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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 2023

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 2023 (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	
	2023	2022
	HK\$'000	HK\$'000
Revenue	306,417	265,148
Operating profit	22,036	4,407
Profit attributable to owners of the Company	22,274	4,031
Profit per share (HK cents)	10.50	1.90

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

The Group’s consolidated turnover for the period was HK\$306 million, an increase of 16% compared to HK\$265 million for the same period in 2022. Trading has progressively improved since the resumption of business activities following the COVID-19 pandemic. Gross margin increased by 5% to 62% driven by the combined effects of normalised freight costs, a favourable sales mix, and better economies of scale in manufacturing resulting from the higher sale volume.

Profit before income tax for the period was HK\$23 million, compared to HK\$4 million for the same period last year. The improvement was the result of higher sales, gross margin expansion and operating efficiency. The profit before income tax included a one-time loss on derecognition of right-of-use asset of HK\$6 million relating to the strategic decision to sublet one of its showrooms in New York.

The Group's profit attributable to the equity holders of the Company increased to HK\$22 million, significantly higher than the HK\$4 million recorded for the same period last year.

CARPET OPERATIONS

Sales revenue in carpet operations for the period was HK\$299 million, an increase of 17% compared to HK\$256 million recorded in the same period last year. Revenue for the Asia region increased by 38%, a significant recovery from the previous year which was impacted by the continuing effects of COVID-19 in Hong Kong and China. Sales in EMEA also grew strongly, with revenue up by 30% reflecting a gradual improvement in consumer confidence following the reduction in local inflationary pressure and easing of the energy crisis. The US region recorded a revenue decline which was partly a phasing issue, a higher proportion of projects are expected to ship and invoice in the second half of the financial year. Total revenue growth benefitted from an improvement in the global logistics situation which supported faster cash conversion.

MANUFACTURING OPERATIONS

Employee retention at our Artisan workshop in Xiamen has been strong since the COVID-19 pandemic. This has enabled the continuous upskilling of workers and a renewed focus on lean best practices to drive efficiency and material utilisation, while reducing manufacturing costs. Long-term plans are also progressing to further strengthen the Group's sustainability position.

New carpet manufacturing operations in the US, located at the Premier Yarn Dyers ("PYD") facility in Georgia, continued to stabilise and mature throughout the period, with production capacity expanded to support projected demand.

NON-CARPET OPERATIONS

Other operations mainly represent the Company's US-based yarn-dyeing subsidiary, PYD, contributing to approximately 2% of total sales. The operating results of PYD are stable and will gradually improve with the new carpet manufacturing operation.

OUTLOOK

High interest rates, the war in Ukraine and economic sanctions on Russia and Iran continue to impact consumer confidence, with the recent Red Sea crisis adding to the instability and having a direct impact on supply chain shipment time and higher freight costs. The continuing tension between the US and China is of particular concern because the US is one of Tai Ping's key markets while its manufacturing is in China.

These uncertainties notwithstanding, the Group expects to maintain its long-term strategic course including the expansion of its US manufacturing base and building a stronger brand presence in both trade and consumer markets. In the near term, stringent costs control will continue, and investment priorities will be progressed with caution to ensure the right balance between growth and profitability.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the period (2022: Nil).

CAPITAL EXPENDITURE

Capital expenditure in the form of property, plant and equipment and construction in progress incurred by the Group totaled HK\$9 million during the period (2022: HK\$4 million). As of 31 December 2023, the aggregate net book value of the Group's property, plant and equipment, investment property, land use right, construction in progress and intangible assets amounted to HK\$320 million (30 June 2023: HK\$317 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 2023, the Group had total cash and cash equivalents and short-term fixed deposits (with maturity over three months but within one year) amounting to HK\$222 million (30 June 2023: HK\$218 million) and had no bank borrowings (30 June 2023: Nil).

EXPOSURE TO FOREIGN EXCHANGE RISKS

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

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

HUMAN RESOURCES & REMUNERATION POLICIES

The total number of employees at the end of December 2023 was 745, consistent with the 736 at the end of June 2023.

