensure Occupational Health and Safety.

The Group has been accredited with the international standard for occupational health and safety, ISO 45001 occupational health and safety standard in 2020. Regularly review of the internal occupational health and safety management systems is performed and employees' and contractors' feedback are taken into consideration to drive continuous improvement on safeguarding the health and safety of employees.

Regular safety training for operational staff is performed to raise safety awareness and minimise the risks of hidden hazards at work aiming to rule out fatalities, severe work-related injuries and significant errors related to failure of equipment and facilities failure. Fire drills, practice emergency drills and workshops on different workplace hazards are also organised to prepare employees to respond effectively in case of any accident. During the Reporting Period, there were no occupational fatalities.

Development and Training

The Group is committed to employee development and training and it is Tai Ping's expectation for the employees to thrive with Tai Ping and view their personal growth as an integral component of the business sustainability. The investment in the employees that helps them to grow their skills will not only boost productivity but also help to retain talents by encouraging people to build a rewarding career with Tai Ping.

Tailored on-the-job training and self-learning programs are offered to improve employees' knowledge and skillsets in the garment manufacturing industry. Team building activities and environmental operation training are organised in collaboration with external professional institutes to strengthen team bonding and deepen employees' sense of belonging to the Group.

To motivate employees to deliver high performance, an effective performance assessment mechanism is adopted which comprises the Goal and Performance Management and Performance Improvement Plan. This enables the Group to evaluate employees' performance and plans relevant training and development programs effectively.

Two-way communication with employees is maintained through networking activities and feedback sessions. The annual performance appraisal provides an opportunity for all staff members to discuss career planning, identify areas for further development and maximise career potential with their line managers.

Labour Standards

Tai Ping respects the human rights of the people. Our Human Rights Policy is in line with the international standard, Social Accountability 8000 (SA8000). Tai Ping firmly opposes employing child labour and upholds high labour standards and requires suppliers to apply the same standard in their operations to prevent child and forced or trafficked labour. Child Labour Protection Procedures are developed and implemented at the regional and local levels in compliance with the related regulations and laws. In the recruitment process, identity checks are performed by the human resource department to ensure all recruited employees are above the legal working age.

During the Reporting Period, the Group was not found with nor involved in any non-compliance in employment and labour or employment of any child labour or forced labour.

Supply Chain Management

Tai Ping demands the highest ethical and environmental standards throughout its global business operations and within its supply chain. The Group verifies the source of all incoming materials and the ethical standards of all approved suppliers. A supplier management system has been established to verify their qualifications, assess their performance, review their occupational health and safety measures in place, ensure suppliers meet our internal environmental and social standards. Suppliers who fail to meet the standard and show no improvement after remedial actions were communicated will be terminated. World-renowned luxury brands have registered Tai Ping as an approved supplier based on external auditing of its ethical sourcing.

Tai Ping strives to continue making environmentally-informed decisions regarding the use of recycled components in the manufacturing process. A comprehensive procedure has been implemented to ensure the selection of qualified materials that are not harmful to humans and the environment. Using materials or products that can be obtained locally or nearby cities are preferred to support the domestic economy and reduce the environmental impacts from transportation.

Product Responsibility

High-quality products and services are the key to business success. The standard of excellence has defined the Tai Ping brand since 1956. Our carpets are manufactured in compliance with the American with Disabilities Act (ADA), where products are edged to facilitate wheelchair activities and the Green Label Plus (GLP), pass toxicity tests, and are fire-proof.

The Group has adopted a quality management system certified with ISO 9001 standard in different supporting facilities, including high-tech dyeing machinery and advanced testing equipment, to ensure raw material and product procured, manufactured and delivered are in compliance with quality control requirements.

The human resources policies include practices regarding conflict of interests, confidentiality, intellectual property, copyright protection and sensitive data privacy protection. A Confidential Data Policy has been established to lay out standards for the use of confidential data, and outline specific security controls to protect this data.

Tai Ping ensures all marketing strategies and associated advertisements are in full compliance with relevant local and national regulations. The Group observes strict compliance with the laws and regulations of the PRC relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. None of our products were subject to recalls for safety and health reasons during the Reporting Period.

Anti-corruption

The Group is committed to doing business with integrity and avoiding corruption in any form. We expect all Tai Ping employees and representatives to conduct business in a fair, ethical and legal manner. The Group strictly complies with the relevant laws and regulations, such as the Criminal Law of the People's Republic of China and the Anti-unfair Competition Law of the People's Republic of China.

The Global Code of Conduct outlines an employee's expected behaviour. Employees are required to comply with all applicable anti-corruption laws and specific guidance on our stance on the payment to government officials, bribes and kickbacks, gifts, and conflicts of interest, especially for all new employees during their orientation sessions.

In addition, employees are required to sign the Global Code of Conduct and whistleblower policy on an annual basis. A whistleblowing channel is in place for employees or other stakeholders to report any ethical violations and possible illegal or fraudulent activity. Every reported case will be handled in confidentiality and will only be accessible by the Chairman of the Audit Committee and the Internal Audit Manager. Reported cases will be investigated on a timely basis by the Internal Audit Manager and any confirmed case will be presented to the Audit Committee to ensure full remediation.

In the Reporting Period, the Group had no known material instances of non-compliance with relevant laws and regulations regarding bribery, extortion, fraud, or money laundering in its countries of employment.

Community Investment

Tai Ping remains strongly committed to the social obligations towards the communities. The Group fully realises the importance of the various factors that have contributed to its success, and strives to support the development of the communities and various stakeholders and make a positive impact in their lives. The Group acts as a responsible corporate citizen by fostering an ideal workplace, emphasizing employing locals wherever possible to boost the domestic economy at Xiamen'. In addition, employees are encouraged to participate in local charity activities and create greater value for society.

Sustainable Manufacturing

Tai Ping recognises the importance of sustainable manufacturing and environmental stewardship in the business operations and will continue to modernise operation processes to improve efficiency and reduce its impacts on society and the environment.

Appendix I: Key Environmental Performance Data

Environmental Performance Data Table

Environmental KPIs	Unit	FY2019/20[1]	FY2018
NOx emissions	tonne	**0.04**	0.03
Total greenhouse gas (GHG) emissions	tonne CO_2e	**5,704.00**	4,470.60
Scope 1 – Direct emissions and removals	tonne CO_2e	**130.97**	160.28
Scope 2 – Energy indirect emissions	tonne CO_2e	**5,573.03**	4,310.32
Total GHG emissions intensity			
By revenue	kg CO_2e/revenue (HK$'000)	**7.72**	8.26
Total hazardous waste produced	tonne	**4.81**	0.36
Total hazardous waste intensity			
By revenue	kg/revenue (HK$'000)	**0.007**	0.001
Total non-hazardous waste produced	tonne	**217.47**	143.80
Total non-hazardous waste intensity			
By revenue	kg/revenue (HK$'000)	**0.29**	0.27
Total energy consumption	kWh	**11,753,534.17**	8,987,171.32
Total direct energy consumption[2]	kWh	**67,437.17**	50,663.32
Petrol	kWh	**67,437.17**	50,663.32
Total direct energy consumption intensity			
By revenue	kWh/revenue (HK$'000)	**0.09**	0.09
Total indirect energy consumption[2]	kWh	**11,686,097.00**	8,936,508.00
Purchased electricity	kWh	**3,074,347.00**	2,478,369.00
Purchased steam	kWh	**8,611,750.00**	6,458,139.00
Total indirect energy consumption intensity			
By revenue	kWh/revenue (HK$'000)	**15.83**	16.52
Total water consumption	m^3	**109,314.00**	98,412.00
Total water consumption intensity			
By revenue	m^3/revenue (HK$'000)	**0.15**	0.18
Total packaging materials	tonne	**24.00**	14.26
Total packaging materials intensity			
By revenue	kg/revenue (HK$'000)	**0.03**	0.03

Notes:

1. The scope of the Environmental Performance data covers the key manufacturing workshop based in Xiamen for the period from 1 January 2019 to 30 June 2020.
2. Definition of direct and indirect energy refers to Part 2 of the ISO14064-1 standard.

Appendix II: HKEX ESG Reporting Guide Index

	Aspects	Section
A	**Environmental**	
A1	**Emissions**	
	Policies relating to air and greenhouse gas emissions, discharges into water and land and generation of hazardous and non-hazardous waste. Compliance with relevant laws and regulations that have a significant impact on the issuer.	Environmental Protection
A1.1	The types of emissions and respective emission data.	GHG Reduction and Energy Conservation; Appendix I: Key Environmental Performance Data
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Appendix I: Key Environmental Performance Data
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Appendix I: Key Environmental Performance Data
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Appendix I: Key Environmental Performance Data
A1.5	Description of measures to mitigate emissions and result achieved.	GHG Reduction and Energy Conservation
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Waste Management; Appendix I: Key Environmental Performance Data
A2	**Use of Resources** Policies on the efficient use of resources, including energy, water and other raw materials.	GHG Reduction and Energy Conservation; Water Resource Management; Wastewater Treatment and Pollution Prevention
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Appendix I: Key Environmental Performance Data
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Appendix I: Key Environmental Performance Data
A2.3	Description of energy use efficiency initiatives and result achieved.	GHG Reduction and Energy Conservation
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Water Resource Management; Wastewater Treatment and Pollution Prevention
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Appendix I: Key Environmental Performance Data
A3	**The Environment and Natural Resources** Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental Protection
A3.1	Description of the significant impacts of activities on the environment and natural resources and the action taken to manage them.	Environmental Protection

	Aspects	Section
B	Social	
B1	Employment Policies on employment and compliance with local laws and regulations that have a significant impact on the issuer regarding the following: • Compensation and dismissal • Recruitment and promotion • Working hours and rest periods • Equal opportunity and anti-discrimination • Diversity • Other benefits and welfare	Employment; Labour Standards
B2	Health and Safety Policies on providing a safe working environment and protecting employees from occupational hazards and compliance with relevant laws and regulations.	Occupational Health and Safety
B3	Development and Training Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
B4	Labour Standards Policies and compliance with laws and regulations on preventing child and forced Labour.	Labour Standards
B5	Supply Chain Management Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
B6	Product Responsibility Policies and compliance with relevant laws and regulations on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
B7	Anti-corruption Policies and compliance with relevant laws and regulations relating to bribery, extortion, fraud and money laundering.	Anti-corruption
B8	Community Investment Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

Matignon – Siamois from the Collection André Arbus for La Manufacture Cogolin
Hand-knotted in Wool

Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the eighteen months ended 30 June 2020 (the "Period").

PRINCIPAL ACTIVITIES & GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company and its subsidiaries (the "Group") consist of design, manufacture, import, export and sale of carpets, manufacture and sale of yarns and sale of leather.

An analysis of the Group's performance for the year by segment is set out in Note 5 to the consolidated financial statements.

RESULTS & APPROPRIATIONS

The results of the Group for the Period are set out in the consolidated income statement on page 65.

No interim dividend was paid during the Period (for the year ended 31 December 2018: Nil).

At the meeting of the board of Directors (the "Board") held on 25 September 2020, the Board has resolved not to declare any dividend for the eighteen months ended 30 June 2020 (for the year ended 31 December 2018: Nil).

DIVIDEND POLICY

The Company has adopted a dividend policy on 14 December 2018, in considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for future growth of the Group.

The Board shall consider the following factors before recommending or declaring dividends:

i. The Company's actual and expected financial performance;
ii. Retained earnings and distributable reserves of the Company and each of the members of the Group;
iii. The Group's working capital, capital expenditure requirements and future expansion plans;
iv. The Group's liquidity position;
v. General economic conditions, business cycle of the Group and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
vi. Other factors that the Board deems relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of Bermuda and the Company's Bye-laws. The Board will review the dividend policy from time to time and there can be no assurance that dividend will be paid in any particular amount for any given period.

