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If you are in any doubt as to any aspect about this circular or as to the action to be taken, you should consult a licensed securities dealer, 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, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 146)



**VERY SUBSTANTIAL DISPOSAL RELATING TO
THE DISPOSAL OF EQUITY INTERESTS IN THREE PRC JOINT VENTURES
AND
NOTICE OF SPECIAL GENERAL MEETING**

A letter from the Board is set out on pages 5 to 15 of this circular.

A notice convening the SGM to be held at 21st Floor, St. George's Building, 2 Ice House Street, Central, Hong Kong on Friday, 27 July 2012 at 10:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular.

Whether or not you are able to attend the SGM, please complete the accompanying proxy form in accordance with the instructions printed thereon and return it to the Company's branch share registrar and registration office in Hong Kong, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the SGM. Completion and delivery of the proxy form will not preclude you from attending and voting in person at the SGM should you so wish.

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DEFINITIONS

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

“associate”	has the meaning ascribed to it under the Listing Rules
“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 main board of the Stock Exchange
“Directors”	the directors of the Company
“Disposal”	the disposal of the PRC Equity Interests and the TLC Sale Shares pursuant to the Master Contract, the PRC Contracts and the TLC Agreement
“Disposal Group”	TLC and the PRC Entities
“Group”	the Company and its subsidiaries
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	an independent third party not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries, or their respective associates and is (are) not connected person(s) of the Company (as defined in the Listing Rules)
“Latest Practicable Date”	26 June 2012, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	2 November 2012, or such later date as agreed in writing by the parties to the Master Contract, which may be extended by Treasure Looms or TLC by one month
“Master Contract”	the master contract which sets out the framework for the sale and purchase of the PRC Equity Interests and the TLC Sale Shares dated 3 May 2012 entered into between the Parties
“Ms. Liu”	Ms. Liu Xiaohong (劉曉紅女士)

DEFINITIONS

“Offshore Escrow Account”	an escrow account in the name of the Offshore Purchaser with Citibank, N.A., Hong Kong Branch, the operation of which is to be jointly supervised by Treasure Looms and the Offshore Purchaser
“Offshore Purchaser”	a limited liability company to be incorporated in Singapore, which will be beneficially owned by Ms. Liu
“Parties”	Treasure Looms, TLC, Ms. Liu and Weihai Company
“PRC” or “China”	the People’s Republic of China but excluding, for the purpose of this circular, Hong Kong, Macau and Taiwan
“PRC Contracts”	the Weihai Huabao Contract, Weihai Premier Contract and Weihai Weavers Contract
“PRC Entities”	Weihai Huabao, Weihai Premier and Weihai Weavers
“PRC Equity Interests”	all the 49% equity interests held by TLC in each of Weihai Huabao and Weihai Premier and the 24% equity interests held by TLC in Weihai Weavers
“PRC Escrow Account”	an escrow account in the name of Weihai Company with Shanghai Pudong Development Bank Weihai Branch, the operation of which is to be jointly supervised by TLC and Weihai Company
“PRC Transfer Price”	the aggregate consideration for the transfer of the PRC Equity Interests from TLC to Weihai Company being RMB225,410,000 (approximately HK\$275,000,000)
“Remaining Group”	the Group excluding the Disposal Group
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC and/or its branches
“SGM”	the special general meeting of the Shareholders to be convened and held for the Shareholders to consider and, if thought fit, approve the Disposal
“Shareholder(s)”	the shareholder(s) of the Company
“Shares”	the ordinary shares of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“TLC”	Treasure Looms (China) Limited (寶隆地氈(中國)有限公司), a company incorporated in Hong Kong with limited liability, an indirect wholly-owned subsidiary of the Company
“TLC Agreement”	the agreement for the sale and purchase of the TLC Sale Shares to be entered into between Treasure Looms (as vendor) and the Offshore Purchaser (as purchaser)
“TLC Sale Shares”	the 1,000 ordinary shares held by Treasure Looms in TLC, representing the entire issued share capital of TLC
“TLC Transfer Price”	the consideration for the transfer of the TLC Sale Shares from Treasure Looms to the Offshore Purchaser, being RMB54,590,000 (approximately HK\$66,600,000)
“Treasure Looms”	Treasure Looms Limited, a company incorporated in Hong Kong with limited liability, an indirect wholly-owned subsidiary of the Company
“US\$” or “United States dollars”	United States dollars, the lawful currency of the United States
“Weihai Company”	Weihai Huixiang Investment Co., Ltd. (威海惠祥投資有限責任公司), a limited liability established in the PRC
“Weihai Huabao”	Weihai Shanhua Huabao Carpet Co., Ltd. (威海山花華寶地毯有限公司), a sino-foreign equity joint venture with limited liability established in the PRC
“Weihai Huabao Contract”	the contract described under the subsection headed “Weihai Huabao Contract” under the section headed “The PRC Contracts” in this circular
“Weihai Premier”	Weihai Shanhua Premier Carpets Co., Ltd. (威海山花博美地毯有限公司), a sino-foreign equity joint venture with limited liability established in the PRC
“Weihai Premier Contract”	the contract described under the subsection headed “Weihai Premier Contract” under the section headed “The PRC Contracts” in this circular
“Weihai Weavers”	Weihai Shanhua Weavers Carpet Co., Ltd. (威海山花惠美地毯有限公司), a sino-foreign equity joint venture with limited liability established in the PRC

DEFINITIONS

“Weihai Weavers Contract” the contract described under the subsection headed “Weihai Weavers Contract” under the section headed “The PRC Contracts” in this circular

Note: Unless otherwise specified herein, amounts denominated in RMB in this circular have been translated, for illustration purpose only, into HK\$ amounts using the rate of HK\$1.22 to RMB1.00. No representation is made that any amount in RMB could have been or could be converted at the above rate or any other rates at all.

LETTER FROM THE BOARD

TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 146)



Chairman and Non-executive Director:

Nicholas T. J. Colfer

Chief Executive Officer and Executive Director:

James H. Kaplan

Non-executive Directors:

Ian D. Boyce

David C. L. Tong

Nelson K.F. Leong

John J. Ying

Independent Non-executive Directors:

Yvette Y. H. Fung

Roderic N. A. Sage

Lincoln C. K. Yung

Aubrey K. S. Li

Registered Office:

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22 Victoria Street

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Bermuda

Principal Office in Hong Kong:

8th Floor, Tower 1

Kowloon Commerce Centre

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Kwai Chung

Hong Kong

29 June 2012

Dear Shareholders,

**VERY SUBSTANTIAL DISPOSAL RELATING TO
THE DISPOSAL OF THE EQUITY INTERESTS IN THREE PRC JOINT VENTURES
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

The Board is pleased to announce that on 3 May 2012, Treasure Looms and TLC, both wholly-owned subsidiaries of the Company, entered into the Master Contract with Weihai Company and Ms. Liu. The Master Contract sets out the framework for the disposal of the Company's entire interests in the PRC Entities for a total consideration of RMB280,000,000 (approximately HK\$341,600,000).

