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TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 146)



INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

The Board of Directors (the “Board”) of Tai Ping Carpets International Limited (the “Company”) hereby presents the interim results announcement and the condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2021 (the “period”), together with the comparative figures for the previous corresponding period. The consolidated interim financial statements of the Group are unaudited while the results announcement comprising these financial statements has been reviewed by the Audit Committee of the Company.

FINANCIAL HIGHLIGHTS

	Six months ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Revenue	236,884	220,342
Operating profit	3,294	7,172
Profit attributable to owners of the Company	2,170	5,838
Profit per share (HK cents)	1.02	2.75

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

The Group’s consolidated turnover for the period was HK\$237 million, an increase of 8% compared to HK\$220 million for the same period in 2020. Trading gradually improved during the period but remained below normal levels due to the continuing impact of COVID-19.

First half operating profit was HK\$3 million, compared to HK\$7 million for the same period last year. The financial benefit of higher sales was offset by the gradual resumption in sales and marketing investments necessary to drive client engagement and growth as business emerges from the pandemic. A significant surge in international shipping costs, the cessation of temporary rent reductions, and the end of staff furloughing also contributed to the reduction in operating profit.

The Group's profit attributable to the equity holders of the Company was HK\$2 million, compared to the profit of HK\$6 million recorded for the same period in 2020.

CARPET OPERATIONS

Sales revenue in carpet operations for the period was HK\$227 million, a 7% increase compared to the HK\$213 million recorded last year. The increase would have been larger if not for invoicing delays caused by the widely documented disruption in global freight and logistics linked to the pandemic. Extended shipping times and delays at ports across the US and European regions slowed delivery and invoicing for some projects, which will now take place in the second half. Much closer to the Xiamen factory, the Asian region was not impacted in the same way and recorded the strongest sales growth, up 56% from last year.

Gross profit margins across most business segments and regions remained stable compared to last year. The changes recorded in each region were due to differences in their sales mix compared to last year.

MANUFACTURING OPERATIONS

Through the continued adoption of extra health and safety protocols, the rapid take-up of vaccines across employees, consistent use of PPE, and rigorous social distancing protocols, the pandemic had no major impact on the Group's manufacturing operations. The performance of the Artisan workshop in Xiamen continues to improve with gains in efficiency, productivity, and material utilisation.

Additional investment is underway to expand the Company's carpet manufacturing operation in the US, based at its Premier Yarn Dyers ("PYD") facility in Georgia. The increase in production capacity will support long-term growth plans for the US market.

NON-CARPET OPERATIONS

Other operations mainly represent the Company's US-based yarn-dyeing subsidiary, PYD, contributing to approximately 4% of total sales. The operating results of PYD are gradually improving with the help of the new carpet manufacturing operation.

OUTLOOK

The continuing COVID-19 pandemic and emergence of new variants will continue to present challenges – particularly the uncertainties around global freight, and the likelihood of sporadic outbreaks in Asia that could impact product supply.

Trade frictions between the US and China also remain a concern, especially because the US is Tai Ping's biggest market while its manufacturing is in China. When increasing global inflationary pressures, and a potential increase in the US interest rate are added, there are clear risks that recovery out of the pandemic may be slower than expected.

These concerns notwithstanding, the Group began the second half with a strong order backlog and was experiencing improving trading conditions. Further rent reductions in London and Paris, a recently launched retail offering, a new website, and a suite of regional e-shops combine to provide cautious optimism for the near term.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the period (2020: Nil).

CAPITAL EXPENDITURE

Capital expenditure in the form of property, plant and equipment and construction in progress incurred by the Group totalled HK\$4 million during the period (2020: HK\$5 million). As of 31 December 2021, the aggregate net book value of the Group's property, plant and equipment, land use rights, construction in progress and intangible assets amounted to HK\$289 million (30 June 2021: HK\$294 million).

LIQUIDITY & FINANCIAL RESOURCES

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

As of 31 December 2021, the Group had total cash and cash equivalents including short-term fixed deposits (with maturity within 12 months) amounting to HK\$172 million (30 June 2021: HK\$178 million) and had no bank borrowings (30 June 2021: HK\$16 million).

EXPOSURE TO FOREIGN EXCHANGE RISKS

The Group has overseas operations in the US, Europe and China. The Group treats its investments in these foreign operations as permanent equity, so exchange differences from translating the net investments in these foreign operations do not affect cash flows and are dealt with in the reserves.

The Group's sales are denominated primarily in US dollars and Euro, and to a lesser extent in a variety of other currencies.