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 and political uncertainty as well as continuing organisational change.

CONTINGENT LIABILITIES

As at 31 December 2023, the Group's total contingent liabilities amounted to HK\$1 million (30 June 2023: HK\$5 million).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December

		Unaudited	
		2023	2022
	Note	HK\$'000	HK\$'000
Revenue	3	306,417	265,148
Cost of sales		<u>(117,014)</u>	<u>(114,133)</u>
Gross profit		189,403	151,015
Distribution costs	4	(84,688)	(80,714)
Administrative expenses	4	(77,455)	(69,037)
Other (losses)/gains – net	5	<u>(5,224)</u>	<u>3,143</u>
Operating profit		22,036	4,407
Finance income/(cost) – net	6	<u>714</u>	<u>(64)</u>
Profit before income tax		22,750	4,343
Income tax expense	7	<u>(476)</u>	<u>(312)</u>
Profit for the period attributable to the owners of the Company		<u>22,274</u>	<u>4,031</u>
Profit per share attributable to the owners of the Company during the period (expressed in HK cents per share)			
Basic/diluted	9	<u>10.50</u>	<u>1.90</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December

	Unaudited	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	22,274	4,031
Other comprehensive income – net of tax:		
Items that may be reclassified to profit or loss		
Currency translation differences	<u>7,866</u>	<u>(16,203)</u>
Total comprehensive income/(loss) for the period attributable to the owners of the Company	<u>30,140</u>	<u>(12,172)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 31 Dec 2023	Audited 30 Jun 2023
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
Non-current assets			
Land use right		23,269	23,162
Property, plant & equipment		208,068	209,883
Investment property		71,504	71,192
Construction in progress		5,884	270
Intangible assets		11,554	12,539
Right-of-use assets		85,953	114,797
Lease receivable		7,360	–
Prepayments	10	5,597	4,187
		419,189	436,030
Current assets			
Inventories		49,591	46,418
Trade & other receivables	10	109,279	91,618
Current income tax assets		533	529
Lease receivable		1,011	–
Pledged bank deposit		626	615
Fixed deposits		28,266	–
Cash & cash equivalents		193,697	217,657
		383,003	356,837
Total assets		802,192	792,867

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 31 Dec 2023	Audited 30 Jun 2023
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity			
Equity attributable to owners of the Company			
Share capital		21,219	21,219
Reserves		244,839	236,973
Retained earnings:			
Proposed final dividend		–	19,097
Others		173,579	151,305
		<u>439,637</u>	<u>428,594</u>
Total equity			
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		1,380	1,380
Retirement benefit obligations		4,192	4,161
Lease liabilities		89,370	97,775
		<u>94,942</u>	<u>103,316</u>
Current liabilities			
Trade & other payables	<i>11</i>	145,158	153,931
Contract liabilities – Deposits received in advance		96,757	76,591
Current income tax liabilities		3,625	4,092
Lease liabilities		22,073	26,343
		<u>267,613</u>	<u>260,957</u>
Total liabilities		<u><u>362,555</u></u>	<u><u>364,273</u></u>
Total equity & liabilities		<u><u>802,192</u></u>	<u><u>792,867</u></u>
Net current assets		<u><u>115,390</u></u>	<u><u>95,880</u></u>
Total assets less current liabilities		<u><u>534,579</u></u>	<u><u>531,910</u></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 2023 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 2023, 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 2023 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 2023

