

Tai Ping Carpets International Limited

Interim Report 2021/22

Incorporated in Bermuda with Limited Liability
Stock Code: 146



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Management Discussion & Analysis

The Board of Directors (the “Board”) of Tai Ping Carpets International Limited (the “Company”) hereby presents the interim report and the condensed consolidated interim financial statements of the Group for the six months ended 31 December 2021 (the “period”), together with the comparative figures for the previous corresponding period. The condensed consolidated income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity of the Group for the six months ended 31 December 2021, and the condensed consolidated statement of financial position as at 31 December 2021, along with selected explanatory notes, all of which are unaudited and reviewed by the Audit Committee of the Company, can be found on pages 8 to 31 of this report.

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).

Mark Stuart Worgan
Chief Executive Officer

Hong Kong, 18 February 2022

Corporate Governance & Other Information

CORPORATE GOVERNANCE

The Board of Directors and Management are committed to promoting good corporate governance to safeguard the interests of shareholders. The Company has complied with the applicable code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the 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.

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 control systems.

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S 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.

DIVIDEND

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

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

As at 31 December 2021, the interests of the Directors in the shares of the Company and its associated corporations (within the meaning of the Part XV of Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Ordinary shares of HK\$0.10 each in the Company as at 31 December 2021

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2021, 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 ²	77,674,581	36.607%
Lawrencium Holdings Limited ²	77,674,581	36.607%
The Mikado Private Trust Company Limited ²	77,674,581	36.607%
The Hon. Sir Michael Kadoorie ²	77,674,581	36.607%
Peak Capital Partners I, L.P. ³	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 deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such company.

² The Mikado Private Trust Company Limited is deemed to be interested in the same 77,674,581 shares in which Lawrencium Holdings Limited is deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such company.

Harneys Trustees Limited controls The Mikado Private Trust Company Limited and is therefore deemed to be interested in the same 77,674,581 shares in which such company is deemed to be interested.

The Hon. Sir Michael Kadoorie, in his capacity as the founder and one of the beneficiaries of a discretionary trust, is deemed to be interested in 77,674,581 shares in which Lawrencium Holdings Limited is deemed to be interested.

³ Mr. John Jeffrey Ying (a Non-Executive Director of the Company) is the sole shareholder of the general partner of Peak Capital Partners I, L.P. and is deemed to have an interest in the shares held by Peak Capital Partners I, L.P. (the Company is advised that the term "general partner" commonly refers to the entity liable for all the debts and obligations of a limited partnership and has power to bind a limited partnership).

Condensed Consolidated Income Statement

For the six months ended 31 December

	Note	Unaudited	
		2021 HK\$'000	2020 HK\$'000
Revenue	6	236,884	220,342
Cost of sales		(100,687)	(93,524)
Gross profit		136,197	126,818
Distribution costs	7	(74,191)	(61,768)
Administrative expenses	7	(64,431)	(59,726)
Other gains – net	8	5,719	1,848
Operating profit		3,294	7,172
Finance costs – net	9	(846)	(1,474)
Profit before income tax		2,448	5,698
Income tax expense	10	(278)	(161)
Profit for the period		2,170	5,537
Profit/(loss) attributable to:			
Owners of the Company		2,170	5,838
Non-controlling interests		–	(301)
		2,170	5,537
Profit per share attributable to the owners of the Company during the period (expressed in HK cents per share)			
Basic/diluted	12	1.02	2.75

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

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 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	3,779	29,942
Total comprehensive income for the period	5,949	35,479
Attributable to:		
Owners of the Company	5,949	34,390
Non-controlling interests	–	1,089
	5,949	35,479

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

Condensed Consolidated Statement of Financial Position

	Note	Unaudited 31 Dec 2021 HK\$'000	Audited 30 Jun 2021 HK\$'000
Assets			
Non-current assets			
Land use rights	13	27,108	26,959
Property, plant & equipment	14	245,355	249,240
Investment property	14	83,419	82,976
Construction in progress	14	428	89
Intangible assets	15	16,441	17,748
Right-of-use assets	16	91,008	105,695
Prepayments	17	2,725	2,698
Other receivable	17	4,852	5,049
Derivative financial instruments		6	–
Pledged bank deposit	18	–	407
		471,342	490,861
Current assets			
Inventories		71,398	51,306
Trade & other receivables	17	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	18	408	–
Cash & cash equivalents		171,501	178,173
		313,454	294,016
Total assets		784,796	784,877