The Disposal will be effected in two stages:

- (a) First, TLC will sell and Weihai Company will purchase (i) 49% equity interests in each of Weihai Huabao and Weihai Premier, which represent all the equity interests held by TLC in these two companies, and (ii) 24% equity interests in Weihai Weavers, which represent approximately 48.98% of all the equity interests held by TLC in this company. The

LETTER FROM THE BOARD

consideration for such sale and purchase is RMB225,410,000 (approximately HK\$275,000,000). Upon completion of the sale and purchase, the Company, through TLC, will continue to hold 25% equity interests in Weihai Weavers.

- (b) Upon completion of the sale and purchase in (a) above, Treasure Looms will sell and the Offshore Purchaser will purchase the TLC Sale Shares, which represent the entire issued share capital held by Treasure Looms in TLC, for a consideration of RMB54,590,000 (approximately HK\$66,600,000). Upon completion of the sale and purchase, the Company will have disposed of all its equity interests in the PRC Entities.

The principal terms of the Master Contract, the PRC Contracts and the TLC Agreement are set out below.

DETAILS OF THE MASTER CONTRACT, THE PRC CONTRACTS AND THE TLC AGREEMENT

The Master Contract

- Date: 3 May 2012
- Parties: Treasure Looms, TLC, Weihai Company and Ms. Liu
- Nature: The Master Contract sets out the framework for the transactions contemplated under the PRC Contracts and the TLC Agreement
- Key terms:
- (1) Ms. Liu shall complete the incorporation of the Offshore Purchaser within 45 business days of the signing of the Master Contract.
 - (2) Within 15 business days of the incorporation of the Offshore Purchaser, TLC (as vendor) and Weihai Company (as purchaser) will enter into the PRC Contracts, pursuant to which TLC will sell and Weihai Company will purchase the PRC Equity Interests on terms and conditions set out in the PRC Contracts.
 - (3) Within 15 business days of the incorporation of the Offshore Purchaser, Treasure Looms (as vendor) and the Offshore Purchaser (as purchaser) will enter into the TLC Agreement, pursuant to which Treasure Looms will sell and the Offshore Purchaser will purchase the TLC Sale Shares on terms and conditions set out in the TLC Agreement.
 - (4) The aggregate consideration for the transfer of the PRC Equity Interests and the TLC Sale Shares is RMB280,000,000 (approximately HK\$341,600,000).

LETTER FROM THE BOARD

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Ms. Liu, Weihai Company, the Offshore Purchaser and their respective ultimate beneficial owners are and/or will be (as the case may be) Independent Third Parties.

The PRC Contracts

Weihai Huabao Contract

Date: Within 15 business days of the incorporation of the Offshore Purchaser, which is expected to be on or about 30 July 2012

Parties: TLC (as vendor) and Weihai Company (as purchaser)

Assets to be disposed of: 49% equity interests in Weihai Huabao

Transfer price: RMB104,000,000 (approximately HK\$126,880,000)

Weihai Premier Contract

Date: Within 15 business days of the incorporation of the Offshore Purchaser, which is expected to be on or about 30 July 2012

Parties: TLC (as vendor) and Weihai Company (as purchaser)

Assets to be disposed of: 49% equity interests in Weihai Premier

Transfer price: RMB69,000,000 (approximately HK\$84,180,000)

Weihai Weavers Contract

Date: Within 15 business days of the incorporation of the Offshore Purchaser, which is expected to be on or about 30 July 2012

Parties: TLC (as vendor) and Weihai Company (as purchaser)

Assets to be disposed of: 24% equity interests in Weihai Weavers

Transfer price: RMB52,410,000 (approximately HK\$63,940,000)

Consideration

The aggregate consideration for the transfer of the PRC Equity Interests of RMB225,410,000 (approximately HK\$275,000,000) (the “**PRC Transfer Price**”) is payable in Hong Kong dollars or United States dollars based on the mid-point exchange rate between Renminbi and Hong Kong dollars or United States dollars on the relevant payment date, as published by the People’s Bank of China.

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The PRC Transfer Price is based on normal commercial terms and determined after arm's length negotiations between TLC and Weihai Company with reference to the combined net asset value of the PRC Entities, their historical performance and volume of transactions with the Group in the past years, the price offered by the purchasers, the future business intents of the Group and the prevailing market conditions.

Weihai Company shall pay the PRC Transfer Price in the following manner:

- (1) Within 3 business days of the date of signing of the PRC Contracts, Weihai Company shall deposit the full amount of the PRC Transfer Price into the PRC Escrow Account.
- (2) Within 3 business days of the obtaining of the approval from the relevant department of commerce in the PRC for the transfer of the PRC Equity Interests from TLC to Weihai Company, the PRC Transfer Price (after deducting the estimated amount of applicable PRC withholding enterprise income tax payable by TLC) will be released from the PRC Escrow Account and be paid to a wholly-owned subsidiary of the Company in China pending the obtaining of approval from SAFE for the remittance of the money outside China to TLC. Upon obtaining such SAFE approval, the PRC Transfer Price (after deducting the actual amount of PRC withholding enterprise income tax by TLC) will be remitted to TLC outside China.

Conditions Precedent

The sale and purchase of the PRC Equity Interests are conditional upon the following key conditions:

- (1) all the PRC government approvals having been obtained, including the approvals for the PRC Contracts, the transfer of the PRC Equity Interests and the remittance of the PRC Transfer Price outside China; and
- (2) the equity transfer having been approved by the board of directors of each of the PRC Entities, Weihai Company and TLC and by the Shareholders in a Shareholders' meeting by way of an ordinary resolution. In this regard, if a Shareholders' meeting is not convened before the approval(s) for the transfer of the PRC Contracts and PRC Equity Interests has/have been given, Weihai Company has agreed to accept the irrevocable undertakings given by major shareholders of the Company to vote in favour of the resolution to approve the transactions contemplated under the PRC Contracts. In any event, the Company will comply with the relevant requirements under the Listing Rules and obtain approval of Shareholders at general meeting.

If due to reasons other than a breach of the Master Contract or any of the PRC Contracts by any Party, any of the relevant department in charge of the administration of commerce in the PRC issues any official documents rejecting the approval(s) for (a) all of the PRC Contracts; and (b) the transfer of the PRC Equity Interests from TLC to Weihai Company in respect of all the PRC Entities, resulting in the transactions under the PRC Contracts failing to be completed in its entirety by the Long Stop Date, then all the transactions contemplated under the Master Contract, the PRC Contracts and the TLC Agreement will be terminated. If (a) no approvals or objection documents are issued in respect of any PRC Entities at least 7 business days before the Long Stop Date, or (b) objection documents are issued in respect of any one or two of the PRC Entities, then (i) in respect of any of the PRC Entities for which government approval(s) for the transfer of the PRC Equity Interests is/are given, the Parties shall proceed to complete the transfer of the equity interests

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of such PRC Entity(ies) according to the terms of the Master Contract and the relevant PRC Contracts; and (ii) in respect of the PRC Entity(ies) for which the rejection document(s) is/are issued, the Parties shall proceed to complete the transfer of equity interests held by TLC in such PRC Entity(ies) through an offshore transaction pursuant to the terms and conditions of the Master Contract.