Unaudited	Asia HK\$'000	EMEA HK\$'000	America HK\$'000	Unallocated HK\$'000	Group HK\$'000
Revenue from external customers	83,211	117,493	105,713	–	306,417
Cost of production ¹	<u>(29,067)</u>	<u>(45,311)</u>	<u>(41,487)</u>	<u>–</u>	<u>(115,865)</u>
Segment gross margin	<u>54,144</u>	<u>72,182</u>	<u>64,226</u>	<u>–</u>	<u>190,552</u>
Segment results	31,216	23,236	2,704	–	57,156
Unallocated expenses ²					<u>(35,120)</u>
Operating profit					22,036
Finance income – net					<u>714</u>
Profit before income tax					22,750
Income tax expense					<u>(476)</u>
Profit for the period					<u>22,274</u>
Capital expenditure	(2,405)	(4,800)	(1,407)	(21)	(8,633)
Depreciation of right-of-use assets	(5,151)	(3,765)	(5,808)	–	(14,724)
Depreciation of property, plant & equipment	(4,077)	(1,447)	(1,937)	(282)	(7,743)
Amortisation of land use right	(294)	–	–	–	(294)
Amortisation of intangible assets	(81)	(37)	(5)	(1,223)	(1,346)
(Allowance for)/recovery of impairment of trade receivables – net	<u>(20)</u>	<u>1,066</u>	<u>248</u>	<u>–</u>	<u>1,294</u>

For the six months ended 31 December 2022

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	60,283	90,454	114,411	–	265,148
Cost of production ¹	<u>(24,396)</u>	<u>(42,744)</u>	<u>(48,185)</u>	<u>–</u>	<u>(115,325)</u>
Segment gross margin	<u>35,887</u>	<u>47,710</u>	<u>66,226</u>	<u>–</u>	<u>149,823</u>
Segment results	16,463	748	6,282	–	23,493
Unallocated expenses ²					<u>(19,086)</u>
Operating profit					4,407
Finance costs – net					<u>(64)</u>
Profit before income tax					4,343
Income tax expense					<u>(312)</u>
Profit for the period					<u>4,031</u>
Capital expenditure	(271)	(379)	(2,922)	–	(3,572)
Depreciation of right-of-use assets	(4,480)	(3,116)	(5,323)	–	(12,919)
Depreciation of property, plant & equipment	(5,446)	(1,687)	(1,583)	(281)	(8,997)
Amortisation of land use right	(303)	–	–	–	(303)
Amortisation of intangible assets	(101)	(35)	(69)	(1,445)	(1,650)
(Allowance for)/recovery of impairment of trade receivables – net	<u>–</u>	<u>(221)</u>	<u>75</u>	<u>–</u>	<u>(146)</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 loss on derecognition of right-of-use assets, corporate expenses and income of the Group.

4. EXPENSES BY NATURE

	Six months ended 31 December	
	2023	2022
	HK\$'000	HK\$'000
Depreciation of right-of-use assets	14,724	12,919
Depreciation of property, plant & equipment	7,743	8,997
Depreciation of investment property	919	948
Amortisation of land use right	294	303
Amortisation of intangible assets	1,346	1,650
(Recovery of)/allowance for impairment of trade receivables – net	(1,294)	146
Allowance for impairment of inventories – net	7,908	767
Bad debts written off	5	2
	<u>5</u>	<u>2</u>

5. OTHER (LOSSES)/GAINS – NET

	Six months ended 31 December	
	2023	2022
	HK\$'000	HK\$'000
Rental income	1,729	1,768
Loss on change in fair value of derivative financial instruments	–	(435)
(Loss)/gain on disposal of property, plant & equipment	(2)	127
Net foreign exchange (loss)/gain	(1,068)	1,032
Loss on derecognition of right-of-use assets	(6,436)	–
Others	553	651
	<u>553</u>	<u>651</u>
	<u>(5,224)</u>	<u>3,143</u>

6. FINANCE INCOME/(COST) – NET

	Six months ended 31 December	
	2023	2022
	HK\$'000	HK\$'000
Finance income – interest income from banks	2,768	1,455
Finance cost – interest expenses for leases – net	(2,054)	(1,519)
	<u>2,768</u>	<u>1,455</u>
	<u>(2,054)</u>	<u>(1,519)</u>
Finance income/(cost) – net	<u>714</u>	<u>(64)</u>

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 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	
	2023	2022
	HK\$'000	HK\$'000
Current income tax		
Hong Kong	335	–
PRC & overseas	141	312
Deferred income tax expense	–	–
Income tax expense	<u>476</u>	<u>312</u>

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the period. At the Board meeting held on 23 February 2024, the Board resolved not to declare any dividend for the six months ended 31 December 2023 (2022: Nil).