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

Condensed Consolidated Statement of Financial Position

	Note	Unaudited 31 Dec 2021 HK\$'000	Audited 30 Jun 2021 HK\$'000
Equity			
Equity attributable to owners of the Company			
Share capital	19	21,219	21,219
Reserves	20	281,614	277,835
Retained earnings:			
Proposed final dividend		-	6,366
Others		121,533	119,363
Total equity		424,366	424,783
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		1,571	1,570
Retirement benefit obligations		3,602	3,738
Lease liabilities		77,166	87,989
		82,339	93,297
Current liabilities			
Trade & other payables	21	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	22	-	15,520
Lease liabilities		20,793	25,857
		278,091	266,797
Total liabilities		360,430	360,094
Total equity & liabilities		784,796	784,877
Net current assets		35,363	27,219
Total assets less current liabilities		506,705	518,080

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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December

	Unaudited							
	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 July 2020	21,219	189,699	54,576	104,011	369,505	17,415	386,920	
Comprehensive income								
Profit/(loss) for the period	-	-	-	5,838	5,838	(301)	5,537	
Other comprehensive income for the period – net of tax								
Currency translation differences	-	-	28,552	-	28,552	1,390	29,942	
Total comprehensive income for the period	-	-	28,552	5,838	34,390	1,089	35,479	
Balance at 31 December 2020	21,219	189,699	83,128	109,849	403,895	18,504	422,399	
Balance at 1 July 2021	21,219	189,699	88,136	125,729	424,783	-	424,783	
Comprehensive income								
Profit for the period	-	-	-	2,170	2,170	-	2,170	
Other comprehensive income for the period – net of tax								
Currency translation differences	-	-	3,779	-	3,779	-	3,779	
Total comprehensive income for the period	-	-	3,779	2,170	5,949	-	5,949	
Total contributions by and distributions to owners of the Company, recognised directly in equity								
Dividends for FY2020/21	-	-	-	(6,366)	(6,366)	-	(6,366)	
Total transactions with owners	-	-	-	(6,366)	(6,366)	-	(6,366)	
Balance at 31 December 2021	21,219	189,699	91,915	121,533	424,366	-	424,366	

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December

	Unaudited	
	2021	2020
	HK\$'000	HK\$'000
Cash flows from operating activities		
Cash generated from operations	36,673	46,770
Income tax (paid)/recovered	(136)	3,060
Interest paid	(13)	(134)
Net cash generated from operating activities	36,524	49,696
Cash flows from investing activities		
Purchases of property, plant & equipment and construction in progress	(5,200)	(4,707)
Acquisition of intangible assets	(940)	(846)
Proceeds from disposal of property, plant & equipment	217	5
Decrease in derivative financial instruments	977	253
Interests received	597	289
Net cash used in investing activities	(4,349)	(5,006)
Cash flows from financing activities		
Capital element of lease rentals paid	(14,784)	(17,264)
Interest element of lease rentals paid	(1,493)	(1,731)
Repayments of borrowings	(15,520)	(31,040)
Dividend paid to the Company's shareholders	(6,267)	–
Net cash used in financing activities	(38,064)	(50,035)
Net decrease in cash & cash equivalents	(5,889)	(5,345)
Cash & cash equivalents at beginning of period	178,173	136,036
Exchange (loss)/gain on cash & cash equivalents	(783)	7,101
Cash & cash equivalents at end of period	171,501	137,792

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

Notes to the Condensed Consolidated Financial Statements

1. GENERAL INFORMATION

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

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is 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.

These condensed consolidated interim financial statements are presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated. These condensed consolidated interim financial statements have been approved for issue by the Board of Directors of the Company on 18 February 2022.

These condensed consolidated interim financial statements have not been audited.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 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.