The TLC Agreement

Date: Within 15 business days of the incorporation of the Offshore Purchaser, which is expected to be on or about 30 July 2012

Parties: Treasure Looms (as vendor) and the Offshore Purchaser (as purchaser)

Assets to be disposed of: The TLC Sale Shares

Transfer price: RMB54,590,000 (approximately HK\$66,600,000)

Consideration

The consideration for the TLC Sale Shares is RMB54,590,000 (approximately HK\$66,600,000) (the “**TLC Transfer Price**”) and is payable in Hong Kong dollars or United States dollars based on the mid-point exchange rate between Renminbi and Hong Kong dollars or United States dollars on the relevant payment date, as published by the People’s Bank of China.

The TLC Transfer Price is based on normal commercial terms and determined after arm’s length negotiations between Treasure Looms and the Offshore Purchaser with reference to the combined net asset value of TLC and the PRC Entities, their historical performance and volume of transactions with the Group in the past years, the price offered by the purchasers, the future business intents of the Group and the prevailing market conditions.

The Offshore Purchaser shall pay the TLC Transfer Price in the following manner:

- (1) Within 3 business days of the date of signing of the TLC Agreement, the Offshore Purchaser shall deposit the full amount of the TLC Transfer Price into the Offshore Escrow Account.
- (2) On completion, the TLC Transfer Price shall be released from the Offshore Escrow Account and paid to Treasure Looms or as it may designate.

Conditions Precedent

The sale and purchase of the TLC Sale Shares are conditional upon the following key conditions:

- (1) the sale and purchase of the PRC Equity Interests having been completed (save as mentioned in the section headed “Conditions Precedent” under “The PRC Contracts” where the sale and purchase of the PRC Equity Interests has to be restructured as an offshore transaction); and

LETTER FROM THE BOARD

- (2) the Shareholders having given approval to the sale of the TLC Sale Shares. In this regard, the Offshore Purchaser has agreed to accept the irrevocable undertakings given by major shareholders of the Company to vote in favour of the resolution to approve the transactions contemplated under the TLC Agreement. In any event, the Company will comply with the relevant requirements under the Listing Rules and obtain approval of Shareholders at general meeting.

Completion of the Disposal and the Long Stop Date

The entire Disposal (including the transactions contemplated under the PRC Contracts and the TLC Agreement) has to be completed on or before the Long Stop Date.

INFORMATION ON THE PARTIES TO THE DISPOSAL

Treasure Looms

Treasure Looms is an investment holding company. It is an indirect wholly-owned subsidiary of the Company.

TLC

TLC is an investment holding company. It is wholly-owned by Treasure Looms and an indirect wholly-owned subsidiary of the Company.

Weihai Company

Weihai Company is a limited liability company established under the laws of the PRC and is wholly-owned by Huixiang (Tianjin) Investment Co., Ltd. (“**Huixiang Tianjin**”). Both Weihai Company and Huixiang Tianjin are investment holding companies.

The Offshore Purchaser

The Offshore Purchaser is an investment holding company to be incorporated in Singapore, which will be beneficially owned by Ms. Liu. Ms. Liu is a natural person and the supervisor of Weihai Company. Ms. Liu does not hold any interests, either directly or indirectly, in Weihai Company or Huixiang Tianjin. Ms. Liu will incorporate the Offshore Purchaser in accordance with applicable PRC laws and relevant laws. Upon incorporation of the Offshore Purchaser, all the obligations and liabilities of Ms. Liu shall be assumed by the Offshore Purchaser. In case the Offshore Purchaser is not incorporated, Ms. Liu will irrevocably assume all the obligations and liabilities of the Offshore Purchaser.

The PRC Entities

As at the date of this circular, each of Weihai Huabao, Weihai Premier and Weihai Weavers is held as to 49% by TLC, which is in turn wholly-owned by Treasure Looms. The PRC Entities are principally engaged in the manufacture of machine-woven carpets.

LETTER FROM THE BOARD

At the time when the Group invested in the PRC Entities, the Group did not have its own production plants in the PRC for its carpet manufacturing operations. Therefore, the Group has made investments in the PRC Entities for strategic reasons. Since the establishment of the Group's current production plant in Nanhai in or around 1993, the strategic value for the PRC Entities has diminished accordingly. Based on the information in the annual report of the Company for the year ended 31 December 2011, the total purchases of the Group from the PRC Entities accounted for less than 3% of the Group's total production.

The combined net profit (both before and after taxation and extraordinary items) attributable to the PRC Entities for the two financial years ended 31 December 2010 and 2011 immediately preceding the PRC Contracts and TLC Agreement and the combined net asset value as at 31 December 2011 are as follows:

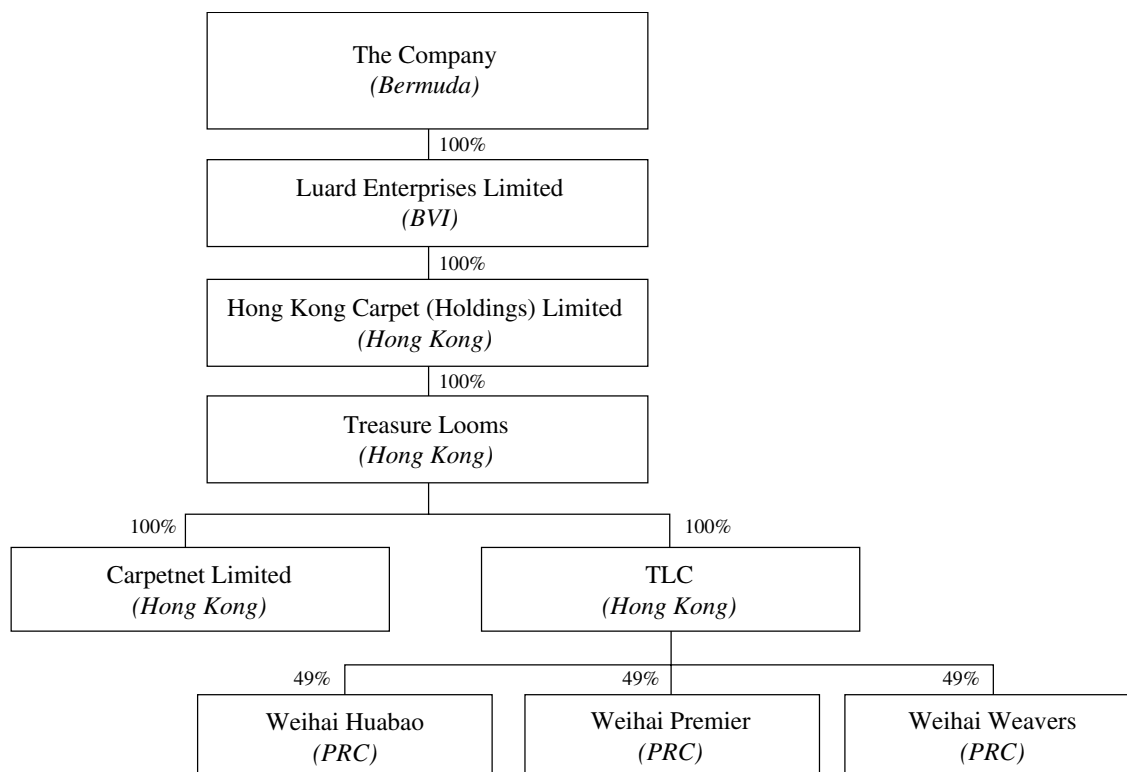
	For the two financial years ended 31 December	
	2011	2010
	<i>RMB\$'000</i>	<i>RMB\$'000</i>
Combined net profit (before taxation and extraordinary items)	24,907	28,741
Combined net profit (after taxation and extraordinary items)	16,321	18,752