DONATIONS

Charitable and other donations made by the Group during the Period amounted to approximately HK$144,000 (for the year ended 31 December 2018: HK$14,000).

FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the Period and last four financial years are set out on page 7 of the annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the Period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the Period.

DIRECTORS

The Directors of the Company during the Period and up to the date of this report were:

Chairman & Non-Executive Director
Nicholas Timothy James Colfer

Chief Executive Officer & Executive Director
Mark Stuart Worgan

Non-Executive Directors
Tong Chi Leung David
John Jeffrey Ying
Leong Kwok Fai Nelson
Andrew Clifford Winawer Brandler

Independent Non-Executive Directors
Fung Yeh Yi Hao Yvette
Roderic Noel Anthony Sage
Yung Lincoln Chu Kuen
Daniel George Green
Li Kwok Sing Aubrey (retired as Independent Non-Executive Director on 18 May 2020)

In accordance with the Company's Bye-laws, Mr. Mark Stuart Worgan, Mr, Andrew Clifford Winawer Brandler, Mr. Daniel George Green and Mr. Yung Lincoln Chu Kuen will retire by rotation from office at the forthcoming AGM on 27 November 2020. Mr. Mark Stuart Worgan, Mr, Andrew Clifford Winawer Brandler, Mr. Daniel George Green and Mr. Yung Lincoln Chu Kuen, being eligible, offer themselves for re-election at the forthcoming AGM on 27 November 2020.

DIRECTORS' SERVICE CONTRACTS

Mr. Mark Stuart Worgan, Chief Executive Officer and Executive Director of the Company, has entered into a service agreement with the Company. The agreement has no fixed term and may be terminated by either party by three months' written notice.

None of the Directors who are proposed for re-election at the forthcoming AGM have service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

PERMITTED INDEMNITY PROVISIONS

At no time during the Period and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of the Directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

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

As at 30 June 2020, 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 30 June 2020

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
Tong Chi Leung David	431,910	–	0.204%
Yung Lincoln Chu Kuen	30,000	–	0.014%
Leong Kwok Fai Nelson	700,000	2,182,000[1]	1.358%
John Jeffrey Ying	–	32,605,583[2]	15.366%

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. Leong Kwok Fai Nelson 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 Jeffrey Ying is the sole shareholder 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).

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 30 June 2020, 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. These interests are in addition to those disclosed above in respect of the Directors.

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 Jeffrey Ying (a Non-Executive Director of the Company) is the sole shareholder in the general partner in Peak Capital Partners I, L.P. and is deemed to have an interest in the shares held by Peak Capital Partners I, L.P. (the Company is advised that the term "general partner" commonly refers to the entity liable for all the debts and obligations of a limited partnership and has power to bind a limited partnership).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Period.

MAJOR CUSTOMERS & SUPPLIERS

During the Period, the Group sold less than 20% of its goods and services to its five largest customers. Purchase of goods (primarily raw materials and consumables) and services from its largest supplier and the top five suppliers in aggregate were around 13% and less than 50%, respectively.

CONNECTED TRANSACTIONS

1. Significant related party transactions entered into by the Group during the Period, which did not constitute connected transactions and were not required to be disclosed under the Listing Rules, are disclosed in Note 38 to the consolidated financial statements.

2. Other related party transactions entered into by the Group for the Period and up to the date of this Directors' Report, which fall under the definition of "connected transactions" or "continuing connected transactions" and not exempted under Rule 14A.31 and Rule 14A.33 of the Listing Rules, are as follows:

   The Company's subsidiaries have been from time to time supplying products, and providing related ancillary services to The Hong Kong and Shanghai Hotels, Limited ("HSH") and its subsidiaries. These transactions fall under the definition of continuing connected transactions under the Listing Rules by virtue of the fact that The Mikado Private Trust Company Limited, a substantial shareholder of the Company, is also interested in more than 30% voting power of HSH. In accordance with the requirements of the Listing Rules, the Company entered into the Products and Services Supply Agreement with HSH on 14 December 2016 (the "Agreement") for the supply of carpets, rugs and all forms of floorcoverings and related installation and transportation services to HSH and its subsidiaries on normal commercial terms for a period of three years from 1 January 2017 to 31 December 2019 subject to an annual cap of HK$10,000,000. An announcement in this respect was made on 14 December 2016. For the calendar year ended 31 December 2019, the total order amount and invoiced value of these transactions ("HSH Transactions") amounted to approximately HK$7,719,000 and HK$8,110,000, respectively.

   Since the Agreement expired on 31 December 2019, on 12 December 2019 the Company entered into a new Products and Services Supply Agreement with HSH on substantially the same terms as the Agreement for a period of three years from 1 January 2020 to 31 December 2022. An announcement in this respect was made on 12 December 2019. For the six months period ended 30 June 2020, the HSH Transactions amounted to approximately HK$89,000 and HK$4,000 respectively.

The Directors, including all the Independent Non-Executive Directors, have reviewed the HSH Transactions and confirmed that they have been entered into:

i. in the ordinary and usual course of business of the Group;
ii. on normal commercial terms or terms better to the Group than terms available to independent third parties; and
iii. the terms of the agreements governing them are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor has reported to the Directors in their letter that based on their work performed:

i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors;
ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;
iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
iv) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the connected transactions and continuing connected transactions. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

BUSINESS REVIEW

The business review of the Group for the Period is set out in the section head "Chairman's Statement" and "Management Discussion & Analysis" on pages 10 to 17 of this annual report. Details of the Group's Financial Risk Management are set out in Note 3 to the consolidated financial statements.

ENVIRONMENTAL PROTECTION AND LEGAL COMPLIANCE

The Company is committed to protecting the environment where it operates and ensuring that it complies with the environmental protection standards applicable to the Group and its business operation from time to time.

The Group obtained the required permits and environmental approvals for its business and production facilities, and complied with such laws, rules and regulations that had a significant impact to the Group, its business and operations.

Please refer to the Environmental, Social & Governance Report contained in the Annual Report for further information on the work done and efforts made by the Company on environmental protection, legal compliance and other aspects for the sustainable growth and development of the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, the Company has maintained a sufficient public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of its Directors.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming AGM will be held on Friday, 27 November 2020. Notice of the AGM will be published and dispatched to the shareholders of the Company together with this report.

CLOSURE OF REGISTER OF MEMBERS

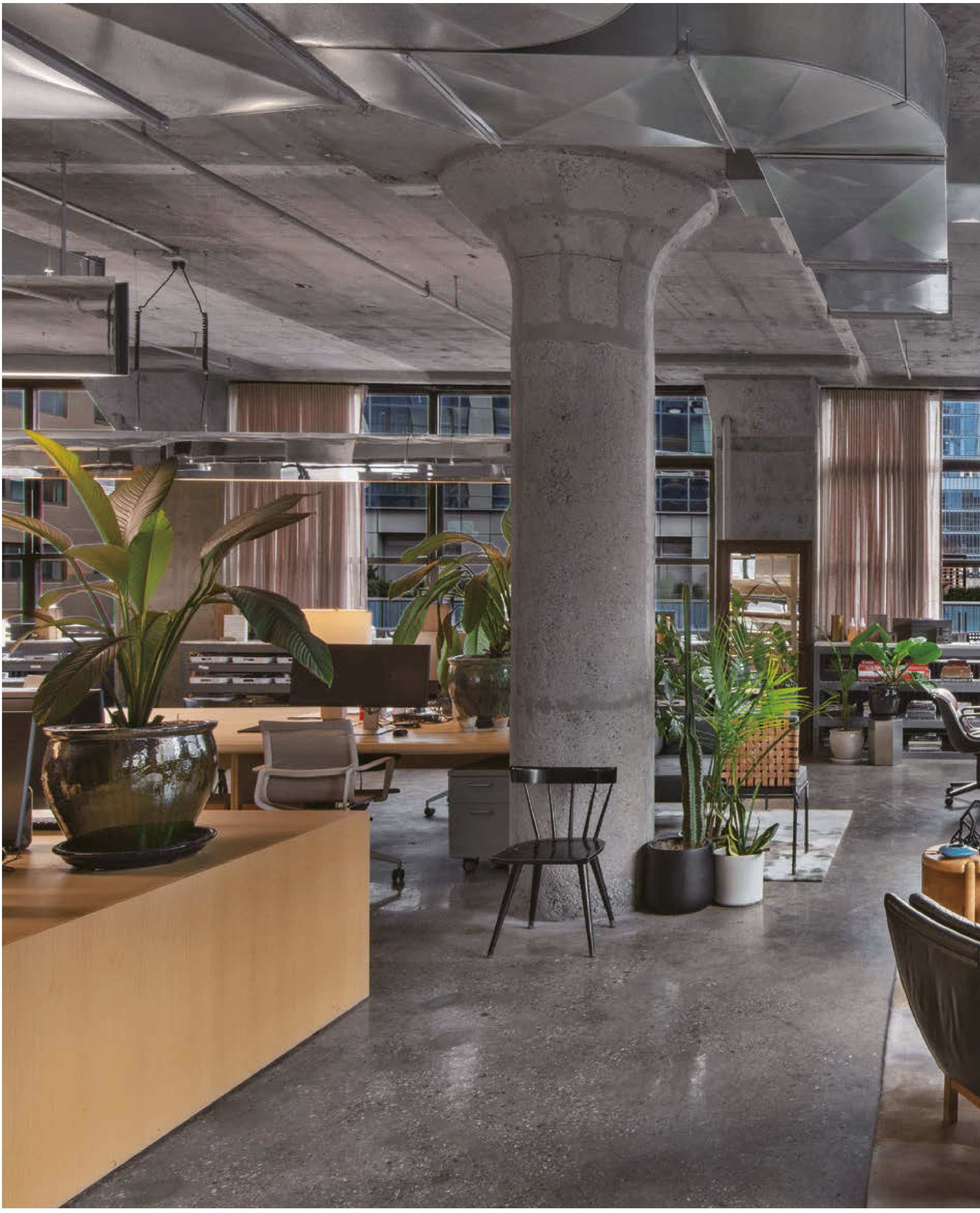
For the purpose of determining shareholders' entitlements to attend and vote at the forthcoming AGM on Friday, 27 November 2020, the transfer books and the register of members of the Company will be closed from Tuesday, 24 November 2020 to Friday, 27 November 2020 (both days inclusive). During such period, no transfer of shares will be effected. In order to establish the right to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Monday, 23 November 2020.

AUDITOR

The consolidated financial statements for the Period have been audited by KPMG, who retire and, being eligible, offer themselves for re-appointment.

By order of the Board
Mark Stuart Worgan
Chief Executive Officer

Hong Kong, 25 September 2020



Custom Workspace Project in New York by INC Architecture and Design PLLC
Inspired by Bokeh I from the Blur Collection, Tai Ping

Poppies I from the Flourish Collection, Tai Ping
Hand-knotted in Wool and Silk

Financial Section

Notes to the Consolidated Financial Statements

Independent Auditor's Report

KPMG

To the shareholders of Tai Ping Carpets International Limited
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Tai Ping Carpets International Limited ("the Company") and its subsidiaries ("the Group") set out on pages 65 to 142, which comprise the consolidated statement of financial position as at 30 June 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period from 1 January 2019 to 30 June 2020 and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance and its consolidated cash flows for the period from 1 January 2019 to 30 June 2020 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (CONTINUED)

Revenue recognition

Refer to note 5 to the consolidated financial statements and the accounting policy note 2.28.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises sales of carpets. The terms of sales contracts relating to goods acceptance by customers are similar and revenue is generally recognised when the carpets are delivered to the location designated by the customers. We identified the recognition of revenue as a key audit matter because of its significance to the Group and errors in the recognition of revenue could have a material impact on the Group's results.	Our audit procedures to assess the appropriateness of revenue recognition included the following: • evaluating the design, implementation and operating effectiveness of key internal controls over the existence, accuracy and timing of revenue recognition; • challenging the revenue recognition policies adopted by the Group by making inquiries of management and inspecting a sample of sales contracts to understand the terms of the transactions to assess the Group's revenue recognition with reference to the requirements of the prevailing accounting standards; • on a sample basis inspecting manual adjustments made to revenue during the reporting period, enquiring of management about the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation; • assessing whether revenue had been recognised in the appropriate accounting period and in accordance with the terms of the sales contracts by comparing a sample of sales transactions recorded around the period end with relevant underlying documents, which included delivery notes or documentation indicating the customers' acknowledgement of delivery of the goods sold; and • identifying significant sales returns from the sales ledger after the period end and inspecting the underlying documentation to assess if the related adjustments to revenue had been accounted for in the appropriate reporting period.