HUMAN RESOURCES & REMUNERATION POLICIES

The total number of employees at the end of December 2021 was 694, consistent with the 674 at the end of June 2021.

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 was maintaining stability and retaining talent through a period of economic uncertainty and continuing organisational change.

CONTINGENT LIABILITIES

As at 31 December 2021, the Group's total contingent liabilities amounted to HK\$7 million (30 June 2021: HK\$7 million).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December

		Unaudited	
		2021	2020
	Note	HK\$'000	HK\$'000
Revenue	3	236,884	220,342
Cost of sales		<u>(100,687)</u>	<u>(93,524)</u>
Gross profit		136,197	126,818
Distribution costs	4	(74,191)	(61,768)
Administrative expenses	4	(64,431)	(59,726)
Other gains – net	5	<u>5,719</u>	<u>1,848</u>
Operating profit		3,294	7,172
Finance costs – net	6	<u>(846)</u>	<u>(1,474)</u>
Profit before income tax		2,448	5,698
Income tax expense	7	<u>(278)</u>	<u>(161)</u>
Profit for the period		<u>2,170</u>	<u>5,537</u>
Profit/(loss) attributable to:			
Owners of the Company		2,170	5,838
Non-controlling interests		<u>–</u>	<u>(301)</u>
		<u>2,170</u>	<u>5,537</u>
Profit per share attributable to the owners of the Company during the period (expressed in HK cents per share)			
Basic/diluted	9	<u>1.02</u>	<u>2.75</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December

	Unaudited	
	2021	2020
	HK\$'000	HK\$'000
Profit for the period	2,170	5,537
Other comprehensive income – net of tax:		
Items that may be reclassified to profit or loss		
Currency translation differences	<u>3,779</u>	<u>29,942</u>
Total comprehensive income for the period	<u>5,949</u>	<u>35,479</u>
Attributable to:		
Owners of the Company	5,949	34,390
Non-controlling interests	<u>–</u>	<u>1,089</u>
	<u>5,949</u>	<u>35,479</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 31 Dec 2021	Audited 30 Jun 2021
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
Non-current assets			
Land use rights		27,108	26,959
Property, plant & equipment		245,355	249,240
Investment property		83,419	82,976
Construction in progress		428	89
Intangible assets		16,441	17,748
Right-of-use assets		91,008	105,695
Prepayments	<i>10</i>	2,725	2,698
Other receivable	<i>10</i>	4,852	5,049
Derivative financial instruments		6	–
Pledged bank deposit		–	407
		471,342	490,861
Current assets			
Inventories		71,398	51,306
Trade & other receivables	<i>10</i>	64,113	59,505
Derivative financial instruments		2,374	550
Lease receivables		276	1,083
Current income tax assets		3,384	3,399
Pledged bank deposit		408	–
Cash & cash equivalents		171,501	178,173
		313,454	294,016
Total assets		784,796	784,877

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	Unaudited 31 Dec 2021 HK\$'000	Audited 30 Jun 2021 HK\$'000
Equity			
Equity attributable to owners of the Company			
Share capital		21,219	21,219
Reserves		281,614	277,835
Retained earnings:			
Proposed final dividend		–	6,366
Others		<u>121,533</u>	<u>119,363</u>
Total equity		<u>424,366</u>	<u>424,783</u>
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		1,571	1,570
Retirement benefit obligations		3,602	3,738
Lease liabilities		<u>77,166</u>	<u>87,989</u>
		<u>82,339</u>	<u>93,297</u>
Current liabilities			
Trade & other payables	<i>11</i>	113,766	130,697
Contract liabilities – Deposits received in advance		140,498	91,830
Current income tax liabilities		3,034	2,893
Bank borrowings – unsecured		–	15,520
Lease liabilities		<u>20,793</u>	<u>25,857</u>
		<u>278,091</u>	<u>266,797</u>
Total liabilities		<u>360,430</u>	<u>360,094</u>
Total equity & liabilities		<u>784,796</u>	<u>784,877</u>
Net current assets		<u>35,363</u>	<u>27,219</u>
Total assets less current liabilities		<u>506,705</u>	<u>518,080</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 31 December 2021 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 30 June 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

2. CHANGES IN ACCOUNTING STANDARDS

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the financial period beginning 1 July 2021 and none of them have impact to the Group. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. 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 the effects of gain/loss and income/expenditure which are considered relevant in assessing the segment’s performance.