Distributable reserves of the Company as at 31 December 2023, calculated under the Companies Act 1981 of Bermuda (as amended) amounted to approximately HK\$522,359,000 (2022: HK\$550,902,000).

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	
	2023	2022
Profit attributable to owners of the Company (HK\$'000)	<u>22,274</u>	<u>4,031</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>10.50</u>	<u>1.90</u>

The Group had no dilutive potential shares outstanding during the six months ended 31 December 2023 and 2022.

10. TRADE & OTHER RECEIVABLES

	Unaudited 31 Dec 2023 <i>HK\$'000</i>	Audited 30 Jun 2023 <i>HK\$'000</i>
Trade receivables	84,049	70,100
Less: allowance for impairment of trade receivables	<u>(5,365)</u>	<u>(6,657)</u>
Trade receivables – net	78,684	63,443
Prepayments	13,409	11,613
Value added tax receivables	583	651
Rental deposits	5,299	4,984
Other receivables	<u>16,901</u>	<u>15,114</u>
	<u>114,876</u>	<u>95,805</u>
Less: Non-current portion prepayments	<u>(5,597)</u>	<u>(4,187)</u>
	<u><u>109,279</u></u>	<u><u>91,618</u></u>

The carrying amounts of trade receivables approximate their fair values as at 31 December 2023 and 30 June 2023. 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 2023 <i>HK\$'000</i>	Audited 30 Jun 2023 <i>HK\$'000</i>
0 to 30 days	33,754	43,630
31 to 60 days	18,743	6,018
61 to 90 days	5,235	2,680
91 to 365 days	21,346	9,668
More than 365 days	<u>4,971</u>	<u>8,104</u>
	<u><u>84,049</u></u>	<u><u>70,100</u></u>

11. TRADE & OTHER PAYABLES

	Unaudited 31 Dec 2023 <i>HK\$'000</i>	Audited 30 Jun 2023 <i>HK\$'000</i>
Trade payables	32,638	29,158
Accrued expenses	75,535	88,943
Other payables	<u>36,985</u>	<u>35,830</u>
	<u>145,158</u>	<u>153,931</u>

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 2023 <i>HK\$'000</i>	Audited 30 Jun 2023 <i>HK\$'000</i>
0 to 30 days	29,226	22,575
31 days to 60 days	1,801	6,073
61 days to 90 days	938	204
More than 90 days	<u>673</u>	<u>306</u>
	<u>32,638</u>	<u>29,158</u>

CORPORATE GOVERNANCE

The Board of Directors and Management of the Company are committed to promoting good corporate governance to safeguard the interests of shareholders of the Company (the “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 2023, except the Company’s Non-Executive Directors are not appointed for specific terms. 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 code provision B.2.2 of 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 2023.

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 2023. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the period.

AUDIT COMMITTEE

The Audit Committee was established in 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 system. Detailed terms of reference of the Audit Committee are accessible on the Company’s website.

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 2023.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2023.

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 2023/24 of the Company containing all the information required by the Listing Rules will be made available on the same websites in due course and dispatched to the Shareholders, upon request.

By order of the Board

Nicholas Timothy James Colfer
Chairman

Mark Stuart Worgan
Chief Executive Officer

Hong Kong, 23 February 2024

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; Non-executive Directors – Mr. Tong Chi Leung David, Mr. John Jeffrey Ying, Mr. Leong Kwok Fai Nelson, Mr. Frederick Edward Elkin Mocatta; Independent Non-executive Directors – Mrs. Fung Yeh Yi Hao Yvette, Ms. Yung Ka Sing Kathryn, Mr. Daniel George Green, Mr. Nicholas James Debnam.