
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Tai Ping Carpets International Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 146)

**TAI PING**

DISCLOSABLE TRANSACTION

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

A letter from the Board is set out on pages 3 to 6 of this circular.

28 July 2006

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Banyan SPA”	the sale and purchase agreement, dated 7 July 2006, pursuant to which Pacific Legend Development Limited purchased the entire issued share capital of Banyan Tree Limited from Hong Kong Carpet (Holdings) Limited
“Banyan Tree Limited”	a company incorporated in Hong Kong with limited liability (registered number 69236) and a wholly-owned subsidiary of the Company
“Board”	the board of Directors of the Company
“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)
“Completion Date”	7 July 2006
“Directors”	the Directors of the Company
“Disposals”	the sale of Indigo Living Limited and Banyan Tree Limited, as described in this circular
“DFLMC”	Dong Fung Lim Mei Company Limited a company incorporated in Hong Kong with limited liability (registered number 230608) and a wholly-owned subsidiary of the Company
“Flex Box Limited”	a company incorporated in Hong Kong with limited liability and an Independent Third Party
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region, the People’s Republic of China
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Indigo Living Limited”	a company incorporated in Hong Kong with limited liability (registered number 177875) and a wholly-owned subsidiary of the Company
“Independent Third Party(ies)”	person(s) or company(ies) who/which is/are independent of the directors, the chief executive and the substantial shareholders of the Company and its subsidiaries or any of their respective associates

DEFINITIONS

“Indigo SPA”	the sale and purchase agreement, dated 7 July 2006, pursuant to which Pacific Legend Development Limited purchased the entire issued share capital of Indigo Living Limited from DFLMC
“Latest Practicable Date”	24 July 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loan”	the loan owed by Indigo Living Limited to DFLMC totalling HK\$21,026,436
“Options”	options granted under the Share Option Scheme
“Pacific Legend Development Limited”	a company incorporated in Hong Kong with limited liability (registered number 1051086)
“Sale and Purchase Agreements”	the Banyan SPA and the Indigo SPA
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shares”	ordinary shares of HK\$0.10 each in the capital of the Company
“Share Option Scheme”	an employee share option scheme adopted and approved by the Shareholders on 23 May 2002 which fully complies with Chapter 17 of the Listing Rules
“Shareholders”	the shareholders of the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Tai Ping Carpets Group”	the Company and its subsidiaries
“Tuxworth Limited”	a company incorporated in the British Virgin Islands with limited liability and an Independent Third Party

LETTER FROM THE BOARD

TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 146)



Board of Directors:

Non-executive Directors:

Nicholas T. J. COLFER, *Chairman*

Ian D. BOYCE

Lincoln K. K. LEONG

David C. L. TONG

John J. YING

Nelson K. F. LEONG (*Alternate Director to Lincoln K. K. LEONG*)

Independent Non-executive Directors:

Yvette Y. H. FUNG

Michael T. H. LEE

Roderic N. A. SAGE

Lincoln C. K. YUNG

Executive Director:

James H. KAPLAN, Chief Executive Officer

Registered office:

Canon's Court

22 Victoria Street

P.O. Box HM 1179

Hamilton HM EX

Bermuda

Principal Place of Business:

26/F, Tower A

Regent Centre

63 Wo Yi Hop Road

Kwai Chung

Hong Kong

28 July 2006

Dear Shareholder(s),

DISCLOSABLE TRANSACTION

INTRODUCTION

On 7 July 2006, the Company announced DFLMC and Hong Kong Carpet (Holdings) Limited, two wholly-owned subsidiaries of the Company, entered into Sale and Purchase Agreements on normal commercial terms pursuant to which they sold to Pacific Legend Development Limited the entire issued share capitals of Indigo Living Limited and Banyan Tree Limited respectively. The Disposals were completed on the Completion Date.

The Disposals constitute a disclosable transaction for the Company under the Listing Rules. The purpose of this circular is to provide you with further information in relation to the transaction outlined above.

LETTER FROM THE BOARD

(1) Indigo SPA

Date

7 July 2006

Parties

(1) DFLMC (Seller)

(2) Pacific Legend Development Limited (Buyer)

(2) Banyan SPA

Date

7 July 2006

Parties

(1) Hong Kong Carpet (Holdings) Limited (Seller)

(2) Pacific Legend Development Limited (Buyer)

CONSIDERATION

The aggregate consideration paid under the Sale and Purchase Agreements was HK\$19.2 million in cash, a sum which was determined following arms' length negotiations between the parties.