As at 31 December 2011, the combined total assets and the combined total liabilities of the PRC Entities attributable to the Group were approximately RMB500,004,000 (approximately HK\$610,005,000) and RMB219,871,000 (approximately HK\$268,243,000), respectively. The combined net asset value of the PRC Entities was approximately RMB280,133,000 (approximately HK\$341,762,000).

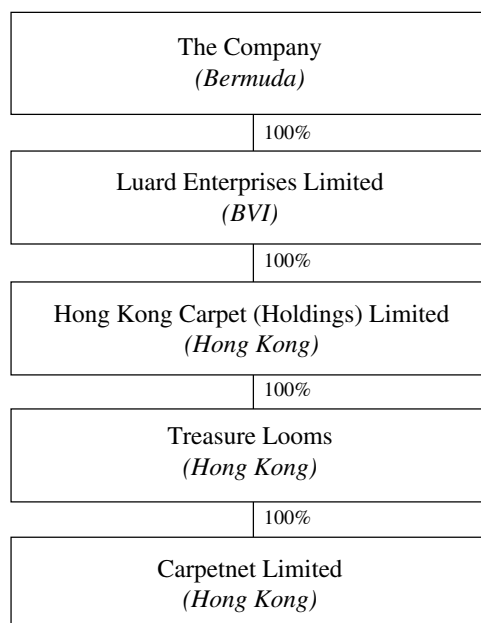
Subject to and upon the completion of the TLC Agreement, TLC shall cease to be a subsidiary of the Company and the results of the PRC Entities shall no longer be accounted for in the Group's financial statements.

LETTER FROM THE BOARD

Please see the below shareholding chart of the disposal group before the Disposal:



Please see the below shareholding chart of the disposal group after the Disposal:



LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE DISPOSAL

As at 31 December 2011, the aggregate value of the PRC Equity Interests and the TLC Sale Shares was RMB280,133,000 (approximately HK\$341,762,000). After deducting other incidental costs (which include the PRC withholding tax of approximately HK\$24,123,000 and the professional fees payable of approximately HK\$5,735,000 to the Company's legal advisers, accountants and property valuers) regarding the Disposal, the Group expects to realise a loss of approximately RMB24,474,000 (approximately HK\$29,858,000) from the Disposal. The estimated loss is computed by reference to, among other things, (a) the net proceeds from the aggregate consideration in the amount of approximately RMB255,659,000 (approximately HK\$311,904,000), and (b) the combined net asset value of the PRC Entities of approximately RMB280,133,000 (approximately HK\$341,762,000). The estimated loss from the Disposal is an accounting loss as a result of the accounting treatment. Such loss on disposal has already been recognised as part of the impairment charge in interests in jointly controlled entities in the Group's consolidated financial statements for the year ended 31 December 2011, when the Group's interests in jointly controlled entities were classified as non-current assets held for sale. Upon completion of the transaction, an additional gain/loss will be recognised as a result of the reversal of the cumulative translation differences arising from the aggregate value of the PRC Equity Interests and the TLC Sale Shares. The non-current assets classified as held for sale amounted to HK\$311,904,000 as at 31 December 2011 will be derecognized upon the completion of the Disposal with a corresponding increase in cash and cash equivalents. The Disposal will in fact generate substantial funds for the Group to allow it to have more flexibility when making future investments.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Having taken into consideration (a) that the PRC Entities are engaged in the manufacturing of lower price point machine-woven carpets but the Group's long-term intention is to focus on developing strong global brands focused on higher price point products (including hand-woven carpets), (b) the opportunity to reallocate the Group's resources to other business segments (including the manufacturing of higher price point hand-woven carpets) after the Disposal may have better growth potential, and (c) the Group's strategic plan is to have a majority stake and management control of its production facilities so as to make optimum use of its resources, the Directors (including the independent non-executive Directors) are of the view that the Disposal and the terms of the PRC Contracts and the TLC Agreement (including the amount of the consideration) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The Directors intend that the net proceeds from the Disposal of approximately RMB255,659,000 (approximately HK\$311,904,000) will be used for future investment in businesses when suitable opportunities arise and repayment of bank borrowings. The remaining proceeds will be used as general working capital of the Group. The Company currently has no intention to acquire any new business and is not in negotiation with any parties for any acquisition.

LETTER FROM THE BOARD

BUSINESS OF THE REMAINING GROUP

The Group is principally engaged in the manufacture, import, export and sale of carpets, and manufacture and sale of yarns. The Group offers its customers access to a full range of quality floor covering products, from luxury to affordable, appropriate for every commercial and residential environment. Following the Disposal, the business of the remaining members of the Group will remain unchanged and the Group will continue to be engaged in its existing carpet trading and carpet manufacturing activities.

As at 31 December 2011, the net tangible assets of the Group (excluding TLC and the PRC Entities) amounted to approximately HK\$518,692,000.

The Group's major production bases are in Nanhai and Thailand and they provide all of the carpet products required by the Group save for those purchased from the PRC Entities. Since October 2011, the Group's production base in Thailand has been temporarily suspended due to severe flooding, but the facility was back in full operation by the end of March 2012. Each of the production bases in Nanhai and Thailand could produce and cover the quantity of machine-woven carpets currently supplied by the PRC Entities to the Group. Therefore, the Directors consider that the Group's current production capacity is adequate for its business need after the Disposal. As (i) the Group intends to focus on the manufacturing of higher price point hand-woven carpets but the PRC Entities are engaged in lower price point machine-woven carpets, and (ii) the total purchases from the PRC Entities only accounted for less than 3% of the Group's total production, the Directors are of the view that the Disposal will not have any material impact on the Group's carpet manufacturing operation. In any event, the Group could purchase from the PRC Entities after the Disposal, if and when required.

In view of the aforesaid operations of the remaining members of the Group and the amount of net tangible assets, the Board considers that the Group will have sufficient tangible assets and level of operations after the Disposal to warrant the continued listing of its securities as required under Rule 13.24 of the Listing Rules.

IMPLICATIONS UNDER THE LISTING RULES

The relevant transactions in relation to the Disposal are aggregated pursuant to Rule 14.22 of the Listing Rules. Since the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Disposal are more than 75%, the Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules. As no Shareholder has a materially different interest in the Disposal, no Shareholder is required to abstain from voting on the resolution to be proposed at the SGM to approve the Disposal.