3. 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.

4. ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation for uncertain events were the same as those that applied to the consolidated financial statements for the year ended 30 June 2021.

5. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 30 June 2021.

There have been no changes in the risk management team and/or in any risk management policies since the end of 30 June 2021.

(a) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group Treasury. Group Treasury invests surplus cash in time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the end of the financial period, the Group held cash and cash equivalents of HK\$171,501,000 (30 June 2021: HK\$178,173,000) that are expected to readily generate cash inflows for managing liquidity risk.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the condensed consolidated statement of financial position date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows:

As at 31 December 2021	Within 1 year	After 1 year but within 5 years	More than 5 years	Total
Unaudited	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade & other payables	61,996	–	–	61,996
Lease liabilities	20,793	49,447	27,719	97,959
	82,789	49,447	27,719	159,955

As at 30 June 2021	Within 1 year	After 1 year but within 5 years	More than 5 years	Total
Audited	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade & other payables	51,997	–	–	51,997
Bank borrowings – unsecured	15,520	–	–	15,520
Lease liabilities	25,857	54,118	33,871	113,846
	93,374	54,118	33,871	181,363

All of the Group's non-trading gross settled derivative financial instruments (Note 5(b)) are in hedge relationships and are due to settle within 12 months of the consolidated statement of financial position date except two of them are due to settle after 12 months of the consolidated statement of financial position date. These contracts require undiscounted contractual cash inflows of HK\$46,176,000 (30 June 2021: HK\$23,633,000) and undiscounted contractual cash outflow of HK\$43,242,000 (30 June 2021: HK\$22,577,000).

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2021, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into these levels within a fair value hierarchy as follows:

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

The following table presents the Group's assets that is measured at fair value at 31 December 2021.

	Level 2 HK\$'000
Assets	
Derivative financial instruments:	
Foreign currency forward contracts	2,380

The following table presents the Group's assets that is measured at fair value at 30 June 2021.

	Level 2 HK\$'000
Assets	
Derivative financial instruments:	
Foreign currency forward contracts	550

The fair value of derivative financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. As all significant inputs required to measure fair value of an instrument are observable, the instrument is included in level 2.

6. REVENUE & SEGMENT INFORMATION

(a) Revenue

	Six months ended 31 December	
	2021 HK\$'000	2020 HK\$'000
Sale of carpets & underlays	203,596	190,960
Installation of carpets & furnishing business	23,208	22,309
Sale of yarns & others	10,080	7,073
	236,884	220,342

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

6. REVENUE & SEGMENT INFORMATION (CONTINUED)

The segment information provided to the management for the reportable segments for the six months ended 31 December 2021 and 2020 are as follows:

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	(21,174)	(37,923)	(43,495)	–	(102,592)
Segment gross margin	44,223	38,579	51,490	–	134,292
Segment results	23,757	(8,074)	2,247	–	17,930
Unallocated expenses ²					(14,636)
Operating profit					3,294
Finance costs – net					(846)
Profit before income tax					2,448
Income tax expense					(278)
Profit for the period					2,170
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 (Note 14)	(7,151)	(1,912)	(1,387)	(138)	(10,588)
Amortisation of land use rights (Note 13)	(325)	–	–	–	(325)
Amortisation of intangible assets (Note 15)	–	(34)	(68)	(1,662)	(1,764)
(Allowance for)/recovery of impairment of trade receivables – net	(17)	57	(613)	–	(573)

6. REVENUE & SEGMENT INFORMATION (CONTINUED)

For the six months ended 31 December 2020

Unaudited	Asia HK\$'000	EMEA HK\$'000	America HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenue from external customers	41,834	79,245	99,263	–	220,342
Cost of production ¹	(18,022)	(33,072)	(41,752)	–	(92,846)
Segment gross margin	23,812	46,173	57,511	–	127,496
Segment results	5,289	199	11,618	–	17,106
Unallocated expenses ²					(9,934)
Operating profit					7,172
Finance costs – net					(1,474)
Profit before income tax					5,698
Income tax expense					(161)
Profit for the period					5,537
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 (Note 14)	(9,216)	(1,824)	(1,928)	(313)	(13,281)
Amortisation of land use rights (Note 13)	(305)	–	–	–	(305)
Amortisation of intangible assets (Note 15)	–	–	(66)	(2,166)	(2,232)
Recovery of impairment of trade receivables	130	474	31	–	635
– net					