For the six months ended 31 December 2021

Unaudited	Asia HK\$'000	EMEA HK\$'000	America HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenue from external customers	65,397	76,502	94,985	–	236,884
Cost of production ¹	<u>(21,174)</u>	<u>(37,923)</u>	<u>(43,495)</u>	<u>–</u>	<u>(102,592)</u>
Segment gross margin	<u>44,223</u>	<u>38,579</u>	<u>51,490</u>	<u>–</u>	<u>134,292</u>
Segment results	23,757	(8,074)	2,247	–	17,930
Unallocated expenses ²					<u>(14,636)</u>
Operating profit					3,294
Finance costs – net					<u>(846)</u>
Profit before income tax					2,448
Income tax expense					<u>(278)</u>
Profit for the period					<u>2,170</u>
Capital expenditure	(3,415)	(336)	(514)	–	(4,265)
Depreciation of right-of-use assets	(4,398)	(3,980)	(5,259)	–	(13,637)
Depreciation of property, plant & equipment	(7,151)	(1,912)	(1,387)	(138)	(10,588)
Amortisation of land use rights	(325)	–	–	–	(325)
Amortisation of intangible assets	–	(34)	(68)	(1,662)	(1,764)
(Allowance for)/recovery of impairment of trade receivables – net	<u>(17)</u>	<u>57</u>	<u>(613)</u>	<u>–</u>	<u>(573)</u>

For the six months ended 31 December 2020

Unaudited	Asia <i>HK\$'000</i>	EMEA <i>HK\$'000</i>	America <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Group <i>HK\$'000</i>
Revenue from external customers	41,834	79,245	99,263	–	220,342
Cost of production ¹	<u>(18,022)</u>	<u>(33,072)</u>	<u>(41,752)</u>	<u>–</u>	<u>(92,846)</u>
Segment gross margin	<u>23,812</u>	<u>46,173</u>	<u>57,511</u>	<u>–</u>	<u>127,496</u>
Segment results	5,289	199	11,618	–	17,106
Unallocated expenses ²					<u>(9,934)</u>
Operating profit					7,172
Finance costs – net					<u>(1,474)</u>
Profit before income tax					5,698
Income tax expense					<u>(161)</u>
Profit for the period					<u>5,537</u>
Capital expenditure	(2,087)	(2,497)	(198)	–	(4,782)
Depreciation of right-of-use assets	(3,923)	(5,588)	(5,232)	–	(14,743)
Depreciation of property, plant & equipment	(9,216)	(1,824)	(1,928)	(313)	(13,281)
Amortisation of land use rights	(305)	–	–	–	(305)
Amortisation of intangible assets	–	–	(66)	(2,166)	(2,232)
Recovery of impairment of trade receivables – net	<u>130</u>	<u>474</u>	<u>31</u>	<u>–</u>	<u>635</u>

Notes:

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

² Unallocated expenses include corporate expenses and income of the Group.

4. EXPENSES BY NATURE

	Six months ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Depreciation of right-of-use assets	13,637	14,743
Depreciation of property, plant & equipment	10,588	13,281
Depreciation of investment property	1,015	–
Amortisation of land use rights	325	305
Amortisation of intangible assets	1,764	2,232
Allowance for/(recovery of) impairment of trade receivables – net	573	(635)
Allowance for impairment of inventories – net	665	2,021
Bad debts written off	347	309
	<u>347</u>	<u>309</u>

5. OTHER GAINS – NET

	Six months ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Net foreign exchange gain	980	1,154
Gain on change in fair value of derivative financial instruments	2,807	678
Property, plant and equipment written off	–	(1,273)
(Loss)/gain on disposal of property, plant & equipment	(30)	5
Rental income – net	1,206	–
Others	756	1,284
	<u>756</u>	<u>1,284</u>
	<u>5,719</u>	<u>1,848</u>

6. FINANCE COSTS – NET

	Six months ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Finance income – interest income from banks	597	289
Finance costs – interest expenses for leases – net	(1,430)	(1,629)
Finance costs – interests on bank loans & overdrafts wholly repayable within five years	(13)	(134)
	<u>(13)</u>	<u>(134)</u>
Finance costs – net	<u>(846)</u>	<u>(1,474)</u>

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Current income tax		
Hong Kong	–	–
PRC & overseas	278	161
Deferred income tax expense	–	–
	<u>–</u>	<u>–</u>
Income tax expense	<u>278</u>	<u>161</u>

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the period. At the Board meeting held on 18 February 2022, the Board resolved not to declare any dividend for the six months ended 31 December 2021 (2020: Nil).

Distributable reserves of the Company as at 31 December 2021, calculated under the Companies Act 1981 of Bermuda (as amended) amounted to approximately HKD573,336,000.