GENERAL

SGM

A notice convening the SGM will be held at 21st Floor, St. George's Building, 2 Ice House Street, Central, Hong Kong on Friday, 27 July 2012 at 10:00 a.m. is set out at the end of this circular.

LETTER FROM THE BOARD

A proxy form for use at the SGM is enclosed with this circular and such proxy form is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.taipingcarpets.com), respectively. Whether or not you are able to attend the SGM, please complete and sign the form of proxy in accordance with the instructions printed thereon and return it, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority to the Company's branch share registrar and registration office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time of the SGM. Completion and delivery of the proxy form will not preclude you from attending and voting in person at the SGM should you so wish. Voting at the SGM will be taken by poll.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, none of the Shareholders and its associates has a material interest in the Disposal who is required to abstain from voting on the relevant resolution to be proposed at the SGM.

RECOMMENDATION

The Directors consider that the proposed resolution set out in the notice of the SGM are in the best interests of the Company and its Shareholders and recommend that the Shareholders vote in favour of the proposed resolution.

FURTHER INFORMATION

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

By order of the Board
Tai Ping Carpets International Limited
Nicholas T. J. Colfer
Chairman

The audited financial information of the Group for the three years ended 31 December 2009, 2010 and 2011 can be referred to in the annual reports of the Company which have been published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.taipingcarpets.com).

1. WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that taking into account the present internal financial resources of the Group and the available credit facilities of the Group, following the completion of the PRC Contracts and TLC Agreement and after considering the financial impact of the Disposal, in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements, that is for at least twelve months from the date of this circular.

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 30 April 2012, the Group had aggregate outstanding borrowings comprising secured bank borrowings of approximately HK\$19 million and unsecured bank borrowings of approximately HK\$54 million. The effective interest rate on the Group's secured and unsecured bank borrowings were 3.3% and 2.5%, respectively. The Group's secured bank loans were secured by the Group's assets of approximately HK\$418 million.

Contingent liabilities

As at the close of business on 30 April 2012, the Group's total contingent liabilities amounted to HK\$7 million.

Pledge of assets

As at the close of business on 30 April 2012, of the Group's assets approximately HK\$418 million was pledged to secure the bank loans facilities.

Disclaimers

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptances credits, finance leases or hire purchase commitments, guarantees or other material contingent liabilities as at the close of business on 30 April 2012.

3. MATERIAL ADVERSE CHANGE

Up to and including the Latest Practicable Date, the Directors confirm that there is no material adverse change in the financial or trading position of the Group since 31 December 2011, the date to which the latest published audited consolidated financial statements of the Group were made up.

4. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE REMAINING GROUP

Set out below is the management discussion and analysis on the Remaining Group for the years ended 31 December 2009, 2010 and 2011.

For the year ended 31 December 2009

Capital Expenditure

Capital expenditure in the form of property, plant & equipment, construction in progress and intangible assets (other than goodwill) incurred by the Group totalled HK\$33 million in 2009 (2008: HK\$73 million). As at 31 December 2009, the aggregate net book value of the Group's property, plant & equipment, investment properties, leasehold land & land use rights, construction in progress and intangible assets (other than goodwill) amounted to HK\$352 million (2008: HK\$381 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 at 31 December 2009, the Group had total cash and bank balances amounted to HK\$100 million (2008: HK\$115 million).

As at 31 December 2009, the Group also held financial assets at fair value through profit or loss of HK\$87 million (2008: HK\$59 million).

Details of Charges on the Group's Assets

The Group had charges on bank deposits of HK\$10 million made to a bank to secure banking facilities granted to the Group.

Exposure to Foreign Exchange Risks

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars and Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Directors consider the foreign exchange risk with respect to US\$ is not significant as HK\$ is pegged to US\$.

The Group's principal net foreign currency exposure arisen from the US\$ denominated financial assets/liabilities in the Group's operations covering Thailand, Europe, PRC and the United Kingdom whose functional currencies are the local currency of respective operations. To manage this exposure,

the Group takes advantage of any natural offsets of the Group's foreign currency revenues and expenses and may use foreign currency forward contracts from time to time to manage the risk arising from foreign currency transactions.

The Group recorded net exchange gain of HK\$1 million, arising from overseas operations in 2009, which related mostly to Europe.

Employees, Remuneration Policy and Retirement Benefit Scheme

As at 31 December 2009, the Group employed 3,200 employees (2008: 3,400 employees). 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 Group maintains pension schemes in various jurisdictions in which it operates. The Group has both defined benefit and defined contribution plans. Staff costs and retirement benefit costs for 2009 totalled HK\$361 million (2008: HK\$364 million) and HK\$11 million (2008: HK\$8 million), respectively.

Contingent Liabilities

As at 31 December 2009, the Group's total contingent liabilities amounted to HK\$40 million (2008: HK\$24 million).

For the year ended 31 December 2010

Capital Expenditure

Capital expenditure in the form of property, plant & equipment, construction in progress and intangible assets (other than goodwill) incurred by the Group totalled HK\$50 million in 2010 (2009: HK\$33 million). As at 31 December 2010, the aggregate net book value of the Group's property, plant & equipment, investment properties, land use rights, construction in progress and intangible assets (other than goodwill) amounted to HK\$316 million (2009: HK\$352 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 at 31 December 2010, the Group had total cash and bank balances amounted to HK\$87 million (2009: HK\$100 million).

As at 31 December 2010, the Group also held financial assets at fair value through profit or loss of HK\$133 million (2009: HK\$87 million).

Details of Charges on the Group's Assets

The Group had charges on bank deposits of HK\$3 million (2009: HK\$10 million) made to a bank to secure banking facilities granted to the Group.

Exposure to Foreign Exchange Risks

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars and Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Directors consider the foreign exchange risk with respect to US\$ is not significant as HK\$ is pegged to US\$.

The Group's principal net foreign currency exposure arisen from the US\$ denominated financial assets/liabilities in the Group's operations covering Thailand, Europe, PRC and the United Kingdom whose functional currencies are the local currency of respective operations. To manage this exposure, the Group takes advantage of any natural offsets of the Group's foreign currency revenues and expenses and may use foreign currency forward contracts from time to time to manage the risk arising from foreign currency transactions.

The Group recorded net exchange loss of HK\$4 million, arising from overseas operations in 2010, which related mostly to Europe.

Employees, Remuneration Policy and Retirement Benefit Scheme

As at 31 December 2010, the Group employed 3,300 employees (2009: 3,200 employees). 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 Group maintains pension schemes in various jurisdictions in which it operates. The Group has both defined benefit and defined contribution plans. Staff costs and retirement benefit costs for 2010 totalled HK\$484 million (2009: HK\$361 million) and HK\$5 million (2009: HK\$11 million), respectively.

Contingent Liabilities

As at 31 December 2010, the Group's total contingent liabilities amounted to HK\$22.5 million (2009: HK\$40 million).