KEY AUDIT MATTERS (CONTINUED)

Assessing potential impairment of property, plant and equipment, intangible assets, land use rights, construction in progress and right-of-use assets	
Refer to notes 14, 15, 16 and 17 to the consolidated financial statements and the accounting policy notes 2.6, 2.7, 2.8 and 2.11.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group's non-current assets relating to its manufacturing operations include property, plant and equipment, intangible assets, land use rights, construction in progress and right-of-use assets (the "manufacturing assets"). As at 30 June 2020, the carrying amount of the Group's manufacturing assets in total was approximately HK$485 million. The Group has recorded a loss before tax of approximately HK$40 million from its operations for the period from 1 January 2019 to 30 June 2020. As the Group has recorded a net loss in recent years, management considered that indicators of potential impairment of the Group's manufacturing assets existed and performed an assessment to determine the recoverable amounts of the related assets as at that date. Management estimated the recoverable amounts of the manufacturing assets using the value in use model by preparing discounted cash flow forecasts for the separately identifiable cash-generating unit ("CGU") to which the manufacturing assets had been allocated and comparing the net present value with the carrying values of the manufacturing assets to determine whether provision for impairment was required.	Our audit procedures to assess potential impairment of the manufacturing assets included the following: • evaluating management's processes and procedures for the identification of indicators of potential impairment of the manufacturing assets; • evaluating management's identification of CGUs and the allocation of assets to each CGU and management's methodology adopted in the preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards; • evaluating the historical accuracy of management's value in use calculations by comparing the forecast at the end of the previous financial year for revenue, operating costs and the growth rate with the actual outcomes in the current period and investigating reasons for any significant differences between the forecasts and actual results; • engaging our internal valuation specialists to assist us in assessing the methodology applied by management in its discounted cash flow forecast with reference to the requirements of the prevailing accounting standards and the reasonableness of discount rates used by comparing them with the discount rate of other companies in the same industry;

KEY AUDIT MATTERS (CONTINUED)

Assessing potential impairment of property, plant and equipment, intangible assets, land use rights, construction in progress and right-of-use assets (continued)

Refer to notes 14, 15, 16 and 17 to the consolidated financial statements and the accounting policy notes 2.6, 2.7, 2.8 and 2.11.

The Key Audit Matter	How the matter was addressed in our audit
The preparation of discounted cash flow forecasts involves the exercise of significant management judgement, in particular in forecasting revenue growth rates and profit margin ratios and in determining appropriate discount rates. We identified assessing potential impairment of the Group's manufacturing assets as a key audit matter because of the inherent uncertainty involved in forecasting future cash flows, in particular in respect of revenue growth rates, profit margin ratios, and the discount rates applied, which could be subject to potential management bias.	• evaluating the key assumptions adopted by management in their preparation of the discounted cash flow forecasts, including revenue growth rates and profit margin ratios, by comparing with the approved financial budgets, our understanding, experience and knowledge of the Group's businesses and future business plans; and • performing sensitivity analyses of the key assumptions adopted in the discounted cash flow forecasts, including the revenue growth rates, profit margin ratios, and the discount rates, to evaluate the impact on the headroom for each CGU and assessing the impact of changes in the key assumptions to the conclusions reached and whether there are any indicators of management bias.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The Directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yau Ngai Lun, Alan.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Hong Kong, 25 September 2020

Consolidated Income Statement

	Note	For the eighteen months ended 30 June 2020 HK$'000	For the year ended 31 December 2018# HK$'000
Revenues	5	**738,407**	540,932
Cost of sales	6	**(340,104)**	(247,081)
Gross profit		**398,303**	293,851
Distribution costs	6	**(242,726)**	(186,646)
Administrative expenses	6	**(207,630)**	(158,484)
Gain on disposal of non-current asset held for sale	8	**11,089**	–
Other gains – net	9	**5,875**	8,351
Operating loss		**(35,089)**	(42,928)
Finance (costs)/income – net	10	**(5,170)**	464
Loss before income tax		**(40,259)**	(42,464)
Income tax credit/(expense)	11	**1,085**	(947)
Loss for the period/year		**(39,174)**	(43,411)
Loss attributable to:			
Owners of the Company		**(37,105)**	(34,136)
Non-controlling interests		**(2,069)**	(9,275)
		(39,174)	(43,411)
Losses per share attributable to the owners of the Company during the period/year (expressed in HK cents per share)			
Basic/diluted	12	**(17.49)**	(16.09)

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.2(a).

The notes on pages 72 to 142 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	For the eighteen months ended 30 June 2020 HK$'000	For the year ended 31 December 2018# HK$'000
Loss for the period/year	(39,174)	(43,411)
Other comprehensive income:		
Item that will not be reclassified subsequently to profit or loss		
Remeasurement of retirement benefit obligations	(612)	(329)
Items that have been or may be reclassified subsequently to profit or loss		
Release of reserves attributable to the disposal of non-current asset held for sale	(14,743)	–
Currency translation differences	(17,465)	(12,734)
Other comprehensive loss for the period/year, net of tax	(32,820)	(13,063)
Total comprehensive loss for the period/year	(71,994)	(56,474)
Attributable to:		
Owners of the Company	(69,141)	(45,729)
Non-controlling interests	(2,853)	(10,745)
	(71,994)	(56,474)

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.2(a).

The notes on pages 72 to 142 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Note	30 June 2020 HK$'000	31 December 2018# HK$'000
Assets			
Non-current assets			
Land use rights	14	**25,148**	27,138
Property, plant & equipment	15	**332,747**	267,574
Construction in progress	15	**640**	107,893
Intangible assets	16	**19,798**	15,064
Right-of-use assets	17	**107,195**	–
Prepayments	20	**1,369**	5,816
Other receivable	8	**4,887**	–
Lease receivables	21	**1,083**	–
		492,867	423,485
Current assets			
Inventories	19	**68,557**	83,646
Trade & other receivables	20	**70,931**	111,936
Lease receivables	21	**2,186**	–
Current income tax recoverable		**6,228**	3,787
Pledged bank deposit	22	**402**	393
Cash & cash equivalents	23	**136,036**	93,008
		284,340	292,770
Non-current asset held for sale		**–**	17,192
		284,340	309,962
Total assets		**777,207**	733,447
Equity			
Equity attributable to owners of the Company			
Share capital	25	**21,219**	21,219
Reserves	26	**244,275**	275,699
Retained earnings:			
Proposed dividend	13	**–**	–
Others		**104,011**	141,669
		369,505	438,587
Non-controlling interests		**17,415**	20,268
Total equity		**386,920**	458,855

The notes on pages 72 to 142 are an integral part of these consolidated financial statements.

	Note	30 June 2020 HK$'000	31 December 2018# HK$'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	27	**2,065**	2,225
Retirement benefit obligations	28	**3,719**	3,460
Lease liabilities	33	**91,708**	–
		97,492	5,685
Current liabilities			
Trade & other payables	29	**136,982**	183,687
Contract liabilities – Deposits received in advance	30	**97,047**	83,164
Derivative financial instruments	31	**93**	251
Current income tax liabilities		**2,284**	1,805
Bank borrowings – unsecured	32	**31,040**	–
Lease liabilities	33	**25,349**	–
		292,795	268,907
Total liabilities		**390,287**	274,592
Total equity & liabilities		**777,207**	733,447
Net current (liabilities)/assets		**(8,455)**	41,055
Total assets less current liabilities		**484,412**	464,540

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.2(a).

The financial statements on pages 65 to 142 were authorised for issue by the Board of Directors on 25 September 2020 and were signed on its behalf.

Nicholas Timothy James Colfer
Chairman

Mark Stuart Worgan
Executive Director

The notes on pages 72 to 142 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	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 the 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

The notes on pages 72 to 142 are an integral part of these consolidated financial statements.

For the eighteen months ended 30 June 2020

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2019	21,219	189,699	86,000	141,669	438,587	20,268	458,855
Comprehensive income							
Loss for the period	–	–	–	(37,105)	(37,105)	(2,069)	(39,174)
Other comprehensive income for the period							
Release of reserve attributable to the disposal of non-current asset held for sale	–	–	(14,743)	–	(14,743)	–	(14,743)
Remeasurement of retirement benefit obligations	–	–	–	(612)	(612)	–	(612)
Currency translation differences	–	–	(16,681)	–	(16,681)	(784)	(17,465)
Total other comprehensive loss for the period, net of tax	–	–	(31,424)	(612)	(32,036)	(784)	(32,820)
Total comprehensive loss for the period	–	–	(31,424)	(37,717)	(69,141)	(2,853)	(71,994)
Total contributions by and distributions to the owners of the Company, recognised directly in equity							
Dividend forfeited	–	–	–	59	59	–	59
Balance at 30 June 2020	21,219	189,699	54,576	104,011	369,505	17,415	386,920

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.2(a).

The notes on pages 72 to 142 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	For the eighteen months ended 30 June 2020 HK$'000	For the year ended 31 December 2018# HK$'000
Cash flows from operating activities			
Cash generated from operations	34	**75,591**	9,334
Income tax paid		**(1,036)**	(13,101)
Interest paid		**(235)**	(814)
Net cash generated from/(used in) operating activities		**74,320**	(4,581)
Cash flows from investing activities			
Purchases of property, plant & equipment and construction in progress		**(18,459)**	(52,748)
Acquisition of intangible assets		**–**	(12)
Proceeds from disposal of property, plant & equipment		**40**	166
Proceeds from disposal of non-current asset held for sale		**8,651**	–
Decrease in financial derivative instruments		**270**	1,992
Interest received		**417**	507
Net cash used in investing activities from Discontinued operation	24	**–**	(52,182)
Net cash used in investing activities		**(9,081)**	(102,277)
Cash flows from financing activities			
Proceeds from borrowings		**46,680**	46,780
Repayments of borrowings		**(15,560)**	(108,780)
(Increase)/decrease in pledged bank deposits		**(9)**	294
Dividend paid to the Company's shareholders		**–**	(596)
Capital element of lease rentals paid		**(50,697)**	–
Interest element of lease rentals paid		**(5,897)**	–
Net cash used in financing activities		**(25,483)**	(62,302)
Net increase/(decrease) in cash & cash equivalents		**39,756**	(169,160)
Cash & cash equivalents at beginning of period/year		**93,008**	264,338
Exchange losses on cash & cash equivalents		**3,272**	(2,170)
Cash & cash equivalents at end of period/year	23	**136,036**	93,008

The group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.2(a).

The notes on pages 72 to 142 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Tai Ping Carpets International Limited ("the Company") and its subsidiaries (together "the Group") are principally engaged in 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 (the "Board") of the Company 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 financial period covers an eighteen months period from 1 January 2019 to 30 June 2020 with the comparative financial period from 1 January 2018 to 31 December 2018.

Consequently, the comparable amount of the consolidated income statements, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows and related notes are not comparable in so far as they relate to a shorter period than the current period.

