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## **TAI PING CARPETS INTERNATIONAL LIMITED** **CONNECTED TRANSACTION**



# **TAI PING**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 146)

The Directors announce that CII Cement, a non-wholly owned subsidiary of the Company, has entered into the Agreement to transfer its 54.54% stake in Nantai Construction to CNCMC. CNCMC is a Substantial Shareholder in Nantai Construction and is therefore a connected person of the Company for the purposes of the Listing Rules.

The Transaction constitutes a connected transaction of the Company and is subject to the reporting and announcement requirements but is exempt from the independent shareholder approval requirements of the Listing Rules. Details of the Transaction will be included in the published report and annual accounts of the Company for the year ended 31 December 2005.

The Directors announce that CII Cement, a non-wholly owned subsidiary of the Company, has entered into a contract to transfer its 54.54% stake in Nantai Construction to CNCMC. CNCMC is a Substantial Shareholder in Nantai Construction and is therefore a connected person of the Company for the purposes of the Listing Rules. Details of the Agreement are set out below:

### **AGREEMENT**

#### **Date**

22 August 2005.

#### **Parties**

CII Cement, a non-wholly owned subsidiary of the Company (as seller) and CNCMC (as buyer).

#### **Nature of the Transaction**

The sale by CII Cement to CNCMC of its entire interest in the registered capital of Nantai Construction (representing approximately 54.54% of the registered capital of Nantai Construction).

#### **Consideration**

RMB8 million (approximately HK\$7.7 million) payable in full by 15 September 2005. There is no long stop date by which time the consideration must be paid, however, late payment of the consideration is subject to interest at the rate of 0.1% per day on the amount outstanding.

The Agreement is not subject to any conditions precedent.

## **BASIS UPON WHICH THE CONSIDERATION WAS DETERMINED**

CII Cement invested a total of US\$3.18 million (approximately HK\$24.8 million) in Nantai Construction in 1993 and 1994. Nantai Construction is a Sino-foreign equity joint venture company established in the PRC, whose principal business activities are the manufacturing of cement products.

In 1996, as a result of the macro-control policies introduced in the PRC, the cement market became very competitive and the production of Nantai Construction began to decrease with parts of the production capacity starting to become idle. The management of Nantai Construction projected that the situation would not improve in the medium term, and given the Group's limited control of Nantai Construction's operation, the Company concluded that the likelihood of it recovering its investment in Nantai Construction through CII Cement was remote and full provision of HK\$20.8 million for the then carrying amount of the total investment in Nantai Construction was made in the Company's accounts for the year ended 31 December 1996. The full provision made in the Company's accounts in respect of its investment in Nantai Construction has remained unchanged for each of the following financial years to date as the Company considers that there has been no basis on which to revise this provision. Accordingly, the Company's stake in Nantai Construction has a nil book value.

In June 2004, the relevant local government in the PRC announced that a substantial part of the land on which Nantai Construction's factory is situated would be compulsorily purchased for the construction of an expressway. By the end of 2004, Nantai Construction advised the Company that compensation of RMB22.9 million (approximately HK\$22 million) had been agreed with the local government for the land to be compulsorily purchased from Nantai Construction.

The audited accounts of Nantai Construction as at 31 December 2004, stated the book value of its net assets as RMB34.7 million (approximately HK\$32.7 million) and showed a loss before and after taxation and extraordinary items of RMB4.4 million (approximately HK\$4.2 million) for the year ended 31 December 2004 (there being neither taxation nor extraordinary items in the accounts for that period). The audited accounts of Nantai Construction as at 31 December 2003, stated the book value of its net assets as RMB41 million (approximately HK\$38.6 million) and showed a profit before and after taxation and extraordinary items of RMB695,000 (approximately HK\$656,000) and RMB501,000 (approximately HK\$473,000) respectively. After factoring in the impact of the loss of approximately RMB1.8 million (approximately HK\$1.7 million) in the first three months of 2005 reported by the management of Nantai Construction, the possible loss by Nantai Construction of approximately RMB10.9 million (approximately HK\$10.5 million) on the demolition of the Nantai Construction factory as a result of the compulsory purchase of land and the doubtfulness of the recoverability of long outstanding receivables of Nantai Construction of approximately RMB6.3 million (approximately HK\$6.1 million), the net asset value of the Group's investment in Nantai Construction will be approximately RMB8.6 million (approximately HK\$8.3 million).

The consideration of RMB8 million (approximately HK\$7.7 million) was agreed on the basis of a reasonable discount (of approximately 7%) to the net asset value of the Group's investment to take account of the fact that related severance payments will be payable by Nantai Construction to its employees on the cessation of operations (although the actual amount has yet to be confirmed), the outcome of negotiations between CII Cement and CNCMC, which were carried out on a normal commercial basis pursuant to which a price was agreed at which CII Cement was prepared to sell and CNCMC was prepared to buy the 54.54% stake in Nantai Construction, the fact that the investment has been fully written off in the Group's accounts (so that the net proceeds will represent a gain in the Group's accounts for the year ended 31 December 2005 (see below) and that the investment has yielded minimal return to the Group, together with the factors outlined below. The Directors consider that the 7% discount applied to the net asset value of the Group's investment is fair and reasonable given the factors outlined above. Accordingly, the Directors consider that the consideration of RMB8 million (approximately HK\$7.7 million), is a fair and reasonable price for the sale of the Group's 54.54% stake in Nantai Construction.