For the year ended 31 December 2011*Capital Expenditure*

Capital expenditure in the form of property, plant & equipment, construction in progress and intangible assets (other than goodwill) incurred by the Group totalled HK\$80 million for the year ended 31 December 2011 (2010: HK\$50 million). As at 31 December 2011, the aggregate net book

value of the Group's property, plant & equipment, investment properties, land use rights, construction in progress and intangible assets (other than goodwill) amounted to HK\$300 million (as at 31 December 2010: HK\$316 million).

Liquidity and 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 at 31 December 2011, the Group had total cash and bank balances amounted to HK\$117 million (2010: HK\$87 million).

As at 31 December 2011, the Group also held financial assets at fair value through profit or loss of HK\$41 million (2010: HK\$133 million).

Details of Charges on the Group's Assets

The Group had charges on bank deposits of HK\$1 million (2010: HK\$3 million) made to a bank to secure banking facilities granted to the Group.

Exposure to Foreign Exchange Risks

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars and Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Directors consider the foreign exchange risk with respect to US\$ is not significant as HK\$ is pegged to US\$.

The Group's principal net foreign currency exposure arisen from the US\$ denominated financial assets/liabilities in the Group's operations covering Thailand, Europe, PRC and the United Kingdom whose functional currencies are the local currency of respective operations. To manage this exposure, the Group takes advantage of any natural offsets of the Group's foreign currency revenues and expenses and may use foreign currency forward contracts from time to time to manage the risk arising from foreign currency transactions.

As at 31 December 2011, the Group recorded net exchange loss of HK\$2.4 million, arising from overseas operations in 2011, which related mostly to Europe.

Employees, Remuneration Policy and Retirement Benefit Scheme

As at 31 December 2011, the Group employed 3,130 employees (2010: 3,300 employees). The drop of the Group's number of employees was predominantly due to a decrease of factory workers in Thailand by the end of year 2011. As the Group ramps up production post-flood, and returns production in-house following the re-start of the Thailand factory, it is expected that the number of employees will grow again and be above 2010 levels.

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 Group maintains pension schemes in various jurisdictions in which it operates. The Group has both defined benefit and defined contribution plans. Staff costs and retirement benefit costs for 2011 totalled HK\$504 million (2010: HK\$484 million) and HK\$6 million (2010: HK\$5 million), respectively.

Contingent Liabilities

As at 31 December 2011, the Group's total contingent liabilities amounted to HK\$7 million (2010: HK\$22.5 million).

5. FINANCIAL AND TRADING PROSPECTS

The Group is principally engaged in the manufacture, import, export and sale of carpets, and manufacture and sale of yarns.

In the second half of year 2011, the Group's factory near Bangkok in Thailand was flooded. The losses related to the floods, which included damage to raw materials, inventory and equipment, as well as business interruption, had a major impact on the Group's operating results, especially on its Commercial Division, which has the majority of its products manufactured in Thailand. Therefore, the Company had to issue a profit warning in December, as under current accounting standards none of the expected insurance payouts could be included in the 2011 results. The Group has adequate insurance coverage and we expect to recover the majority of the incurred losses from the underwriters. The Group hopes to settle major parts of the insurance claim in 2012, but final settlement might take well into 2013. However, the Group is fortunate to have a strong balance sheet with healthy cash reserves and the support of good banking relationships, leaving it in a position to endure and recover robustly from the unexpected natural disaster.

Excluding the significant impact of the flood, the Commercial Division had a good year. A general recovery in the key hospitality sector, apparent in the second half of the previous year, continued, and the Group also witnessed a further increase in pricing and margins. The outlook for 2012, already showing a strong order book, is very positive.

The residential businesses felt very little effect from the floods, as the vast majority of their products are manufactured in the Group's factory in Nanhai, PRC. Turnover of this high-end, luxury, strategic focus area of the Group's business grew double digits once again, and now represents close to 40% of the Group's overall turnover, compared to less than 10% five years ago.

Based on strong improvement of markets around the globe and the Group's current order book, 2012 should be a positive year for all the Group's businesses, although economic turmoil in Europe or political issues in the Middle East could change the overall outlook.

As mentioned in the section headed "Reasons for and benefits of the Disposal" in the Letter from the Board of this circular, the Disposal will enable the Remaining Group to strengthen its financial position and liquidity and will also enhance the ability of the Remaining Group to fund its potential acquisitions or expand its existing business when appropriate.

UNAUDITED COMBINED FINANCIAL INFORMATION OF WEIHAI HUABAO, WEIHAI WEAVERS AND WEIHAI PREMIER (TOGETHER, THE “PRC ENTITIES”)

Set out on below are the unaudited combined statements of financial position of the PRC Entities as at 31 December 2009, 2010 and 2011 and the unaudited combined statements of comprehensive income, unaudited combined statements of changes in equity and unaudited combined statements of cash flows of the PRC Entities for the years ended 31 December 2009, 2010 and 2011, and certain explanatory notes (the “Unaudited Combined Financial Information”). The Unaudited Combined Financial Information has been presented on the basis set out in notes 2 and 3 and prepared in accordance with the accounting policies adopted by Tai Ping Carpets International Limited (the “Company”) and paragraph 68(2)(a)(i) of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Unaudited Combined Financial Information is prepared by the directors of the Company solely for the purpose of inclusion in the circular of the Company in connection with the Disposal. The Unaudited Combined Financial Information has been reviewed by the auditor of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. There was no qualification or modification in the review report issued by the auditor.

Unaudited Combined Statements of Comprehensive Income

For the years ended 31 December 2009, 2010 and 2011

	(Unaudited)		
	Year ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	573,914	624,385	809,737
Cost of sales	(410,994)	(462,749)	(623,932)
Gross profit	162,920	161,636	185,805
Distribution costs	(44,184)	(55,055)	(70,655)
Administrative expenses	(26,747)	(50,425)	(66,289)
Other gains – net	5,604	3,022	3,780
Operating profit	97,593	59,178	52,641
Finance income	595	1,592	2,009
Finance costs	(1,708)	(2,114)	(3,819)
Finance costs – net	(1,113)	(522)	(1,810)
Profit before income tax	96,480	58,656	50,831
Income tax expense	(22,647)	(20,387)	(17,523)
Profit and total comprehensive income			
Profit for the year	<u>73,833</u>	<u>38,269</u>	<u>33,308</u>

Unaudited Combined Statements of Financial Position

As at 31 December 2009, 2010 and 2011

	(Unaudited)		
	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets			
Non-current assets			
Land use rights	36,133	35,343	34,260
Property, plant and equipment	301,578	278,991	288,185
Construction in progress	7,490	13,565	22,610
Deferred income tax assets	5,961	5,961	5,961
Total non-current assets	<u>351,162</u>	<u>333,860</u>	<u>351,016</u>
Current assets			
Inventories	83,835	123,424	100,050
Trade and other receivables	199,155	213,107	296,806
Amount due from an ultimate shareholder	87,037	105	–
Amounts due from the related parties	532	109,949	148,921
Restricted cash	10,340	27,428	27,391
Cash and cash equivalents	116,228	124,423	96,232
Total current assets	<u>497,127</u>	<u>598,436</u>	<u>669,400</u>
Total assets	<u><u>848,289</u></u>	<u><u>932,296</u></u>	<u><u>1,020,416</u></u>