Not withstanding the net current liabilities of HK$8,455,000 at 30 June 2020, the financial statements have been prepared on a going concern basis. The directors have considered the future operating cashflow of the Group and are confident that the Group is able to meet its liabilities as they fall due. Accordingly, the directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on 25 September 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the eighteen months ended 30 June 2020 and the year ended 31 December 2018 presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

Non-current assets are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.2 Changes in accounting standards

(a) New and amended standard mandatory for the first time for the financial period beginning on 1 January 2019

HKFRS 16 "Leases" (new standard and amendment)

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.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 any 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:

(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 and transitional impact

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. For an explanation of how the Group applies lessee accounting, see Note 2.11.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

– 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;
– 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
– 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.

The following table reconciles the operating lease commitments as disclosed in Note 35 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**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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	Capitalisation of operating lease contracts	Carrying amount as at 1 January 2019
	HK$'000	HK$'000	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**	**1,263**	**460,118**

As at 1 January 2019 and 30 June 2020, the Group was the lessee in respect of a number of lease agreements mainly for the use of offices and showrooms.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iv) Amendment to HKFRS 16, COVID-19 Related Rent Concession

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in the income statement in the period in which the event or condition that triggers those payments occurred (see Note 17). There is no impact on the opening balance of equity at 1 January 2019.

(b) New and amended standards and interpretations which have been issued but are not effective for the financial period ended 30 June 2020 and have not been early adopted

The Group has not early adopted the following amendments that may be relevant to the Group. These amendments have been issued but not yet effective:

HKFRS 3	Business Combinations (amendments)[1]
HKAS 1	Presentation of Financial Statements (amendments)[1]
HKFRS 8	Accounting Policies, Changes in Account Estimates and Errors (amendments)[1]

Note:

1 Effective for the Group from 1 July 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition related costs are expensed as incurred.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Transactions between group companies, balances and related unrealised gains and losses are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group account policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(iv) Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the consolidated income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board which makes strategic decisions.

2.5 Foreign currency translation

(a) Functional & presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$'000, which is the Company's functional and the Group's presentation currency.

(b) Transactions & balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign exchange gains and losses are presented in the consolidated income statement within "Other gains – net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are taken to other comprehensive income.
When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity in respect of that operation attributable to the owners of the Company are recognised in the consolidated income statement as part of the gain or loss on disposal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.6 Property, plant & equipment

Buildings comprise mainly factories, retail outlets and offices. They are stated at cost or valuation less accumulated depreciation and impairment losses. Certain buildings were stated at valuation which was carried out prior to 30 September 1995. Under transitional provision in paragraph 80AA of HKAS 16, the Group is not required to make regular revaluations in accordance with paragraphs 31 and 36 of HKAS 16.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	2%-18%
Machinery	8%-20%
Leasehold improvements	Shorter of lease term or useful life
Furniture, fixtures & equipment	6%-25%
Motor vehicles	18%-20%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognised within "Other gains – net" in the consolidated income statement.

2.7 Construction in progress

Construction in progress represents machinery and furniture, fixtures and equipment to be installed, and buildings of which construction work has not been completed. Construction in progress is stated at cost, which includes construction expenditures incurred and other costs directly attributable to the construction capitalised during the construction period, less accumulated impairment losses. No depreciation is provided in respect of construction in progress until the construction work is completed. Upon completion, the construction in progress will be transferred to appropriate categories of property, plant and equipment and depreciated in accordance with the policy stated in Note 2.6.

2.8 Intangible assets

(a) Vendor relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The vendor relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of 5 years.

(b) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the costs attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in the subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives of 5 to 7 years.

(c) Brands

Brands acquired in a business combination are initially recognised at fair value at acquisition date. Brands with indefinite useful life are not amortised and are reviewed for impairment on an annual basis.

(d) Design library and other intangible assets

Design library and other intangible assets (which include web-based applications) with finite useful life are stated at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the respective lives of the assets, ranging from 3 to 16 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying amounts are to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (or disposal groups), except for certain assets as explained below, are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

2.11 Leased assets and land use rights

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

(a) As a lessee

Policy applicable from 1 January 2019

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily temporary staff accommodation. 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. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

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 the consolidated income statement 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 (Note 2.9), 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.

Depreciation is calculated using the straight-line method to allocate the cost of right-of-use assets over the unexpired term of leases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the consolidated income statement if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property and lease liabilities separately in the consolidated statement of financial position.

The Group accounts for a lease modification as a separate lease if:

– The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
– The consideration for the leases increases by and amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

The Group accounts for the remeasurement of lease liabilities and lease incentives for lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Policy applicable prior to 1 January 2019

Leases in which a significant portion of the risks and rewards of ownership of the leased asset are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases by which substantially all the risks and rewards incidental to the ownership of the leased asset are transferred by the lessor to the lessee are classified as finance leases.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(b) As a lessor

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in Note 2.11(a), then the Group classifies the sub-lease as an operating lease.

2.12 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: fair value through profit or loss ("FVPL") and loans and receivables at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets (including derivatives) are classified as FVPL unless they are not held for trading purposes and on initial recognition the Group makes an irrevocable election to designate the financial assets at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an asset-by-asset basis, but may only be made if the financial asset meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the financial asset is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Loans & receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

(b) Recognition & measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "Other gains – net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Credit losses and impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECLs") on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, lease receivables and trade and other receivables); and
- contract assets as defined in HKFRS 15.

Financial assets measured at fair value, including derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- lease receivables: discount rate used in the measurement of the lease receivable; and
- loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date;
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of work-in-progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 Trade & other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2.14).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Subsequent changes in the fair value of these derivatives are recognised immediately in the consolidated income statement.

2.18 Cash & cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are assessed for expected credit losses in accordance with the policy set out in Note 2.14.

2.19 Share capital

Ordinary shares are classified as equity.

2.20 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.21 Contract liabilities

A contract liability is recognised as deposits received when the customer pays non-refundable consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

2.24 Current & deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax assets is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Employee benefits

Pension obligations

A defined contribution plan is a pension plan under which the Group pays contributions to publicly or privately administrated pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of services and compensation.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognised in the consolidated income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when i) the Group has a present legal or constructive obligation as a result of past events; ii) it is probable that an outflow of resources will be required to settle the obligation; and iii) the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.27 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow of economic resources occurs so that outflow is probable, the contingent liability will then be recognised as a provision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Revenue recognition

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

(a) Revenue from sale of carpets, yarns, underlays and interior furnishings

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(b) Revenue from installation of carpets

Revenue from installation of carpets is recognised in the accounting period in which the installation services are rendered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

(e) Government grants

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised in the consolidated income statement on a systematic basis in the same periods in which the expenses are incurred.

2.29 Research and development costs

Research costs are expensed as incurred.

Development costs are recognised as intangible assets when the following criteria are met:

– It is technically feasible to complete the intangible asset so that it will be available for use or sale;
– Management intends to complete the intangible asset and use or sell it;
– There is an ability to use or sell the intangible asset;
– It can be demonstrated how the intangible asset will generate probable future economic benefits;
– Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
– The costs attributable to the intangible asset during its development can be reliably measured.

Development costs that do not meet these criteria are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.31 Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;
(ii) has significant influence over the Group; or
(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
(vi) The entity is controlled or jointly controlled by a person identified in (a).
(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

Risk management is carried out by a central finance team led by the CFO. CFO identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides guidance for overall risk management.

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US$"), Chinese Renminbi ("RMB") and Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Management considers the foreign exchange risk with respect to US$ is not significant as HK$ is pegged to US$.

The Group's principal net foreign currency exposure arises from the US$ denominated financial assets/liabilities in the Group's operations covering Europe, the People's Republic of China (the "PRC") and the United Kingdom whose functional currencies are the local currency of the respective operations.

To manage this exposure, the Group takes advantage of any natural offsets of the Group's foreign currency revenues and expenses and may use foreign currency forward contracts from time to time to manage the risk arising from foreign currency transactions.

At 30 June 2020, if US$ had strengthened/weakened by 5% (31 December 2018: 5%) against Euro with all other variables held constant, pre-tax loss for the year would have been lower/higher by approximately HK$632,000 (31 December 2018: HK$562,000), mainly as a result of foreign exchange gains/losses on translation of US$ denominated assets and liabilities in entities whose functional currency is Euro.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 30 June 2020, if US$ had strengthened/weakened by 5% (31 December 2018: 5%) against British pounds with all other variables held constant, pre-tax loss for the year would have been lower/higher by approximately HK$539,000 (31 December 2018: higher/lower by HK$111,000), mainly as a result of foreign exchange gains/losses on translation of US$ denominated assets and liabilities in entities whose functional currency is British pounds.

At 30 June 2020, if US$ had strengthened/weakened by 5% (31 December 2018: 5%) against RMB with all other variables held constant, pre-tax loss for the year would have been higher/lower by approximately HK$227,000 (31 December 2018: HK$1,629,000), mainly as a result of foreign exchange losses/gains on translation of US$ denominated assets and liabilities in entities whose functional currency is RMB.

At 30 June 2020, if RMB had strengthened/weakened by 5% (31 December 2018: 5%) against HK$ with all other variables held constant, pre-tax loss for the year would have been lower/higher by approximately HK$1,078,000 (31 December 2018: HK$1,133,000), mainly as a result of foreign exchange gains/losses on translation of RMB denominated assets and liabilities in entities whose functional currency is HK$.

At 30 June 2020, if Euro had strengthened/weakened by 5% (31 December 2018: 5%) against HK$ with all other variables held constant, pre-tax loss for the year would have been lower/higher by approximately HK$1,537,000 (31 December 2018: HK$926,000), mainly as a result of foreign exchange gains/losses on translation of Euro denominated assets and liabilities in entities whose functional currency is HK$.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk of the Group mainly arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers including trade receivables, amounts due from related companies and other receivables. The carrying amounts of these balances in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group's bank deposits are placed in major international banks and financial institutions. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past.

The Group has no significant concentrations of credit risk as the Group has a large number of customers, internationally dispersed. Sales to retail customers are made in cash or via major credit card companies. For project sales, the Group will request the customers for initial deposits and will accept orders only from those customers with an appropriate credit standing or history. The Group also performs periodic assessment of the trade receivables and believes that adequate provision for credit losses has been made. Due to the short duration of trade receivables and the business model adopted by the Group, the ECL allowance is not considered significant.

(c) 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.

As at 30 June 2020, the Group had total banking facilities of approximately HK$330,880,000 (31 December 2018: HK$499,229,000), of which HK$31,040,000 (31 December 2018: Nil) was drawn down as bank borrowings and approximately HK$2,948,000 (31 December 2018: HK$3,093,000) was utilised for trade facilities. The Group's banking facilities are granted by several banks and they are subject to annual review.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 year, the Group held cash and cash equivalents of approximately HK$136,036,000 (31 December 2018: HK$93,008,000) (Note 23) ready to meet liquidity needs.

As at 30 June 2020, the Group failed to comply with two of the covenant requirements of the Group's banking facilities amounting to HK$173,720,000 of which HK$15,520,000 was drawn down as bank borrowings and HK$2,661,000 was utilised for trade facilities. Subsequent to the eighteen months ended 30 June 2020, the relevant banks have issued formal waivers from compliance of the certain convened requirements of the banking facilities.

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 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:

30 June 2020	Within 1 year	After 1 year but within 5 years	More than 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Trade & other payables	61,109	–	–	61,109
Bank borrowings – unsecured	31,040	–	–	31,040
Lease liabilities	25,349	49,358	42,350	117,057
	117,498	49,358	42,350	209,206

31 December 2018	Less than 1 year	Total
	HK$'000	HK$'000
Trade & other payables	83,075	83,075

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

All of the Group's non-trading gross settled derivative financial instruments (Note 31) are due to settle within 12 months of the consolidated statement of financial position date. These contracts require undiscounted contractual cash inflows of approximately HK$12,416,000 (31 December 2018: HK$3,672,000) and undiscounted contractual cash outflows of approximately HK$12,416,000 (31 December 2018: HK$3,890,000).