9. PROFIT PER SHARE

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

	Six months ended 31 December	
	2021	2020
Profit attributable to owners of the Company (HK\$'000)	<u>2,170</u>	<u>5,838</u>
Weighted average number of ordinary shares in issue (thousands)	<u>212,187</u>	<u>212,187</u>
Basic profit per share (HK cents)	<u>1.02</u>	<u>2.75</u>

The Group had no dilutive potential shares outstanding during the six months ended 31 December 2021 and 2020.

10. TRADE & OTHER RECEIVABLES

	Unaudited 31 Dec 2021 <i>HK\$'000</i>	Audited 30 Jun 2021 <i>HK\$'000</i>
Trade receivables	39,221	39,682
Less: allowance for impairment of trade receivables	<u>(3,941)</u>	<u>(3,541)</u>
Trade receivables – net	35,280	36,141
Prepayments	15,338	10,962
Value added tax receivables	3,406	3,133
Rental deposits	5,517	4,147
Other receivables	<u>12,149</u>	<u>12,869</u>
	<u>71,690</u>	<u>67,252</u>
Less: Non-current portion prepayments	(2,725)	(2,698)
Less: Non-current portion other receivable	<u>(4,852)</u>	<u>(5,049)</u>
	<u><u>64,113</u></u>	<u><u>59,505</u></u>

The carrying amounts of trade receivables approximate their fair values as at 31 December 2021 and 30 June 2021. The credit terms of the Group range from 0 to 90 days, depending on the credit status and repayment history of customers. At the end of the financial period, the ageing analysis of the trade receivables based on invoice date is as follows:

	Unaudited 31 Dec 2021 <i>HK\$'000</i>	Audited 30 Jun 2021 <i>HK\$'000</i>
0 to 30 days	21,404	31,733
31 to 60 days	6,080	2,572
61 to 90 days	1,633	312
91 to 365 days	7,238	1,517
More than 365 days	<u>2,866</u>	<u>3,548</u>
	<u><u>39,221</u></u>	<u><u>39,682</u></u>

11. TRADE & OTHER PAYABLES

	Unaudited 31 Dec 2021 <i>HK\$'000</i>	Audited 30 Jun 2021 <i>HK\$'000</i>
Trade payables	29,089	19,667
Accrued expenses	48,921	75,282
Other payables	35,756	35,748
	113,766	130,697

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

	Unaudited 31 Dec 2021 <i>HK\$'000</i>	Audited 30 Jun 2021 <i>HK\$'000</i>
0 to 30 days	13,358	13,811
31 days to 60 days	13,459	4,703
61 days to 90 days	845	654
More than 90 days	1,427	499
	29,089	19,667

CORPORATE GOVERNANCE

The Board of Directors and Management are committed to promoting good corporate governance to safeguard the interests of shareholders. The Company has complied with the applicable code provisions in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the six months ended 31 December 2021, except the Company’s Non-Executive Directors are not appointed for specific terms as required by code provision A.4.1 of the CG Code. However, the relevant Bye-laws of the Company require that every Director would retire by rotation at least once every three years, which is in line with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the Directors’ transactions in the securities of the Company (the “Tai Ping Code”) on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”). Specific enquiry has been made of all the Directors of the Company and they have confirmed their compliance with the required standard set out in the Model Code and the Tai Ping Code during the six months ended 31 December 2021.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 31 December 2021. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the period.

AUDIT COMMITTEE

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

The Audit Committee, together with the management of the Company, has reviewed the accounting principles and practices adopted by the Company as well as the internal control procedures of the Company, and discussed financial reporting matters, including the review of interim financial information for the six months ended 31 December 2021.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2021.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND THE INTERIM REPORT

The interim results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.taipingcarpets.com). The Interim Report 2021/22 of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders and made available on the same websites in due course.

By order of the Board

Nicholas Timothy James Colfer
Chairman

Mark Stuart Worgan
Chief Executive Officer

Hong Kong, 18 February 2022

As at the date of this announcement, the Directors of the Company are: Chairman and Non-executive Director – Mr. Nicholas Timothy James Colfer; Chief Executive Officer and Executive Director – Mr. Mark Stuart Worgan; Independent Non-executive Directors – Mrs. Fung Yeh Yi Hao Yvette, Mr. Roderic Noel Anthony Sage, Mr. Yung Lincoln Chu Kuen, Mr. Daniel George Green; Non-executive Directors – Mr. Tong Chi Leung David, Mr. John Jeffrey Ying, Mr. Leong Kwok Fai Nelson, Mr. Andrew Clifford Winawer Brandler.