The consideration comprised a payment of HK\$2,110,440 for the entire issued share capital of Banyan Tree Limited; HK\$1 for the entire issued share capital of Indigo Living Limited which had a shareholders' deficit of approximately HK\$4.5 million; and HK\$17,089,559 for the assignment to Pacific Legend Development Limited of a loan owed by Indigo Living Limited to DFLMC totalling HK\$21,026,436. The assignment of the Loan for HK\$17,089,559 represented a discount of 18.7% to its face value. Following arm's length negotiation, the parties determined this to be its fair value given Indigo's negative net asset value of approximately HK\$4.5 million, as at 31 December 2005, which would preclude any repayment of the Loan in the short-term. The consideration was paid in full in cash at completion.

The consideration was negotiated mainly by reference to the combined net asset value of Indigo Living Limited and Banyan Tree Limited after taking into account the assignment of the Loan to Pacific Legend Development Limited.

LETTER FROM THE BOARD

INFORMATION ON INDIGO LIVING LIMITED AND BANYAN TREE LIMITED

Indigo Living Limited is principally engaged in the sale and leasing of furniture, art and soft furnishings.

Banyan Tree Limited is principally engaged in the provision of management services to Indigo Living Limited following the sale of its inventories to Indigo Living Limited and ceasing sales of furniture and home furnishings in late 2004.

The two companies represented a single business of Tai Ping Carpets Group. The pro-forma combined financial results of Indigo Living Limited and Banyan Tree Limited are compiled based on their audited results (after eliminating any inter-company sales and profits between the two companies) for the years ended 31 December 2005 and 2004, respectively:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit before taxation	(4,222)	2,536
(Loss)/profit after taxation	(3,355)	2,387

The combined loss for the year ended 2005 included a charge of approximately HK\$5.2 million to provide for the impairment in value of certain slow-moving inventories.

The combined net asset value of Indigo Living Limited and Banyan Tree Limited as at 31 December 2005 (excluding the balances with other Tai Ping Carpets Group companies) amounted to approximately HK\$23.1 million.

Following the Disposals, Indigo Living Limited and Banyan Tree Limited ceased to be subsidiaries of the Company.

FINANCIAL EFFECTS OF THE DISPOSALS

An estimated loss of approximately HK\$3.9 million before direct expenses will result from the Disposals, being the difference between the total consideration of HK\$19.2 million and the combined carrying value of net assets of Indigo Living Limited and Banyan Tree Limited of approximately HK\$23.1 million (after taking into account the assignment of the Loan to Pacific Legend Development Limited).

The loss resulting from the Disposals represented a 16.9% discount to the combined net asset value mentioned above. Direct expenses are estimated to be approximately HK\$0.7 million, which include legal and consultancy fees and stamp duties.

The combined net asset value of Indigo Living Limited and Banyan Tree Limited represented 3.4% of the consolidated net asset value of Tai Ping Carpets Group as at 31 December 2005. Therefore, the financial impact of the Disposals is not significant to Tai Ping Carpets Group.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE DISPOSALS

Market competition in the furniture and home furnishing business in Hong Kong is intense and Indigo Living Limited and Banyan Tree Limited's overall profitability, as well as the return on assets deployed, were relatively low during the past few years. While Indigo Living Limited and Banyan Tree Limited represented non-core businesses to Tai Ping Carpets Group, significant working capital was needed to carry substantial inventories which bore a relatively high obsolescence risk.

The Directors of the Company intend to deploy the Company's management and financial resources to focus on growing the carpets business.

The net proceeds from the Disposals of approximately HK\$18.5 million will be used as general working capital by the Company.

In view of the relatively low profitability and return on assets deployed and, further, as Indigo Living Limited and Banyan Tree Limited did not represent core businesses of Tai Ping Carpets Group, the Directors (including the independent non-executive directors) believe the terms of the Disposals are fair and reasonable and in the interests of Shareholders as a whole.

GENERAL

Tai Ping Carpets Group is principally engaged in the manufacture, import, export and sale of carpets. Tai Ping Carpets Group offers its customers access to a full range of quality floorcovering products, from luxury to affordable, appropriate for every commercial and residential environment.

Pacific Legend Development Limited is an investment holding company which is held as to 39% by Flex Box Limited, 32% by Tuxworth Limited and 29% by Mr John McLennan, a director of Indigo Living Limited and Banyan Tree Limited and therefore a connected person of the Company. Mr John McLennan does not hold any Shares in the Company or its subsidiaries. To the best of the knowledge, information and belief of the Directors of the Company having made all reasonable enquiries, Pacific Legend Development Limited and its ultimate beneficial owners are, with the exception of Mr John McLennan's interest, as described above, Independent Third Parties.