(d) Cash flow & fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At 30 June 2020, the Group's bank borrowings primarily represent short-term bank loans. If market interest rate had increased/decreased by 100 basis points with all other variables held constant, pre-tax profit for the year would have been lower/higher by HK$310,000. The Group did not hold any short-term bank loans as at 31 December 2018.

The Group also holds cash at banks and bank deposits which carry interest at market rates, the Group has no significant interest-bearing assets. As the interest income and expenses derived therefrom are relatively insignificant to the Group's operations, its income and operating cash flows are substantially independent of changes in market interest rates. Accordingly, the directors are of the opinion that the Group does not have significant cash flow and fair value interest rate risk and no sensitivity analysis is performed.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure under the policy of prudent financial management. In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Management of the Group monitors the utilisation of borrowings and ensures full compliance with loan covenants during the eighteen months period/year and at the end of each reporting period. In the event any loan covenants were breached, the management will take immediate actions to rectify the defaults.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

The Group analyses the financial instruments carried at fair value as at 30 June 2020 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three 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 tables present the Group's assets and liabilities that are measured at fair value at 30 June 2020 and 31 December 2018. The fair value measurements of the Group's foreign currency forward contracts, which are presented in the statement of financial position as derivative financial instruments, as at 30 June 2020 and 31 December 2018 are categorised into Level 2.

	30 June 2020 HK'000	31 December 2018 HK'000
Liabilities		
Derivative financial instruments:		
Foreign currency forward contracts	**93**	251

During the period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (31 December 2018: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

4. CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Impairment of property, plant & equipment, land use rights, construction in progress and intangible assets

Property, plant and equipment, land use rights, construction in progress and intangible assets are assessed for indication of impairment at the end of each reporting period, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If any such indication exists, management shall estimate the recoverable amount of the assets. The recoverable amounts are determined based on higher of assets' fair value less costs of disposal and value in use. The impairment assessment requires the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing:

(i) whether an event has occurred that may indicate that the related asset values may not be recoverable;
(ii) whether the carrying value of an asset can be supported by its recoverable amount, being the higher of fair value less costs of disposal and value in use; and
(iii) appropriate key assumptions to be applied in preparing cash flow projections in determining the recoverable amount.

Changing the assumptions selected by management in assessing the recoverable amount, including discount rates or growth rate assumptions in the cash flow projections, could impact the impairment assessment results.

4.2 Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at the end of each reporting period.

5. REVENUES & SEGMENT INFORMATION

(a) Revenue from contracts with customers within the scope of HKFRS 15

	For the eighteen months ended 30 June 2020 HK$'000	For the year ended 31 December 2018 HK$'000
Sale of carpets	**637,285**	466,535
Sale of underlays	**5,026**	3,293
Installation of carpets	**17,067**	13,327
Interior furnishings	**56,392**	36,459
Sale of yarns	**21,650**	21,318
Others	**987**	–
	738,407	540,932

(b) Segment information

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

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

5. REVENUES & SEGMENT INFORMATION (CONTINUED)

The segment information provided to management for the reportable segments for the eighteen months ended 30 June 2020 and year ended 31 December 2018 are as follows:

For the eighteen months ended 30 June 2020

	Asia HK$'000	EMEA HK$'000	America HK$'000	Unallocated HK$'000	Group HK$'000
Revenue from external customers	147,562	296,344	294,501	–	738,407
Cost of production[1]	(68,479)	(136,434)	(130,123)	–	(335,036)
Segment gross margin	79,083	159,910	164,378	–	403,371
Segment results	17,468	2,101	(8,185)	–	11,384
Gain on disposal of non-current asset held for sale					11,089
Unallocated expenses[2]					(57,562)
Operating loss					(35,089)
Finance costs – net					(5,170)
Loss before income tax					(40,259)
Income tax credit					1,085
Loss for the period					(39,174)
Non-current assets	347,769	76,964	62,606	5,528	492,867
Current assets	127,467	82,800	67,701	6,372	284,340
Total assets					777,207
Segment liabilities	99,571	148,227	102,802	39,687	390,287
Capital expenditure	(7,490)	(3,196)	(6,344)	–	(17,030)
Amortisation of intangible assets (Note 16)	(147)	–	(194)	(6,641)	(6,982)
Depreciation of property, plant & equipment (Note 15)	(23,747)	(4,013)	(6,304)	(929)	(34,993)
Depreciation of other right-of-use assets (Note 17)	(11,746)	(18,612)	(16,554)	–	(46,912)
Amortisation of land use rights (Note 14)	(911)	–	–	–	(911)
Allowance for impairment of inventories – net	(3,390)	(977)	(430)	–	(4,797)
Inventories written off	(4,556)	(1,916)	(106)	–	(6,578)
(Allowance for)/recovery of impairment of trade receivables – net	(223)	1,006	(371)	–	412
Property, plant & equipment written off (Note 15)	(1,055)	–	(43)	–	(1,098)

5. REVENUES & SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2018

	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 – net					464
Loss before income tax					(42,464)
Income tax expense					(947)
Loss for the year					(43,411)
Non-current assets	376,096	18,600	21,725	7,064	423,485
Current assets	134,369	83,720	51,267	23,414	292,770
Non-current asset held for sale	–	–	–	17,192	17,192
Total assets					733,447
Segment liabilities	90,687	81,569	55,507	46,829	274,592
Capital expenditure	(54,329)	(1,558)	(2,456)	–	(58,343)
Amortisation of intangible assets (Note 16)	(4,203)	–	(130)	–	(4,333)
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)
Recovery of/(allowance for) impairment of inventories-net	4,844	(820)	327	–	4,351
Inventories written off	(50)	(361)	–	–	(411)
Allowance for impairment of trade receivables – net	–	(880)	(855)	–	(1,735)
Property, plant & equipment written off (Note 15)	(1,033)	(9)	–	(5)	(1,047)

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 consolidated income statement.
2. Unallocated expenses include corporate expenses of the Group.
3. The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.2(a).

No single external customer accounted for more than 10% of the Group's revenues for the eighteen months ended 30 June 2020 and year ended 31 December 2018.

6. EXPENSES BY NATURE

	For the eighteen months ended 30 June 2020 HK$'000	For the year ended 31 December 2018# HK$'000
Raw materials & consumables used	72,719	61,496
Amortisation of intangible assets (Note 16)	6,982	4,333
Depreciation of property, plant & equipment (Note 15)	34,993	21,017
Depreciation/amortisation of right-of-use assets by class of underlay assets		
– Buildings and properties (Note 17)	46,471	–
– Other assets (Note 17)	441	–
– Land use rights (Note 14)	911	640
Employee benefit expenses (Note 7)	273,552	202,420
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	1,889	–
Variable lease payments not included in the measurement of lease liabilities	17	–
Operating lease charges in respect of		
– Land & buildings	–	35,532
– Other assets	–	15
Allowance for/(recovery of) impairment of inventories – net	4,797	(4,351)
Inventories directly written off	6,578	411
(Recovery of)/allowance for impairment of trade receivables – net	(412)	1,735
Bad debts directly written off	82	402
Auditor's remuneration		
– Audit services	2,617	2,128
– Non-audit services	1,029	78
Legal and professional fees	15,117	14,335

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.2(a).

7. EMPLOYEE BENEFIT EXPENSES

	For the eighteen months ended 30 June 2020	For the year ended 31 December 2018
	HK'000	HK$'000
Wages & salaries (including Directors' emoluments)	266,827	199,007
Pension (income)/costs – defined benefit plans	(253)	335
Retirement benefit costs – defined contribution schemes	6,978	3,078
	273,552	202,420

(a) Retirement benefit costs – defined contribution schemes

No unvested benefits was used during the period to reduce future contributions and refunded to the Group (31 December 2018: HK$148,000). As at 30 June 2020 and 31 December 2018, no unvested benefits were available for use by the Group to reduce future contributions.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the eighteen months ended 30 June 2020 included one (for the year ended 31 December 2018: one) director whose emoluments were reflected in the analysis presented in Note 40. The emoluments payable to the remaining four (for the year ended 31 December 2018: four) individuals during the period are as follows:

	For the eighteen months ended 30 June 2020	For the year ended 31 December 2018
	HK$'000	HK$'000
Basic salaries, bonus, housing and other allowances	18,579	13,163
Retirement benefit costs	1,014	302
	19,593	13,465

7. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

The emoluments fell within the following bands:

	No. of individuals	
	For the eighteen months ended 30 June 2020	For the year ended 31 December 2018
Emolument bands		
HK$2,500,001 – HK$3,000,000	**–**	2
HK$3,000,001 – HK$3,500,000	**–**	–
HK$3,500,001 – HK$4,000,000	**1**	1
HK$4,000,001 – HK$4,500,000	**1**	1
HK$4,500,001 – HK$5,000,000	**–**	–
HK$5,000,001 – HK$5,500,000	**1**	–
HK$5,500,001 – HK$6,000,000	**1**	–

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 interest 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 transaction 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 Group recorded its share of the gain on disposal of HK$11,089,000 in this financial period. The balance of the outstanding proceeds of HK$4,887,000 was recorded as long-term other receivable as at 30 June 2020.

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

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

	For the eighteen months ended 30 June 2020 HK$'000
Consideration of the disposal	**34,256**
Less: Direct expenses in relation to the disposal	**(20,718)**
Net consideration	**13,538**
Less: Carrying value of the non-current asset held for sale	**(17,192)**
Add: 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

	For the eighteen months ended 30 June 2020 HK$'000	For the year ended 31 December 2018# HK$'000
Gain from derecognition of right-of-use assets	**1,263**	–
Gain on change in fair value of derivative financial instruments	**428**	493
Net foreign exchange gain	**2,255**	297
Refund of unvested benefits of defined contribution plan	**–**	148
Property, plant & equipment written off	**(1,098)**	(1,047)
Loss on disposal of property, plant and equipment	**(681)**	–
Others	**3,708**	8,460
	5,875	8,351

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.2(a).

10. FINANCE (COSTS)/INCOME – NET

	For the eighteen months ended 30 June 2020	For the year ended 31 December 2018#
	HK$'000	HK$'000
Finance income – interest income from banks	417	507
Finance costs – interest expenses for leases, net	(5,352)	–
Finance costs – Interests on bank loans & overdrafts wholly repayable within five years	(235)	(43)
Finance (costs)/income – net	(5,170)	464

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.2(a).

11. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (for the year ended 31 December 2018: 16.5%) on the estimated assessable profits for the eighteen months ended 30 June 2020. Taxation on overseas profits has been calculated on the estimated assessable profits for the eighteen months ended 30 June 2020 and year ended 31 December 2018 at the rates of taxation prevailing in the countries in which the Group operates.

	For the eighteen months ended 30 June 2020	For the year ended 31 December 2018
	HK$'000	HK$'000
Current income tax		
Hong Kong	333	1,732
Overseas	1,312	2,984
Tax refund/over-provision in prior years	(2,570)	(2,595)
Deferred income tax credit	(160)	(1,174)
Income tax (credit)/expense	(1,085)	947

(a) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% during the period (for the year ended 31 December 2018: 16.5%).

11. INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

(b) PRC enterprise income tax

The enterprise income tax rate in the PRC of both domestic enterprise and foreign investment enterprise is 25% for the eighteen months ended 30 June 2020 (for the year ended 31 December 2018: 25%).

(c) United States corporate tax

Subsidiaries established in the United States are subject to United States corporate tax at a rate of 28% for the eighteen months ended 30 June 2020 (for the year ended 31 December 2018: 28%).