Notes:

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

7. EXPENSES BY NATURE

	Six months ended 31 December	
	2021 HK\$'000	2020 HK\$'000
Depreciation of right-of-use assets	13,637	14,473
Depreciation of property, plant & equipment (Note 14)	10,588	13,281
Depreciation of investment property (Note 14)	1,015	–
Amortisation of land use rights (Note 13)	325	305
Amortisation of intangible assets (Note 15)	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

8. OTHER GAINS – NET

	Six months ended 31 December	
	2021 HK\$'000	2020 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
	5,719	1,848

9. FINANCE COSTS – NET

	Six months ended 31 December	
	2021 HK\$'000	2020 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)
Finance costs – net	(846)	(1,474)

10. 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 HK\$'000	2020 HK\$'000
Current income tax		
Hong Kong	–	–
PRC & overseas	278	161
Deferred income tax expense	–	–
Income tax expense	278	161

11. 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.

12. 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)	2,170	5,838
Weighted average number of ordinary shares in issue (thousands)	212,187	212,187
Basic profit per share (HK cents)	1.02	2.75

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

13. LAND USE RIGHTS

The Group's interests in land use rights are also identified as right-of-use assets and their carrying amounts are analysed as follows:

	Unaudited 31 Dec 2021 HK\$'000	Audited 30 Jun 2021 HK\$'000
At beginning of the period	26,959	25,148
Amortisation of land use rights (Note 7)	(325)	(628)
Exchange differences	474	2,439
At end of the period	27,108	26,959

14. PROPERTY, PLANT & EQUIPMENT, INVESTMENT PROPERTY AND CONSTRUCTION IN PROGRESS

For the six months ended 31 December 2021

Unaudited	Property, plant & equipment				
	Buildings HK\$'000	Other assets HK\$'000	Property, plant & equipment total HK\$'000	Investment property HK\$'000	Construction in progress HK\$'000
At 1 July 2021					
Cost or valuation	216,628	243,262	459,890	85,000	89
Accumulated depreciation	(22,098)	(188,552)	(210,650)	(2,024)	–
Net book amount	194,530	54,710	249,240	82,976	89
Period ended 31 December 2021					
Opening net book amount	194,530	54,710	249,240	82,976	89
Additions	177	4,088	4,265	–	336
Disposals	–	(249)	(249)	–	–
Depreciation (Note 7)	(2,924)	(7,664)	(10,588)	(1,015)	–
Exchange differences	2,807	(120)	2,687	1,458	3
Closing net book amount	194,590	50,765	245,355	83,419	428
At 31 December 2021					
Cost or valuation	219,794	246,271	466,065	86,507	428
Accumulated depreciation	(25,204)	(195,506)	(220,710)	(3,088)	–
Net book amount	194,590	50,765	245,355	83,419	428

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

For the six months ended 31 December 2020

Unaudited	Property, plant & equipment			Construction in progress HK\$'000
	Buildings HK\$'000	Other assets HK\$'000	Property, plant & equipment total HK\$'000	
At 1 July 2020				
Cost or valuation	306,440	302,712	609,152	640
Accumulated depreciation	(44,407)	(231,998)	(276,405)	–
Net book amount	262,033	70,714	332,747	640
Period ended 31 December 2020				
Opening net book amount	262,033	70,714	332,747	640
Additions	–	4,782	4,782	–
Transfer from construction in progress	–	–	–	(606)
Disposals	–	(36)	(36)	–
Assets written off	–	(1,273)	(1,273)	–
Depreciation (Note 7)	(3,841)	(9,440)	(13,281)	–
Exchange differences	20,379	4,595	24,974	(34)
Closing net book amount	278,571	69,342	347,913	–
At 31 December 2020				
Cost or valuation	331,031	306,636	637,667	–
Accumulated depreciation	(52,460)	(237,294)	(289,754)	–
Net book amount	278,571	69,342	347,913	–