Unaudited Combined Statement of Financial Position (Continued)

As at 31 December 2009, 2010 and 2011

	(Unaudited)		
	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Equity			
Capital and reserves attributable to PRC Entities			
equity holders			
Combined capital	171,824	171,824	171,824
Reserves	358,837	397,106	399,875
Total equity	530,661	568,930	571,699
Liabilities			
Non-current liabilities			
Long-term liabilities	10,914	6,502	8,049
Total non-current liabilities	10,914	6,502	8,049
Current liabilities			
Bank borrowings	70,000	103,114	101,605
Trade and other payables	150,064	186,425	261,969
Dividend payable	46,696	20,696	20,696
Current income tax liabilities	22,977	30,135	34,188
Amounts due to the related parties	2,427	960	2,451
Amount due to an ultimate shareholder	14,550	15,534	19,759
Total current liabilities	306,714	356,864	440,668
Total liabilities	317,628	363,366	448,717
Total equity and liabilities	848,289	932,296	1,020,416
Net current assets	190,413	241,572	228,732
Total assets less current liabilities	541,575	575,432	579,748

Unaudited Combined Statements of Changes in Equity

For the years ended 31 December 2009, 2010 and 2011

	(Unaudited)				
	Combined capital	Capital reserve	Statutory reserve	Retained earnings	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2009	171,824	19,776	64,294	200,934	456,828
Total comprehensive income for the year	—	—	—	73,833	73,833
Transfer to statutory reserve	—	—	30,323	(30,323)	—
Balance at 31 December 2009	<u>171,824</u>	<u>19,776</u>	<u>94,617</u>	<u>244,444</u>	<u>530,661</u>
Balance at 1 January 2010	171,824	19,776	94,617	244,444	530,661
Total comprehensive income for the year	—	—	—	38,269	38,269
Balance at 31 December 2010	<u>171,824</u>	<u>19,776</u>	<u>94,617</u>	<u>282,713</u>	<u>568,930</u>
Balance at 1 January 2011	171,824	19,776	94,617	282,713	568,930
Total comprehensive income for the year	—	—	—	33,308	33,308
Dividend	—	—	—	(30,539)	(30,539)
Balance at 31 December 2011	<u>171,824</u>	<u>19,776</u>	<u>94,617</u>	<u>285,482</u>	<u>571,699</u>

Unaudited Combined Statements of Cash Flows

For the years ended 31 December 2009, 2010 and 2011

		(Unaudited)		
	Note	2009 RMB'000	2010 RMB'000	2011 RMB'000
Profit before income tax		96,480	58,656	50,831
Adjustments for:				
Finance costs, net		1,113	522	1,810
Amortisation of leasehold land		478	790	1,083
Depreciation of property, plant and equipment		26,945	29,496	30,588
Provision of bad debts		654	550	2,186
Provision for inventories		763	1,561	2,366
Operating profit before working capital changes		126,433	91,575	88,864
Changes in working capital:				
Inventories		62,218	(41,150)	21,008
Trade and other receivables		(71,631)	(14,502)	(85,885)
Trade and other payables		(657)	36,361	75,544
Amount due from an ultimate shareholder		(82,023)	86,932	105
Amount due from related parties		(227)	(109,417)	(38,972)
Amount due to an ultimate shareholder		(3,337)	984	4,225
Amounts due to related parties		2,314	(1,467)	1,491
Other long term liabilities		(50)	(4,412)	1,547
Cash flows generated from operations		33,040	44,904	67,927
Income tax paid		(10,292)	(13,229)	(13,471)
Interest expense		(1,113)	(522)	(1,810)
Net cash generated from operating activities		21,635	31,153	52,646
Cash flows from investing activities				
Purchase of property, plant and equipment		(9,894)	(12,984)	(48,826)
Decrease/(Increase) of restricted cash		345	(17,088)	37
Net cash used in investing activities		(9,549)	(30,072)	(48,789)
Cash flows from financing activities				
Dividend paid		–	(26,000)	(30,539)
New bank borrowings		70,000	103,114	101,605
Repayment of borrowings		(55,000)	(70,000)	(103,114)
Net cash generated from/(used in) financing activities		15,000	7,114	(32,048)
Increase/(decrease) in cash & cash equivalents		27,086	8,195	(28,191)
Cash & cash equivalents at the beginning of the year		89,142	116,228	124,423
Cash & cash equivalents at the end of the year		116,228	124,423	96,232

NOTES TO THE UNAUDITED COMBINED FINANCIAL INFORMATION**1. GENERAL INFORMATION**

On 3 May 2012, Treasure Looms Limited and Treasure Looms (China) Limited, both wholly-owned subsidiaries of Tai Ping Carpets International Limited (the “Company”), entered into a Master Contract with Weihai Company and Ms. Liu, which sets out the framework for the disposal of the Company’s entire 49% equity interest in each of Weihai Huabao, Weihai Weavers, and Weihai Premier (together, the “PRC Entities”) at a consideration of approximately RMB280,000,000 (the “Disposal”). Upon the completion of the Disposal, the PRC Entities cease to be the jointly-controlled entities of the Company.

2. BASIS OF PRESENTATION

During the three years ended 31 December 2011 (the “Relevant Periods”) and up to the Latest Practicable Date of this circular, the PRC Entities have been jointly owned by the Company and Weihai Shanhua Carpets Group Co., Ltd., (“Weihai Shanhua”) where the Company and Weihai Shanhua owns 49% and 51%, respectively, in each of the PRC Entities. The PRC Entities engaged in the same business and were managed as a single economic entity under the same management during the Relevant Periods. For the purposes of this Unaudited Combined Financial Information, the financial position, results and cash flows of the PRC Entities are combined using the existing book values of the PRC Entities for all years presented.

Inter-company transactions, balances and unrealized gains/losses on transactions between the PRC Entities are eliminated on combination.

3. BASIS OF PREPARATION

The Unaudited Combined Financial Information of the PRC Entities has been prepared in accordance with the accounting policies adopted by the Company as shown in its annual report of the Company for the year ended 31 December 2011 and paragraph 68(2)(a)(i) of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Unaudited Combined Financial Information is prepared by the directors of the Company solely for the purpose of inclusion in this circular.

The Unaudited Combined Financial Information has been prepared under the historical cost convention.

The Unaudited Combined Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised) “Presentation of Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants.

The Unaudited Combined Financial Information is presented in Renminbi, the currency of the primary economic environment in which the PRC Entities operate.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION**INTRODUCTION**

The unaudited pro forma financial information presented below is prepared to illustrate (a) the financial position of the Remaining Group as if the Disposal had been completed on 31 December 2011; and (b) the results and cash flows of the Remaining Group for the year ended 31 December 2011 as if the Disposal had been completed on 1 January 2011. This unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not purport to represent the true picture of the financial position of the Group as at 31 December 2011 or at any future date had the Disposal been completed on 31 December 2011 or the results and cash flows of the Group for the year ended 31 December 2011 or for any future period had the Disposal been completed on 1 January 2011.