The tax on the operations' loss before income tax differs from the theoretical amount that would have arisen using the weighted average tax rate applicable to profits or losses of the consolidated operations entities due to the following:

	For the eighteen months ended 30 June 2020 HK$'000	For the year ended 31 December 2018 HK$'000
Loss before income tax	**(40,259)**	(42,464)
Tax calculated at domestic tax rates applicable to losses in the respective countries	**(13,221)**	(12,740)
Income not subject to tax	**(14,774)**	(25,614)
Expenses not deductible for tax purposes	**13,663**	18,564
Utilisation of previously unrecognised tax losses	**(2,113)**	(6,256)
Tax losses for which no deferred income tax asset was recognised	**17,618**	29,873
Tax refund/over-provision in prior years	**(2,570)**	(2,595)
Others	**312**	(285)
Income tax (credit)/expense	**(1,085)**	947

The weighted average applicable tax rate for the eighteen months ended 30 June 2020 was 32.8% (for the year ended 31 December 2018: 30%).

12. LOSSES PER SHARE

Basic losses 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.

	For the eighteen months ended 30 June 2020	For the year ended 31 December 2018
Loss attributable to owners of the Company (HK$'000)	**(37,105)**	(34,136)
Weighted average number of ordinary shares in issue (thousands)	**212,187**	212,187
Basic losses per share (HK cents)	**(17.49)**	(16.09)

The Group had no dilutive potential shares outstanding during the eighteen months ended 30 June 2020 and the year ended 31 December 2018.

13. DIVIDEND

No interim dividend was paid during the eighteen months ended 30 June 2020 (for the year ended 31 December 2018: Nil).

At the Board meeting held on 25 September 2020, the Board has resolved not to declare any dividend for the eighteen months ended 30 June 2020 (for the year ended 31 December 2018: Nil).

14. LAND USE RIGHTS

Upon the adoption of HKFRS 16, the Group's interests in land use rights are also identified as right-of-use assets and their carrying amounts are analysed as follows:

	30 June 2020 HK$'000	31 December 2018 HK$'000
At 1 January 2019/2018	**27,138**	29,090
Amortisation of land use rights (Note 6)	**(911)**	(640)
Exchange differences	**(1,079)**	(1,312)
At 30 June 2020/31 December 2018	**25,148**	27,138

The leases typically run for an initial period of 30 to 50 years.

15. PROPERTY, PLANT & EQUIPMENT AND CONSTRUCTION IN PROGRESS

	Property, plant & equipment						
	Buildings	Leasehold improvements	Machinery	Furniture, fixtures & equipment	Motor vehicles	Property, plant & equipment total	Construction in progress
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018							
Cost or valuation	227,803	78,145	152,742	54,051	2,153	514,894	96,728
Accumulated depreciation	(35,237)	(57,307)	(126,221)	(38,404)	(1,428)	(258,597)	–
Net book amount	192,566	20,838	26,521	15,647	725	256,297	96,728
At 1 January 2018	192,566	20,838	26,521	15,647	725	256,297	96,728
Additions	876	3,718	9,482	5,024	569	19,669	38,674
Transfer from construction in progress	–	40	22,790	724	–	23,554	(23,554)
Disposals	–	–	(71)	(95)	–	(166)	–
Assets written off	–	(939)	–	(104)	(4)	(1,047)	–
Depreciation (Note 6)	(5,228)	(481)	(6,772)	(8,284)	(252)	(21,017)	–
Exchange differences	(8,326)	(681)	(625)	(70)	(14)	(9,716)	(3,955)
At 31 December 2018	179,888	22,495	51,325	12,842	1,024	267,574	107,893
At 31 December 2018							
Cost or valuation	218,471	70,461	181,773	57,950	2,633	531,288	107,893
Accumulated depreciation	(38,583)	(47,966)	(130,448)	(45,108)	(1,609)	(263,714)	–
Net book amount	179,888	22,495	51,325	12,842	1,024	267,574	107,893
At 1 January 2019	**179,888**	**22,495**	**51,325**	**12,842**	**1,024**	**267,574**	**107,893**
Additions	**1,415**	**3,452**	**4,802**	**2,651**	**273**	**12,593**	**4,437**
Transfer from construction in progress	**97,786**	**–**	**3,433**	**369**	**–**	**101,588**	**(110,560)**
Disposals	**–**	**–**	**(646)**	**(193)**	**–**	**(839)**	**–**
Assets written off	**–**	**–**	**(1,053)**	**(45)**	**–**	**(1,098)**	**–**
Depreciation (Note 6)	**(7,918)**	**(6,679)**	**(14,178)**	**(5,706)**	**(512)**	**(34,993)**	**–**
Exchange differences	**(9,138)**	**(518)**	**(1,597)**	**(792)**	**(33)**	**(12,078)**	**(1,130)**
At 30 June 2020	**262,033**	**18,750**	**42,086**	**9,126**	**752**	**332,747**	**640**
At 30 June 2020							
Cost or valuation	**306,440**	**62,758**	**179,778**	**57,563**	**2,613**	**609,152**	**640**
Accumulated depreciation	**(44,407)**	**(44,008)**	**(137,692)**	**(48,437)**	**(1,861)**	**(276,405)**	**–**
Net book amount	**262,033**	**18,750**	**42,086**	**9,126**	**752**	**332,747**	**640**

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

Depreciation expenses of approximately HK$20,428,000 (for the year ended 31 December 2018: HK$13,427,000) and approximately HK$14,565,000 (for the year ended 31 December 2018: HK$7,590,000) have been charged to cost of sales and administrative expenses, respectively.

During the eighteen months ended 30 June 2020, additions in construction in progress comprised mainly the new production facilites of approximately HK$3,370,000 (31 December 2018: HK$36,391,000). Costs capitalised include costs of construction materials, costs of machinery and equipment acquired pending installation and salary and employee benefits of the project teams.

During the eighteen months ended 30 June 2020, the Group has not capitalised any borrowing costs on qualifying assets as the construction was substantially completed. For the year ended 31 December 2018, the Group has capitalised borrowing costs amounting to approximately HK$771,000 on qualifying assets at the weighted average rate of its general borrowings of 2.5% per annum ("p.a.").

Certain of the Group's buildings were revalued on an open market basis at 31 December 1989 by independent professional valuers, Jones Lang Wootton (now Jones Lang LaSalle) and W. Lamar Pinson, Inc. Since the revaluation was carried out prior to 30 September 1995 and under the transitional provisions in paragraph 80AA of HKAS 16, the Group is not required to make regular revaluations in accordance with paragraphs 31 and 36 of HKAS 16. The Group did not revalue the buildings at 30 June 2020, and the buildings were stated at cost less accumulated depreciation.

16. INTANGIBLE ASSETS

	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
At 1 January 2018	–	15,716	2,250	645	949	19,560
Additions	–	12	–	–	–	12
Amortisation (Note 6)	–	(4,203)	–	(130)	–	(4,333)
Write off	–	(39)	–	–	–	(39)
Exchange differences	–	(3)	(98)	4	(39)	(136)
At 31 December 2018	–	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
At 1 January 2019	–	**11,483**	**2,152**	**519**	**910**	**15,064**
Additions	–	**3,101**	–	–	–	**3,101**
Transfer from construction in progress	–	**8,972**	–	–	–	**8,972**
Amortisation (Note 6)	–	**(6,788)**	–	**(194)**	–	**(6,982)**
Exchange differences	–	**(267)**	**(62)**	**(2)**	**(26)**	**(357)**
At 30 June 2020	–	**16,501**	**2,090**	**323**	**884**	**19,798**
At 30 June 2020						
Cost	**7,178**	**81,350**	**2,090**	**1,940**	**2,826**	**95,384**
Accumulated amortisation & impairment	**(7,178)**	**(64,849)**	–	**(1,617)**	**(1,942)**	**(75,586)**
Net book amount	–	**16,501**	**2,090**	**323**	**884**	**19,798**

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

Amortisation expenses of approximately HK$6,982,000 (for the year ended 31 December 2018: HK$4,333,000) have been charged to administrative expenses.

17. RIGHT-OF-USE ASSETS

The following table shows the movement of the Group's right-of-use assets by class of underlying asset during the period from the date of transition to HKFRS 16 to 30 June 2020:

	Buildings and Properties HK$'000	Other assets HK$'000	Total HK$'000
At 1 January 2019 with impact of HKFRS 16 at transition#	99,133	561	99,694
Additions	57,418	547	57,965
Modification	(2,425)	(3)	(2,428)
Depreciation (Note 6)	(46,471)	(441)	(46,912)
Exchange differences	(1,106)	(18)	(1,124)
At 30 June 2020	106,549	646	107,195

At 30 June 2020			
Cost or valuation	152,820	1,083	153,903
Accumulated depreciation	(46,271)	(437)	(46,708)
Net book amount	106,549	646	107,195

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.2(a).

Depreciation expense of approximately HK$2,181,000 (for the year ended 31 December 2018: Nil) and approximately HK$44,731,000 (for the year ended 31 December 2018: Nil) have been charged to cost of sales and administrative expenses, respectively.

(a) Buildings and properties

The Group has obtained the right to use certain buildings and properties as its manufacturing facilities, offices, showrooms, staff accommodations and warehouses through tenancy agreements. The leases typically run for an initial period of 2 to 12 years. Lease payments are usually increased every 1 to 2 years to reflect market rentals.

During the eighteen months ended 30 June 2020, the Group leased a showroom in Hong Kong which contains variable lease payment terms that are based on sales generated from the showroom and minimum annual lease payment terms are fixed. The amount of fixed and variable lease payments for the eighteen months ended 30 June 2020 are summarised below:

	Fixed payments HK$'000	Variable payments HK$'000	COVID-19 related concession HK$'000	Total payments HK$'000
Showroom – Hong Kong	4,443	17	(197)	4,263

17. RIGHT-OF-USE ASSETS (CONTINUED)

(b) Other assets

The Group has office equipments and motor vehicles under leases expiring from 2 to 5 years. Some leases include an option to purchase the leased equipments at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

18. SUBSIDIARIES

The following is a list of the principal subsidiaries as at 30 June 2020:

Name of subsidiaries	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Percentage of interest held
Shares held indirectly:				
Tai Ping Carpets (Xiamen) Company Limited	PRC, limited liability company	Carpet manufacturing in PRC	US$65,000,000	100%
Premier Yarn Dyers, Inc.	United States of America, limited liability company	Yarn dyeing in United States of America	1,100 shares of US$100 each	100%
Tai Ping Carpets Americas, Inc.	United States of America, limited liability company	Carpet trading in United States of America	220,900 shares of US$1 each	100%
Tai Ping Carpets Europe	France, limited liability company	Carpet trading in France	EUR4,500,000	100%
Tai Ping Carpets Interieur GmbH	Germany, limited liability company	Carpet trading in Germany	EUR511,292	100%
Tai Ping Carpets UK Limited	United Kingdom, limited liability company	Carpet trading in United Kingdom	GBP5,400,464	100%
Tai Ping Carpets Limited	Hong Kong, limited liability company	Carpet trading in Hong Kong	HK$20,000,000	100%
Tai Ping Carpets International Trading (Shanghai) Company Limited	PRC, limited liability company	Carpet trading in PRC	US$200,000	100%
Manufacture des Tapis de Cogolin	France, limited liability company	Carpet trading in France	EUR2,200,000	100%
Foshan Nanhai Tai Ping Carpets Company Limited[1]	PRC, limited liability company	Carpet manufacturing in PRC	US$5,000,000	80%

Notes:

1 Registered as foreign equity joint ventures under PRC Law.

2 None of the subsidiaries had issued any debt securities at the end of the period.

19. INVENTORIES

	30 June 2020 HK$'000	31 December 2018 HK$'000
Raw materials	33,853	51,914
Work in progress	6,583	11,076
Finished goods	38,851	31,702
Consumable stores	52	419
	79,339	95,111
Less: allowance for impairment of inventories	(10,782)	(11,465)
	68,557	83,646

The cost of inventories recognised as expense and included in cost of sales amounted to HK$72,719,000 (for the year ended 31 December 2018: HK$61,496,000).