15. INTANGIBLE ASSETS

For the six months ended 31 December 2021

Unaudited	Vendor relationships HK\$'000	Computer software HK\$'000	Brands HK\$'000	Design library HK\$'000	Other intangible assets HK\$'000	Total HK\$'000
At 1 July 2021						
Cost	7,178	83,426	2,209	1,940	2,928	97,681
Accumulated amortisation & impairment	(7,178)	(69,013)	–	(1,746)	(1,996)	(79,933)
Net book amount	–	14,413	2,209	194	932	17,748
Period ended 31 December 2021						
Opening net book amount	–	14,413	2,209	194	932	17,748
Additions	–	42	–	–	393	435
Amortisation (Note 7)	–	(1,665)	–	(65)	(34)	(1,764)
Exchange differences	–	138	(80)	–	(36)	22
Closing net book amount	–	12,928	2,129	129	1,255	16,441
At 31 December 2021						
Cost	7,178	83,639	2,129	1,940	3,248	98,134
Accumulated amortisation & impairment	(7,178)	(70,711)	–	(1,811)	(1,993)	(81,693)
Net book amount	–	12,928	2,129	129	1,255	16,441

15. INTANGIBLE ASSETS (CONTINUED)

For the six months ended 31 December 2020

Unaudited	Vendor relationships HK\$'000	Computer software HK\$'000	Brands HK\$'000	Design library HK\$'000	Other intangible assets HK\$'000	Total HK\$'000
At 1 July 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
Period ended 31 December 2020						
Opening net book amount	–	16,501	2,090	323	884	19,798
Additions	–	614	–	–	–	614
Transfer from construction in progress	–	606	–	–	–	606
Amortisation (Note 7)	–	(2,167)	–	(65)	–	(2,232)
Exchange differences	–	688	175	–	71	934
Closing net book amount	–	16,242	2,265	258	955	19,720
At 31 December 2020						
Cost	7,169	83,317	2,265	1,937	2,976	97,664
Accumulated amortisation & impairment	(7,169)	(67,075)	–	(1,679)	(2,021)	(77,944)
Net book amount	–	16,242	2,265	258	955	19,720

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

16. RIGHT-OF-USE ASSETS

During the six months ended 31 December 2021, the Group entered into a number of lease agreements for use of manufacturing facilities, showrooms and offices, and therefore recognised the additions to right-of-use assets of HK\$783,000 (2020: HK\$5,163,000).

17. TRADE & OTHER RECEIVABLES

	Unaudited 31 Dec 2021 HK\$'000	Audited 30 Jun 2021 HK\$'000
Trade receivables	39,221	39,682
Less: allowance for impairment of trade receivables	(3,941)	(3,541)
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	12,149	12,869
	71,690	67,252
Less: Non-current portion prepayments	(2,725)	(2,698)
Less: Non-current portion other receivable	(4,852)	(5,049)
	64,113	59,505

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 HK\$'000	Audited 30 Jun 2021 HK\$'000
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	2,866	3,548
	39,221	39,682

18. PLEDGED BANK DEPOSIT

Pledged bank deposit of approximated HK\$408,000 (30 June 2021: HK\$407,000) represented deposit made to a bank to pledge for utilities of factory in the US.

As at 31 December 2021, the effective interest rate on the Group's pledged bank deposit was 0.18% p.a. (30 June 2021: 0.18% p.a.) and the deposit will mature in 190 days (30 June 2021: 374 days).

