

---

**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)



**DISCLOSEABLE 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.

---

## CONTENTS

---

	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	3
<b>APPENDIX GENERAL INFORMATION</b> .....	7

---

## DEFINITIONS

---

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

“Board”	the board of Directors
“Company”	Tai Ping Carpets International Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on The Stock Exchange of Hong Kong Limited (Stock Code: 146)
“Directors”	the directors (including non-executive and independent non-executive directors) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“JV Company”	a sino-foreign equity joint venture to be established in the PRC which is to be owned 49% by Treasure Looms and 51% by Shanhua
“Joint Venture Agreement”	the joint venture agreement dated 26 January 2007 entered into between Treasure Looms and Shanhua to establish the JV Company
“Latest Practicable Date”	13 February 2007, 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
“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shanhua”	Weihai Shanhua Carpets Group Co. Ltd. (威海市山花地毯集團有限公司), a limited liability company established in the PRC

---

## DEFINITIONS

---

“Shareholders”	the shareholders of the Company
“Treasure Looms”	Treasure Looms (China) Limited (寶隆地氈(中國)有限公司), a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“US\$”	United States dollars, the lawful currency of the United States
“Weihai Shanhua Floorcovering Products”	Weihai Shanhua Floorcovering Products Co. Ltd. (威海山花地毯材料有限公司), a sino-foreign equity joint venture established in the PRC of which the Group owns 41.7% equity capital
“Weihai Shanhua Huabao Carpet”	Weihai Shanhua Huabao Carpet Co. Ltd. (威海山花華寶地毯有限公司), a sino-foreign equity joint venture established in the PRC of which the Group owns 49% equity capital
“Weihai Shanhua Premier Carpet”	Weihai Shanhua Premier Carpet Co. Ltd. (威海山花博美地毯有限公司), a sino-foreign equity joint venture established in the PRC of which the Group owns 49% equity capital

*Note: For the purpose of this circular and for reference only, amounts denominated in US\$ have been translated into HK\$ at the rate of US\$1.00 = HK\$7.80*

---

## 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

16 February 2007

Dear Shareholder(s),

### DISCLOSEABLE TRANSACTION

#### INTRODUCTION

On 26 January 2007, the Company announced that Treasure Looms, a wholly-owned subsidiary of the Company, entered into the Joint Venture Agreement with Shanhua to establish the JV Company.

The entering into of the Joint Venture Agreement by Treasure Looms constitutes a discloseable 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

---

### THE JOINT VENTURE AGREEMENT

(a) Date:

26 January 2007

(b) Parties:

Treasure Looms; and  
Shanhua.

The Group has already established three sino-foreign joint ventures with the Shanhua group in the PRC i.e. Weihai Shanhua Floorcovering Products, Weihai Shanhua Huabao Carpet and Weihai Shanhua Premier Carpet. Weihai Shanhua Floorcovering Products, Weihai Shanhua Huabao Carpet and Weihai Shanhua Premier Carpet are not subsidiaries of the Group and investments in Weihai Shanhua Floorcovering Products, Weihai Shanhua Huabao Carpet and Weihai Shanhua Premier Carpet are accounted for in the Group's consolidated accounts using equity method of accounting under Hong Kong Accounting Standard 31 "Interests in Joint Ventures" ("HKAS 31") issued by the Hong Kong Institute of Certified Public Accountants.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Shanhua and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

(c) Business:

Upon establishment, the JV Company will principally be engaged in the manufacturing and sale of carpets.

(d) Registered Capital and Total Investment:

The registered capital of the JV Company is US\$6,000,000 (approximately HK\$46,800,000) and the total investment of the JV Company is US\$15,000,000 (approximately HK\$117,000,000). Subject to business and operational needs, the difference between the total investment amount and the amount of registered capital will be met by funds generated from operations or bank borrowings by the JV Company.

---

## LETTER FROM THE BOARD

---

The registered capital of the JV Company will be contributed by Treasure Looms and Shanhua in the following manner:

- (i) 49% being US\$2,940,000 (approximately HK\$22,932,000) will be contributed in cash by Treasure Looms within six months of the issuance of business licence of the JV Company and the contribution is expected to be financed through dividend payments to be made to the Group from Weihai Shanhua Huabao Carpet and Weihai Shanhua Premier Carpet; and
- (ii) 51% being US\$3,060,000 (approximately HK\$23,868,000) will be contributed in cash by Shanhua within six months of the issuance of business licence of the JV Company.