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

	For the eighteen months ended 30 June 2020 HK$'000	For the year ended 31 December 2018 HK$'000
At 1 January 2019/2018	11,465	15,701
Allowance for impairment of inventories	5,462	1,599
Recovery of impairment previously recognised	(665)	(5,950)
Inventories written off	(5,080)	–
Exchange differences	(400)	115
At 30 June 2020/31 December 2018	10,782	11,465

20. TRADE & OTHER RECEIVABLES

	30 June 2020 HK$'000	31 December 2018 HK$'000
Trade receivables	46,637	71,986
Less: allowance for impairment of trade receivables	(5,005)	(9,448)
Trade receivables – net	41,632	62,538
Prepayments	9,228	11,934
Value added tax receivables	3,001	23,630
Rental deposits	6,724	5,645
Other receivables	16,602	14,005
	77,187	117,752
Less: Non-current portion prepayments	(1,369)	(5,816)
Less: Non-current portion other receivables (Note 8)	(4,887)	–
Current portion	70,931	111,936

The carrying amounts of trade receivables approximate their fair values as at 30 June 2020 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:

	30 June 2020 HK$'000	31 December 2018 HK$'000
0 to 30 days	23,828	36,197
31 to 60 days	6,231	7,070
61 to 90 days	1,030	4,305
91 to 365 days	8,937	14,608
More than 365 days	6,611	9,806
	46,637	71,986

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

	30 June 2020 HK$'000	31 December 2018 HK$'000
At 1 January 2019/2018	9,448	8,214
(Recovery of)/allowance for impairment of trade receivables - net	(412)	1,735
Receivables written off as uncollectible	(3,969)	(213)
Currency translation difference	(62)	(288)
At 30 June 2020/31 December 2018	5,005	9,448

Any impairment of trade receivables is included in administrative expenses in the consolidated income statement. When there is no expectation of recovery, the receivable balance is written off against the allowance for impairment.

20. TRADE & OTHER RECEIVABLES (CONTINUED)

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

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

	30 June 2020 HK$'000	31 December 2018 HK$'000
US$	**25,574**	47,789
Chinese Renminbi	**5,016**	31,959
Euro	**37,378**	31,134
HK$	**3,288**	4,298
British pounds	**1,042**	2,484
Others	**4,889**	88
	77,187	117,752

21. LEASE RECEIVABLES

The Group sub-leases out properties under finance leases. The leases run for an initial period of 2 to 6 years. Lease payments are usually increased every year to reflect market rentals.

The following table shows the Group's undiscounted lease payments receivable under finance leases in place at 30 June 2020:

	30 June 2020 HK$'000
Within 1 year	**2,186**
After 1 year but within 2 years	**1,083**
	3,269

22. PLEDGED BANK DEPOSIT

Pledged bank deposit of approximately HK$402,000 (31 December 2018: HK$393,000) represented deposit made to a bank to pledge for utilities of factory in the US.

As at 30 June 2020, the effective interest rate on the Group's pledged bank deposit was 1.39% p.a. (31 December 2018: 0.18% p.a.) and the deposit will mature in 344 days (31 December 2018: 129 days).

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

23. CASH & CASH EQUIVALENTS

The carrying amounts of the Group's cash and cash equivalents approximate to their respective fair values and are denominated in the following currencies:

	30 June 2020	31 December 2018
	HK$'000	HK$'000
Chinese Renminbi	**35,720**	23,941
US$	**53,557**	17,645
Euro	**37,169**	40,340
HK$	**5,220**	2,068
British pounds	**3,869**	6,644
Argentine pesos	**37**	1,407
Singapore dollars	**22**	23
Macau patacas	**1**	143
Others	**441**	797
	136,036	93,008

As at 30 June 2020, the Group's cash and bank balances included approximately HK$33,157,000 (31 December 2018: HK$12,588,000) placed with certain banks in the PRC by certain subsidiaries of the Group. These balances are subject to exchange controls.

24. DISCONTINUED OPERATION

During 2017, the Group completed the disposal of its Commercial Business ("the Disposal"). Accordingly, the financial results of the Disposal were presented in the consolidated income statement and consolidated statement of cash flows as "Discontinued operation" in accordance with HKFRS 5 "Non-current Assets Held for Sales and Discontinued Operation".

An analysis of the cash outflows of the Discontinued operation is as follows:

	31 December 2018
	HK$'000
Net cash used in investing activities	(52,182)

No cash outflows relating to the Discontinued operation was incurred during the eighteen months ended 30 June 2020.

25. SHARE CAPITAL

	No. of shares	HK$'000
Authorised – Ordinary shares of HK$0.10 each:		
At 31 December 2018 & 30 June 2020	**400,000,000**	40,000
Issued and fully paid – Ordinary shares of HK$0.10 each:		
At 31 December 2018 & 30 June 2020	**212,187,488**	21,219

26. SHARE PREMIUM & OTHER RESERVES

	Share premium	Capital reserve	Properties revaluation reserve	General reserve	Currency translation reserve	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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
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	**–**	**–**	**–**	**–**	**(16,681)**	**(16,681)**
Balance at 30 June 2020	**189,699**	**49,714**	**–**	**8,000**	**(3,138)**	**244,275**

27. DEFERRED INCOME TAX

The analysis of deferred tax liabilities is as follows:

	30 June 2020	31 December 2018
	HK$'000	HKD'000
Deferred tax liabilities to be recovered after 12 months	**(2,065)**	(2,225)

The gross movements on the Group's deferred income tax account are as follows:

	30 June 2020	31 December 2018
	HK$'000	HK$'000
At 1 January 2019/2018	**(2,225)**	(3,399)
Credited to the consolidated income statement	**160**	1,174
At 30 June 2020/31 December 2018	**(2,065)**	(2,225)

27. DEFERRED INCOME TAX (CONTINUED)

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same taxation jurisdiction, are as follows:

Deferred tax assets

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately HK$159,748,000 (31 December 2018: HK$148,683,000) in respect of tax losses of approximately HK$610,040,000 (31 December 2018: HK$571,158,000) that can be carried forward against future taxable income, of which tax losses of approximately HK$205,012,000 (31 December 2018: HK$159,646,000) are not subject to expiry. The expiry dates of the remaining tax losses of approximately HK$405,028,000 (31 December 2018: HK$411,512,000) range from 2020 to 2039 (31 December 2018: 2019 to 2038).

Deferred tax liabilities

	Accelerated tax depreciation allowance		Unremitted service fees		Depreciation of right-of-use assets		Total	
	30 June 2020	31 December 2018	**30 June 2020**	31 December 2018	**30 June 2020**	31 December 2018#	**30 June 2020**	31 December 2018#
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January 2019/2018	**1,028**	2,202	**1,197**	1,197	**–**	–	**2,225**	3,399
Credited to the consolidated income statement	**(138)**	(1,174)	**–**	–	**(22)**	–	**(160)**	(1,174)
At 30 June 2020/31 December 2018	**890**	1,028	**1,197**	1,197	**(22)**	–	**2,065**	2,225

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2.2(a).

28. RETIREMENT BENEFIT OBLIGATIONS

	30 June 2020	31 December 2018
	HK$'000	HK$'000
Pension benefits plans – France	**3,719**	3,460

As at 30 June 2020, the defined benefit plans are final salary defined plans in France, which are valued by qualified actuaries using the project unit credit method. The defined benefit plans were valued at 30 June 2020 by SPAC Actuaries in France.

28. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Pension benefits

The Group operates defined benefit pension plans in France based on employee pensionable remuneration and length of service. These plans are unfunded. These amounts recognised in the consolidated statement of financial position are determined as follows:

	30 June 2020 HK$'000	31 December 2018 HK$'000
Present value of unfunded obligations	3,719	3,460

The movements in defined benefit obligations are as follows:

	30 June 2020 HK$'000	31 December 2018 HK$'000
As 1 January 2019/2018	3,460	2,925
Actuarial loss on remeasurement	612	329
Current service costs	436	296
Interest costs	68	39
Benefit forfeited	(757)	–
Exchange differences	(100)	(129)
At 30 June 2020/31 December 2018	3,719	3,460

	For the eighteen months ended 30 June 2020 HK'000	For the year ended 31 December 2018 HK'000
The amount recognised in the consolidated income statements are as follows:		
Current service costs included in employee benefit expenses	436	296
Interest costs	68	39
Benefit forfeited	(757)	–
	(253)	335

28. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The principal actuarial assumptions were as follows:

	30 June 2020	31 December 2018
Discount rate	0.75% – 1.50%	1.50% – 2.75%
Inflation rate	2%	2%
Expected return on plan assets	N/A	N/A
Salary growth	2% – 4%	2% – 4%
Turnover rate	0% – 20%	0% – 20%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in France. Mortality assumptions for France is based on post-retirement mortality tables and INSEE TD/TV 2014-2016.

29. TRADE & OTHER PAYABLES

	30 June 2020 HK$'000	31 December 2018 HK$'000
Trade payables	27,330	42,301
Deposits received in advance	97,047	83,164
Accrual for expenses	59,017	78,082
Other payables	50,635	63,304
	234,029	266,851
Less: Contract liabilities – Deposits received in advance (Note 30)	(97,047)	(83,164)
	136,982	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:

	30 June 2020 HK$'000	31 December 2018 HK$'000
0 to 30 days	15,615	12,526
31 days to 60 days	6,988	15,278
61 days to 90 days	1,603	5,021
More than 90 days	3,124	9,476
	27,330	42,301

29. TRADE & OTHER PAYABLES (CONTINUED)

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

	30 June 2020 HK$'000	31 December 2018 HK$'000
Chinese Renminbi	37,099	57,896
US$	68,362	71,316
HK$	48,504	61,053
Euro	73,904	68,269
British pounds	5,542	7,063
Others	618	1,254
	234,029	266,851

30. CONTRACT LIABILITIES – DEPOSITS RECEIVED IN ADVANCE

	30 June 2020 HK$'000	31 December 2018 HK$'000
Customer deposits		
– Deposits received in advance	97,047	83,164

During the financial period, movement in contract liabilities included increase in deposits received in advance amounting to approximately HK$495,495,000 (for the year ended 31 December 2018: HK$323,611,000), net off by a decrease of approximately HK$481,612,000 (for the year ended 31 December 2018: HK$327,377,000) as a result of recognising revenues.

Contract liabilities are recognised when considerations from customers are received, or the Group has the rights to an amount of consideration that is unconditional before the Group performs a service or delivery of carpets to customers.

31. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2020 HK$'000	31 December 2018 HK$'000
Financial liabilities		
Foreign currency forward contracts	93	251

The notional principal amount of outstanding foreign currency forward contracts of financial liabilities at 30 June 2020 was US$1,600,000 (approximately HK$12,416,000) (31 December 2018: US$500,000 (approximately HK$3,890,000)).

31. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Management purchased these forward contracts to manage the foreign currency exposure of Chinese Renminbi to US$. Changes in fair value of these forward contracts are recognised in the consolidated income statement. These contracts generally mature within 12 months from the date of purchase.

32. BANK BORROWINGS – UNSECURED

	30 June 2020	31 December 2018
	HK$'000	HK$'000
Current		
Short-term bank borrowings	**31,040**	–

The bank borrowings outstanding as at 30 June 2020 amounted to approximately HK$31,040,000 (31 December 2018: Nil). The bank borrowings are unsecured and interest bearing at 1.86% – 2.47% p.a.. The carrying amounts approximated their respective fair values as at 30 June 2020.

As at 30 June 2020, the Group had total banking facilities of approximately HK$330,800,000 (31 December 2018: HK$499,229,000), of which HK$31,040,000 (31 December 2018: Nil) was drawn down as bank borrowings and approximately HK$2,948,000 (31 December 2018: HK$3,093,000) was utilised for trade facilities. The Group's banking facilities are granted by several banks and they are subject to annual review.