### **REASONS FOR AND BENEFITS OF THE TRANSACTION AND VIEWS OF THE DIRECTORS**

In 1996, management wrote off the Company's investment in Nantai Construction due to the Group's limited control of Nantai Construction and the poor prospects of its operation and therefore their belief in the remote likelihood of recovering the Company's investment. Nantai Construction reported losses for each of the financial years during the period from 1998 to 2002 and although it made a small profit during 2003, it made a further loss during 2004. Due to the compulsory purchase of land by the relevant PRC local government, Nantai Construction's factory will be demolished and its operations will need to be wound up unless they are relocated. In light of this, the Directors do not consider there is any benefit to its shareholders as a whole to continue to hold the investment in Nantai Construction. The sale of such investment to CNCMC provides an opportunity for the Group to recover part of its original investment in Nantai Construction. The Directors consider the price to be reasonable in light of the net book value of Nantai Construction, the estimated losses which will arise from writing off the fixed assets on the demolition of its factory, its potential inability to collect long outstanding debts and the related operational and employee costs which would be incurred if Nantai Construction were to be liquidated.

As the Group's total investment in Nantai Construction has been written off (and therefore has zero carrying value in the Group's accounts), the sale of the 54.54% stake in it at RMB8 million (approximately HK\$7.7 million) will be fully reflected as a net gain of HK\$7.6 million before taxation, minority interest and extraordinary items (which is calculated on the basis of the gross proceeds of approximately HK\$7.7 million less the estimated legal expenses of approximately HK\$0.1 million incurred in connection with the transaction) in the annual accounts of the Company for the year ended 31 December 2005. The net proceeds of approximately HK\$7.6 million of the Transaction will be used as working capital of the Company.

The Directors (including the Independent Non-executive Directors) consider that the Agreement was negotiated on an arm's length basis between the parties and the terms of the Agreement are normal commercial terms.

The Directors (including the Independent Non-executive Directors) believe the terms of the Transaction are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## **REQUIREMENTS OF THE LISTING RULES**

Nantai Construction is treated as an indirect non-wholly owned subsidiary of the Company under the Listing Rules by virtue of the fact that CII Cement holds more than 50% of the registered capital of Nantai Construction, notwithstanding the fact that Nantai Construction is classified as a jointly-controlled entity, and not a subsidiary, in the Group's financial statements (prepared in accordance with Hong Kong Generally Accepted Accounting Principles). On this basis, CNCMC, as a Substantial Shareholder in Nantai Construction, is a connected person of the Company and its subsidiaries under the Listing Rules. The Transaction therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios under the Listing Rules for the Transaction (other than the profits ratio) are less than 25% and the consideration is less than HK\$10,000,000, the Transaction is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Details of the Transaction will be included in the published report and annual accounts of the Company for the year ended 31 December 2005.

## **GENERAL**

The Group is principally engaged in the sale of furnishing products such as carpets, rugs, furniture, interior furnishings, soft furnishings, antiques, lights, electrical home appliances, ceramics, home accessories and decorative items. The principal activity of CII Cement is investment holding.

The connected party to the Agreement, CNCMC was principally engaged in the production of cement and other ceramic materials but it has ceased production since 1994.

Following completion of the Transaction, Nantai Construction will cease to be a subsidiary of the Company.

## **DEFINITIONS**

“Agreement”	an agreement entered into between CII Cement and CNCMC dated 22 August 2005 relating to the transfer of CII Cement's 54.54% stake in Nantai Construction to CNCMC
“CII Cement”	CII Cement Limited, a company incorporated in the British Virgin Islands, 64.75% of the shares of which are indirectly owned by the Company
“CNCMC”	Changzhou Nanyang Construction Materials Company, an enterprise incorporated in Lu Jia Tang, Wan Cheng Village, Ding Yan Town, Changzhou, Jiangsu Province, the PRC
“Company”	Tai Ping Carpets International Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 146)
“Directors”	The directors of the Company
“Group”	The Company and its subsidiaries

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Nantai Construction”	Changzhou Nantai Construction Materials Co. Ltd, a Sino-foreign joint venture company incorporated in the PRC in which CII Cement and CNCMC currently own a 54.54% and 40.31% interest respectively
“PRC”	The People’s Republic of China
“RMB”	Renminbi Yuan, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	has the meaning ascribed to it in the Listing Rules
“Transaction”	the transaction to be effected pursuant to the Agreement
“US\$”	United States dollars, the lawful currency of the United States of America

*Translations of US\$ and RMB into HK\$ in this announcement have been made at the following rates (for the purposes of illustration only):*

*US\$1.00 : HK\$7.80*

*RMB1.00 : HK\$0.9434 (for translation of historical results of Nantai Construction as extracted from its audited accounts as at 31 December 2004 and 2003)*

*RMB1.00 : HK\$0.9615 (for translation of all other amounts denominated in RMB)*

By Order of the Board  
**Tai Ping Carpets International Limited**  
**Ernest P. L. Law**  
*Company Secretary*

Hong Kong, 22 August 2005

*As at the date of this announcement, the directors of the Company are Chairman: Mr Nicholas T. J. Colfer, Honorary Life President: Mr Anthony Y. C. Yeh, Chief Executive Officer: Mr James H. Kaplan, Executive Director: Ms Alison S. Bailey, Independent Non-executive Directors: Mr Michael T. H. Lee, Mrs Yvette Y. H. Fung, Mr Lincoln C. K. Yung, Non-executive Directors: Mr Ian D. Boyce, Mr John J. Ying, Mr Kent M. C. Yeh, Mr Lincoln K. K. Leong, Mr David C. L. Tong, Alternate Director: Mr Nelson K. F. Leong (Alternate to Mr Lincoln K. K. Leong).*