The JV Company will be owned 49% by Treasure Looms and 51% by Shanhua. Since the Group only holds 49% equity capital in the JV Company, the JV Company will not be treated as a subsidiary and investment in the JV Company will be accounted for in the consolidated accounts of the Group using equity method of accounting in accordance with HKAS 31.

Save for the contribution of the above registered capital, Treasure Looms does not have any obligation under the Joint Venture Agreement to provide additional financing or any guarantee or indemnity to or for the benefit of the JV Company.

- (e) Term of the JV Company:

35 years from the date of issuance of the business licence of the JV Company. The term may be extended by agreement between the parties.

- (f) Profit Distribution:

Net profits of the JV Company will be distributed to the shareholders of Treasure Looms and Shanhua in proportion to their respective equity holdings in the JV Company.

- (g) Board of Directors and Supervisors:

The JV Company shall have a board of directors and a board of supervisors, and:

- (i) Treasure Looms shall have the right to appoint two directors and one supervisor to the JV Company; and
- (ii) Shanhua shall have the right to appoint three directors and two supervisors to the JV Company.

---

## LETTER FROM THE BOARD

---

### REASONS FOR ESTABLISHMENT OF THE JOINT VENTURE

The Group is principally engaged in the manufacture, import, export and sale of carpets. The Group offers its customers access to a full range of quality floorcovering products, from luxury to affordable, appropriate for every commercial and residential environment. The Directors believe that the establishment of the JV Company will further strengthen the Group's relationship with Shanhua and help increase the market share in the PRC.

The amount of registered capital of the JV Company to be contributed by Treasure Looms was determined after arm's length negotiations between the parties to the Joint Venture Agreement.

The Directors are of the view that the terms of the Joint Venture Agreement are normal commercial terms, fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

### EFFECTS OF ESTABLISHING THE JOINT VENTURE

The establishment of the JV Company will result in a positive effect on the future earnings of the Group and there is no adverse effect on the assets and liabilities of the Group.

### GENERAL

Shanhua is principally engaged in the manufacture and sale of carpets. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Shanhua and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
For and on behalf of the Board  
**TAI PING CARPETS INTERNATIONAL LIMITED**  
**Raymond W.M. Mak**  
*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 the 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 <sup>#</sup>	15.352%
James H. Kaplan	522,000	—	0.246%

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

<sup>#</sup> 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**

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

Save as disclosed above, none of the Directors or chief executive 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 executive of the Company, as at the Latest Practicable Date, Shareholders (other than Directors or chief executive 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**

<b>Name</b>	<b>No. of ordinary shares held in the Company of HK\$0.10 each</b>	<b>Aggregate % of the share capital</b>
Acorn Holdings Corporation	117,688,759*	55.465%
Bermuda Trust Company Limited	117,688,759*	55.465%
Harneys Trustees Limited	117,688,759*	55.465%
Lawrencium Holdings Limited	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 same 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 are deemed to be interested in the same 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 has 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 attributed to her under the SFO. Except the above, 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 executive 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, directly or indirectly, 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 the 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 the Group’s businesses which competes or is likely to compete, either directly or indirectly, with the business of the 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 or claim 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 into a service contract with Tai Ping Carpets Americas, Inc., a wholly-owned subsidiary of the Company, on 15 October 2003 (subsequently amended by a letter agreement dated 14 December 2006 setting out the new terms of employment with effect from 1 January 2006). This contract has no

fixed term and may be terminated by either party by 3 months' written notice. Mr. Kaplan is entitled to an annual base salary of US\$500,000 (approximately HK\$3,900,000) together with incentive bonus and other benefits. If this service contract is terminated due to a change of control of the Company, in addition to the statutory compensation, Mr. Kaplan is also entitled to a severance payment subject to certain conditions.

## **6. MISCELLANEOUS**

- (a) The company secretary of the Company is Raymond W.M. Mak, FCCA, CPA.
- (b) The qualified accountant of the Company is Raymond W.M. Mak, FCCA, 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.