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

	30 June 2020	31 December 2018
	HK$'000	HK$'000
US$	**31,040**	–

33. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current reporting period and at the date of transition to HKFRS 16:

	30 June 2020		1 January 2019	
	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	25,349	28,476	33,955	38,103
After 1 year but within 5 years	49,358	56,244	58,261	66,300
More than 5 years	42,350	44,141	21,334	23,525
Non-current portion	91,708	100,385	79,595	89,825
Total	117,057	128,861	113,550	127,928
Less: Total future interest expenses	–	(11,804)	–	(14,378)
Present value of lease liabilities	117,057	117,057	113,550	113,550

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

Continuing operations	For the eighteen months ended 30 June 2020 HK$'000	For the year ended 31 December 2018 HK$'000
Loss before income tax	(40,259)	(42,464)
Adjustments for:		
Amortisation of intangible assets	6,982	4,333
(Recovery of)/allowance for impairment of trade receivables – net	(412)	1,735
Intangible assets written off	–	39
Bad debts directly written off	82	402
Inventory directly written off	6,578	411
Retirement benefit obligations	(253)	335
Depreciation of property, plant & equipment	34,993	21,017
Property, plant & equipment written off	1,098	1,047
Loss on disposal of property, plants & equipment	681	–
Depreciation of other right-of-use assets	46,912	–
Amortisation of land use rights	911	640
Gain from derecognition of right-of-use assets	(1,263)	–
Allowance for/(recovery of) of impairment of inventories – net	4,797	(4,351)
Gain on disposal of non-current asset held for sale	(11,089)	–
Gain on change in fair value of derivative financial instruments	(428)	(493)
Finance costs	5,587	43
Finance income	(417)	(507)
Operating gain/(loss) before changes in working capital	54,500	(17,813)
Inventories	5,862	17,040
Trade & other receivables	38,864	9,749
Trade & other payables	(31,379)	(10,100)
Capital element of lease rental received	6,022	–
Interest element of lease rental received	377	–
Prepayments – non-current	1,345	10,458
Cash generated from operations	75,591	9,334

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities

This section sets out an analysis of changes in liabilities arising from financing activities for the eighteen months ended 30 June 2020 and year ended 31 December 2018:

	Bank borrowings HK$'000	Lease liabilities HK$'000	Total HK$'000
As at 1 January 2018	(62,000)	–	(62,000)
Change from financing cash flows:			
Repayment of borrowings	62,000	–	62,000
As at 31 December 2018	–	–	–
As at 1 January 2019 with impact on initial application of HKFRS 16	–	(113,550)	(113,550)
Changes from financing cash flows:			
Proceeds from borrowings	(46,680)	–	(46,680)
Repayments of borrowings	15,560	–	15,560
Capital element of lease rentals paid	–	50,697	50,697
Interest element of lease rentals paid	–	5,897	5,897
Total changes from financing cash flows	(31,120)	56,594	25,474
Foreign exchange adjustments	80	1,166	1,246
Other changes:			
Capitalisation of new leases	–	(57,965)	(57,965)
Modification of leases	–	2,428	2,428
Financing charges	–	(5,730)	(5,730)
Total other changes	–	(61,267)	(61,267)
As at 30 June 2020	(31,040)	(117,057)	(148,097)

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash inflow/(outflow) for leases

Amounts included in the cash flow statement for leases comprise the following:

	For the eighteen months ended 30 June 2020	For the year ended 31 December 2018
	HK$'000	HK$'000
Within operating cash flows	4,493	(35,547)
Within financing cash flows	(56,594)	–
	(52,101)	(35,547)

35. OPERATING LEASE COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	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.

On 1 January 2019, the Group had 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 (see Note 2.2(a)). 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 2.11(a), and the details regarding the Group's future lease payments are disclosed in Note 33.

36. CAPITAL COMMITMENTS

	30 June 2020 HK$'000	31 December 2018 HK$'000
Authorised but not contracted for in respect of property, plant & equipment	2,589	7,176
Contracted but not provided for in respect of property, plant & equipment	460	1,963
	3,049	9,139

37. CONTINGENCIES

	30 June 2020 HK$'000	31 December 2018 HK$'000
Performance bonds issued by banks	–	300

38. RELATED PARTY TRANSACTIONS

(a) Subsidiaries

Interests in subsidiaries are set out in Note 18.

(b) Transactions with other related parties

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.

Sale of goods and services

	For the eighteen months ended 30 June 2020 HK$'000	For the year ended 31 December 2018 HK$'000
Sale of carpets and services:		
The Hongkong and Shanghai Hotels, Limited ("HSH")[1]	8,691	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.

38. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year-end balances arising from sale of goods and services

	For the eighteen months ended 30 June 2020 HK$'000	For the year ended 31 December 2018 HK$'000
Trade receivables from related party:		
HSH	2,535	–

(d) 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:

	For the eighteen months ended 30 June 2020 HK$'000	For the year ended 31 December 2018 HK$'000
Salaries & other short-term employee benefits	33,719	23,086

39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	Note	30 June 2020 HK$'000	31 December 2018 HK$'000
Assets			
Non-current assets			
Investments in subsidiaries	18	**367,787**	367,787
Current assets			
Other receivables		**90**	175
Amounts due from subsidiaries		**317,470**	321,768
Cash & cash equivalents		**1,294**	585
		318,854	322,528
Total assets		**686,641**	690,315
Equity			
Equity attributable to owners of the Company			
Share capital	25	**21,219**	21,219
Reserves		**277,467**	277,467
Retained earnings:			
Proposed final dividend		**–**	–
Others		**308,964**	312,154
Total equity		**607,650**	610,840
Liabilities			
Current liabilities			
Amounts due to subsidiaries		**77,600**	77,500
Other payables		**1,391**	1,975
Total liabilities		**78,991**	79,475
Total equity & liabilities		**686,641**	690,315
Net current assets		**239,863**	243,053
Total assets less current liabilities		**607,650**	610,840

The Statement of financial position was approved by the Board of Directors on 25 September 2020 and were signed on its behalf:

Nicholas Timothy James Colfer
Chairman

Mark Stuart Worgan
Executive Director

39. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

	Share premium	Contributed Surplus	Retained earnings
	HK$'000	HK$'000	HK$'000
At 1 January 2018	189,699	87,768	308,464
Profit for the year	–	–	3,631
Dividend forfeited	–	–	59
At 31 December 2018	189,699	87,768	312,154
At 1 January 2019	**189,699**	**87,768**	**312,154**
Loss for the year	**–**	**–**	**(3,249)**
Dividend forfeited	**–**	**–**	**59**
At 30 June 2020	**189,699**	**87,768**	**308,964**

40. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each director of the Company was set out below:

	Emoluments paid or receivable in respect of a person's services as a director of the Company:						
	Fees	Salaries	Discretionary bonuses	Housing allowance	Employer's contribution to a retirement benefit scheme	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Eighteen months ended 30 June 2020							
Nicholas Timothy James Colfer	180	–	–	–	–	–	180
Leong Kwok Fai Nelson	165	–	–	–	–	–	165
Tong Chi Leung David	225	–	–	–	–	–	225
John Jeffrey Ying	255	–	–	–	–	–	255
Andrew Clifford Winawer Brandler	150	–	–	–	–	–	150
Fung Yeh Yi Hao Yvette	225	–	–	–	–	–	225
Roderic Noel Anthony Sage	300	–	–	–	–	–	300
Yung Lincoln Chu Kuen	172	–	–	–	–	–	172
Li Kwok Sing Aubrey[1]	220	–	–	–	–	–	220
Daniel George Green	165	–	–	–	–	–	165
Mark Stuart Worgan	–	4,624	2,250	1,800	551	709	9,934
	2,057	4,624	2,250	1,800	551	709	11,991

Note:

[1] Mr. Li Kwok Sing Aubrey retired as Independent Non-Executive Director of the Company on 18 May 2020.

40. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

	Emoluments paid or receivable in respect of a person's services as a director of the Company:						
	Fees	Salaries	Discretionary bonuses	Housing allowance	Employer's contribution to a retirement benefit scheme	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2018							
Nicholas Timothy James Colfer	120	–	–	–	–	–	120
Leong Kwok Fai Nelson	110	–	–	–	–	–	110
Tong Chi Leung David	150	–	–	–	–	–	150
John Jeffrey Ying	170	–	–	–	–	–	170
Andrew Clifford Winawer Brandler	100	–	–	–	–	–	100
Fung Yeh Yi Hao Yvette	150	–	–	–	–	–	150
Roderic Noel Anthony Sage	200	–	–	–	–	–	200
Yung Lincoln Chu Kuen	110	–	–	–	–	–	110
Li Kwok Sing Aubrey	160	–	–	–	–	–	160
Daniel George Green[1]	97	–	–	–	–	–	97
Mark Stuart Worgan[2]	–	3,000	1,750	1,200	360	700	7,010
	1,367	3,000	1,750	1,200	360	700	8,377

Notes:

1 Mr. Daniel George Green was appointed as Independent Non-Executive Director of the Company on 17 January 2018.

2 Mr. Mark Stuart Worgan was appointed as Executive Director of the Company on 17 January 2018.

(b) Directors' retirement benefits and termination benefits

The directors did not receive any retirement or termination benefits for the eighteen months ended 30 June 2020 (for the year ended 31 December 2018: Nil).

(c) Consideration provided to third parties for making available directors' services

The Company did not pay any consideration to any third party for making available director's services for the eighteen months ended 30 June 2020 (for the year ended 31 December 2018: Nil).

40. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(d) Information about loans, quasi-loans and other dealings in favour of the director controlled bodies corporate by and connected entities with such director

No loans, quasi-loans and other dealings were made available in favour of the directors, controlled bodies corporate by and connected entities with such director subsisted at the end of the period or at any time during the eighteen months ended 30 June 2020 (for the year ended 31 December 2018: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which the director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the eighteen months ended 30 June 2020 (for the year ended 31 December 2018: Nil).

Senior Management

Name	Position held	Age[1]	Joined Group	Business experience
Mr. Lung Chi Sing Alex	Chief Financial Officer and Company Secretary	49	2016	Financial management
Mr. Shawn D. Hiltz	Chief Strategy Officer	53	2018	Business strategy
Ms. Yeung Yuk Sim Celia	Managing Director – Asia	50	2008	Sales & business development
Mr. Tony Ash[2]	Managing Director – EMEA	57	2019	Sales & business development
Mr. Michael Reagan[2]	Managing Director – Americas	50	2013	Sales & business development
Mr. Mason W. Morjikian[3]	Managing Director – Americas	54	2012	Sales & business development
Ms. Catherine Vergez[3]	Global Strategic Director	57	2000	Sales & business development

Notes:
1 Age as of 25 September 2020
2 Senior management since 2019
3 Senior management left during the period

Remuneration to senior management

The remuneration to senior management fell within the following band

	No. of Individuals	
	Eighteen months ended 30 June 2020	Year ended 31 December 2018
Remuneration bands		
HK$500,001 – HK$1,000,000	**–**	1
HK$1,000,001 – HK$1,500,000	**1**	–
HK$1,500,001 – HK$2,000,000	**1**	1
HK$2,000,001 – HK$2,500,000	**1**	1
HK$2,500,001 – HK$3,000,000	**–**	2
HK$3,000,001 – HK$3,500,000	**1**	–
HK$3,500,001 – HK$4,000,000	**1**	1
HK$4,000,001 – HK$4,500,000	**1**	–
HK$4,500,001 – HK$5,000,000	**–**	–
HK$5,000,001 – HK$5,500,000	**1**	–

Corporate Information

Auditor
KPMG
Certified Public Accountants,
Public Interest Entity Auditor
registered in accordance with the
Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

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

Company Secretary
Lung Chi Sing Alex

Principal Share Registrar and Transfer Agent
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31 Victoria Street
Hamilton HM 10
Bermuda

Branch Share Registrar
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