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

19. SHARE CAPITAL

	No. of shares	HK\$'000
Authorised – Ordinary shares of HK\$0.10 each:		
At 30 June 2021 & 31 December 2021	400,000,000	40,000
Issued & fully paid – Ordinary shares of HK\$0.10 each:		
At 30 June 2021 & 31 December 2021	212,187,488	21,219

20. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Currency translation reserve HK\$'000	Total HK\$'000
Unaudited					
Balance at 1 July 2020	189,699	49,714	8,000	(3,138)	244,275
Currency translation differences	–	–	–	28,552	28,552
Balance at 31 December 2020	189,699	49,714	8,000	25,414	272,827
Unaudited					
Balance at 1 July 2021	189,699	49,714	8,000	30,422	277,835
Currency translation differences	–	–	–	3,779	3,779
Balance at 31 December 2021	189,699	49,714	8,000	34,201	281,614

21. TRADE & OTHER PAYABLES

	Unaudited 31 Dec 2021 HK\$'000	Audited 30 Jun 2021 HK\$'000
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 HK\$'000	Audited 30 Jun 2021 HK\$'000
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

22. BANK BORROWINGS

	Unaudited 31 Dec 2021 HK\$'000	Audited 30 Jun 2021 HK\$'000
Current		
Short-term bank borrowings	–	15,520

The bank borrowings outstanding as at 30 June 2021 amounted to approximately HK\$15,520,000. The bank borrowings are unsecured and interest bearing at 1.68% p.a.. The carrying amounts approximated their respective fair values as at 30 June 2021.

There is no outstanding bank borrowing as at 31 December 2021.

23. CAPITAL COMMITMENTS

	Unaudited 31 Dec 2021 HK\$'000	Audited 30 Jun 2021 HK\$'000
Authorised but not contracted for in respect of property, plant & equipment	–	–
Contracted but not provided for in respect of property, plant & equipment	2,150	2,300
	2,150	2,300

24. CONTINGENT LIABILITIES

	Unaudited 31 Dec 2021 HK\$'000	Audited 30 Jun 2021 HK\$'000
Performance bond issued by banks	7,104	7,371

25. RELATED PARTY TRANSACTIONS

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

The following transactions were carried out with related parties:

(a) Sale of goods & services

	Six months ended 31 December	
	2021 HK\$'000	2020 HK\$'000
Sale of carpets and services:		
The Hongkong and Shanghai Hotels, Limited (“HSH”) ¹	27	235

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.

25. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Unaudited 31 Dec 2021 HK\$'000	Audited 30 Jun 2021 HK\$'000
Trade receivable from related party:		
HSH	9	919

(c) Key management compensation

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

	Six months ended 31 December	
	2021 HK\$'000	2020 HK\$'000
Salaries & employee benefits	29,909	8,317

Corporate Information

Board of Directors

Chairman & Non-Executive Director
Mr. Nicholas Timothy James Colfer

Chief Executive Officer & Executive Director
Mr. Mark Stuart Worgan

Non-Executive Directors

Mr. Tong Chi Leung David
Mr. John Jeffrey Ying
Mr. Leong Kwok Fai Nelson
Mr. Andrew Clifford Winawer Brandler

Independent Non-Executive Directors

Mr. Roderic Noel Anthony Sage
Mr. Yung Lincoln Chu Kuen
Mr. Daniel George Green
Mrs. Fung Yeh Yi Hao Yvette

Executive Committee

Mr. Nicholas Timothy James Colfer (*Committee Chairman*)
Mr. Mark Stuart Worgan
Mr. Tong Chi Leung David
Mr. Leong Kwok Fai Nelson
Mr. Daniel George Green

Audit Committee

Mr. Roderic Noel Anthony Sage (*Committee Chairman*)
Mr. John Jeffrey Ying
Mr. Yung Lincoln Chu Kuen

Remuneration Committee

Mr. Roderic Noel Anthony Sage (*Committee Chairman*)
Mr. Tong Chi Leung David
Mrs. Fung Yeh Yi Hao Yvette

Nomination Committee

Mr. Nicholas Timothy James Colfer (*Committee Chairman*)
Mr. Yung Lincoln Chu Kuen
Mrs. Fung Yeh Yi Hao Yvette

Company Secretary

Mr. Lung Chi Sing Alex

Auditor

KPMG
Certified Public Accountants
Public Interest Entity Auditor
Registered in accordance with the
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Principal Bankers

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

Principal Share Registrar and Transfer Agent

Ocorian Management (Bermuda) Limited
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Hamilton HM 10
Bermuda

Branch Share Registrar

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