Yours faithfully,

For and on behalf of the Board

TAI PING CARPETS INTERNATIONAL LIMITED

Ernest P. L. Law

Company Secretary

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the Shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives were deemed or taken to have under such provisions of the SFO); or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company (“Model Code”) were as follows:

Long Positions in Shares

Name	Personal interests	Corporate interests	Aggregate % to the share capital
Ian D. Boyce	214,371	–	0.101%
David C. L. Tong	431,910	–	0.204%
Lincoln C. K. Yung	30,000	–	0.014%
Lincoln K. K. Leong	–	2,000,000*	0.943%
Nelson K. F. Leong (Alternate Director to Lincoln K. K. Leong)	–	2,000,000*	0.943%
John J. Ying	–	32,575,875 [#]	15.352%
James H. Kaplan	522,000	–	0.246%

* Mr Nelson K. F. Leong is interested in the same Shares as disclosed by Mr Lincoln K. K. Leong. The Shares are held through a company which is controlled by Mr Lincoln K. K. Leong and Mr Nelson K. F. Leong.

[#] The Shares are held through Peak Capital Partners I, L.P. of which Mr John J. Ying is interested in more than one-third of the voting shares.

Interests in Options

Name	Options held as at the Latest Practicable Date	Exercise price (HK\$)	Exercisable from	Exercisable until
James H. Kaplan	500,000	1.21	31 December 2006	31 January 2007
	500,000	1.21	31 December 2007	31 January 2008

Save as disclosed above, none of the Directors or chief executives of the Company had, as at the Latest Practicable Date, any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests and Short Positions of Shareholders

So far as is known to any Director or chief executives of the Company, as at the Latest Practicable Date, Shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long Positions of Substantial Shareholders in the Shares of the Company

Name	No. of Shares held (long position)	Aggregate % of the share capital
Bermuda Trust Company Limited	117,688,759*	55.465%
Harneys Trustees Limited (formerly known as HWR Trustees Limited)	117,688,759*	55.465%
Lawrencium Holdings Limited	117,688,759*	55.465%
Acorn Holdings Corporation	117,688,759*	55.465%
New Holmium Holding Corporation	117,688,759*	55.465%
The Hon. Sir Michael Kadoorie	117,688,759*	55.465%
Peak Capital Partners I, L.P.	32,575,875 [#]	15.352%

* Bermuda Trust Company Limited are deemed to be interested in the 117,688,759 Shares in which Lawrencium Holdings Limited and Acorn Holdings Corporation are deemed to be interested. Lawrencium Holdings Limited, Acorn Holdings Corporation and Harneys Trustees Limited (formerly known as HWR Trustees Limited) are deemed to be interested in the

117,688,759 Shares in which New Holmium Holding Corporation is interested. These Shares are held by New Holmium Holding Corporation. For the purpose of the SFO, the spouse of the Hon. Sir Michael Kadoorie is taken to have a duty of disclosure in Hong Kong in relation to the 117,688,759 Shares. The interest disclosed by the spouse of the Hon. Sir Michael Kadoorie is that of the Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. Nevertheless, she has no interest, legal or beneficial in those Shares.

- # Mr John J. 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 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).

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of Tai Ping Carpets Group, or any options in respect of such capital.

3. COMPETING BUSINESS INTERESTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in any business apart from Tai Ping Carpets Group’s businesses which competes or is likely to compete, either directly or indirectly, with the business of Tai Ping Carpets Group.

4. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

5. SERVICE CONTRACTS

Mr. James H. Kaplan (“Mr. Kaplan”) entered in to a service contract with the Company on 15 October 2003. This contract is indefinite, terminable by the giving of not less than one month’s written notice by either party. Except for a departure for cause or upon a voluntary resignation, Mr. Kaplan is entitled to a severance payment on his departure.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of Tai Ping Carpets Group (excluding contracts expiring or terminable by any member of Tai Ping Carpets Group within one year without payment of compensation, other than statutory compensation).

6. MISCELLANEOUS

- (a) The company secretary of the Company is Ernest P. L. Law, FCCA, ACMA, CPA.
- (b) The qualified accountant of the Company is Ernest P. L. Law, FCCA, ACMA, CPA.
- (c) The registered office of the Company is at Canon's Court, 22 Victoria Street, P.O. Box HM 1179, Hamilton HM EX, Bermuda.
- (d) The principal place of business of the Company is at 26/F, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong.
- (e) The branch share registrars of the Company is Computershare Hong Kong Investor Services Limited, 46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (f) The principal share registrar of the Company is the Bank of Bermuda Limited, 6 Front Street, Hamilton HM11, Bermuda.
- (g) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.