The unaudited pro forma financial information is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2011 and the audited consolidated income statement, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2011 extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2011 as set out in the 2011 annual report of the Group, and the unaudited financial information of Weihai Huabao, Weihai Premier, and Weihai Weavers (the “PRC Entities”) set out in Appendix II to this circular after giving effect to the pro forma adjustments described in the notes and was prepared in accordance with Rules 4.29 and 14.68(2)(a)(ii) of the Listing Rules.

Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group

	As at 31 December 2011		
	Audited	Pro forma	Pro forma
	Note(a)	adjustments	
	HK\$'000	Note(b)	HK\$'000
	HK\$'000	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Land use rights	3,516		3,516
Property, plant & equipment	243,935		243,935
Construction in progress	22,051		22,051
Intangible assets	30,588		30,588
Interest in an associate	18,723		18,723
Deferred income tax assets	33,036		33,036
Prepayments	9,391		9,391
Pledged bank deposits	1,344		1,344
Fixed deposits	7,865		7,865
	<u>370,449</u>		<u>370,449</u>
Current assets			
Inventories	195,893		195,893
Trade & other receivables	205,109		205,109
Derivative financial instruments	1,022		1,022
Amount due from an associate	356		356
Financial assets at fair value through profit or loss	40,752		40,752
Current income tax assets	4,137		4,137
Fixed deposits	1,642		1,642
Cash and cash equivalents	117,164	311,904	429,068
	<u>566,075</u>		<u>877,979</u>
Non-current assets classified as held for sale	311,904	(311,904)	–
Total assets	<u>1,248,428</u>		<u>1,248,428</u>

	As at 31 December 2011		
	Audited	Pro forma	Pro forma
	Note(a)	adjustments	Pro forma
	HK\$'000	Note(b)	HK\$'000
	HK\$'000	HK\$'000	HK\$'000
EQUITY			
Share capital	21,219		21,219
Reserves	452,794	(41,927)	410,867
Retained earnings	338,655	41,927	380,582
	<u>812,668</u>		<u>812,668</u>
Non-controlling interests	<u>48,516</u>		<u>48,516</u>
Total equity	<u>861,184</u>		<u>861,184</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	425		425
Retirement benefit obligations	20,009		20,009
Other long-term liabilities	2,584		2,584
	<u>23,018</u>		<u>23,018</u>
Current liabilities			
Bank borrowings – unsecured	866		866
Trade & other payables	346,899		346,899
Current income tax liabilities	1,485		1,485
Other long-term liabilities – current portion	1,267		1,267
Derivative financial instruments	263		263
Amounts due to non-controlling shareholders	13,446		13,446
	<u>364,226</u>		<u>364,226</u>
Total liabilities	<u>387,244</u>		<u>387,244</u>
Total equity and liabilities	<u>1,248,428</u>		<u>1,248,428</u>

Notes:

- a. The amounts are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2011 as set out in the annual report of the Group for the year ended 31 December 2011.
- b. The adjustment reflects the receipt of cash assuming the Disposal had been completed on 31 December 2011.

	<i>HK\$'000</i>
Estimated consideration of the Disposal	341,600
Less: Estimated direct expenses in relation to the Disposal	(29,696)
Net consideration	311,904
Carrying amount of the Disposal Group as at 31 December 2011	(311,904)
Release of exchange reserve attributable to the Disposal Group	41,927
Estimated gain on Disposal	<u>41,927</u>

For the purpose of preparing the unaudited pro forma financial information, the consideration for the Disposal of RMB280,000,000 was translated using an exchange rate of RMB1 to HK\$1.22, which was the prevailing exchange rate as at 31 December 2011.

The gain on Disposal is calculated as the difference between the consideration of the Disposal, the direct expenses in relation to the Disposal and the carrying amount of the Disposal Group and the exchange reserve attributable to the Disposal Group released at the completion date and are therefore subject to change upon completion of the Disposal.

- c. Apart from the above, no other adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2011.

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**
Unaudited Pro Forma Consolidated Income Statement of the Remaining Group

	For the year ended 31 December 2011				Pro forma HK\$'000
	Audited	Pro forma adjustments		Pro forma	
	<i>Note(d)</i> HK\$'000	<i>Note(e)</i> HK\$'000	<i>Note(f)</i> HK\$'000		
Revenue	1,250,109				1,250,109
Cost of sales	<u>(645,053)</u>				<u>(645,053)</u>
Gross profit	605,056				605,056
Distribution costs	(107,219)				(107,219)
Administrative expenses	(562,186)				(562,186)
Impairment of interests in jointly controlled entities	(51,007)		49,191		(1,816)
Impairment of amounts due from jointly controlled entities	–		(19,495)		(19,495)
Loss in relation to Thailand flooding	(114,967)				(114,967)
Other gains – net	<u>3,794</u>			4,066	<u>7,860</u>
Operating loss	<u>(226,529)</u>				<u>(192,767)</u>
Finance income	410				410
Finance costs	<u>(81)</u>				<u>(81)</u>
Finance income – net	<u>329</u>				<u>329</u>
Share of profit of:					
an associate	1,234				1,234
jointly controlled entities	<u>19,838</u>	(19,838)			<u>–</u>
Loss before income tax	(205,128)				(191,204)
Income tax credit	<u>29,661</u>				<u>29,661</u>
Loss for the year	<u>(175,467)</u>				<u>(161,543)</u>
Loss attributable to:					
owners of the Company	(178,143)				(164,219)
non-controlling interests	<u>2,676</u>				<u>2,676</u>
	<u>(175,467)</u>				<u>(161,543)</u>

Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Remaining Group

	For the year ended 31 December 2011				Pro forma HK\$'000
	Audited	Pro forma adjustments			
	<i>Note(d)</i> HK\$'000	<i>Note(e)</i> HK\$'000	<i>Note(f)</i> HK\$'000	<i>Note(g)</i> HK\$'000	
Loss for the year	(175,467)	(19,838)	29,696	4,066	(161,543)
Other comprehensive income					
Currency translation differences	8,897	(18,825)		(23,102)	(33,030)
Total comprehensive income for the year	<u>(166,570)</u>				<u>(194,573)</u>
Attributable to:					
owners of the Company	(170,739)				(198,742)
non-controlling interests	4,169				4,169
	<u>(166,570)</u>				<u>(194,573)</u>

Unaudited Pro Forma Consolidated Statement of Cash Flow of the Remaining Group

	For the year ended 31 December 2011		
	Audited	Pro forma	
		adjustments	Pro forma
		<i>Note(d)</i>	<i>Note(h)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities			
Cash generated from operations	14,411		14,411
Income tax paid	(14,430)		(14,430)
Interest paid	(81)		(81)
Net cash used in operating activities	(100)		(100)
Cash flows from investing activities			
Purchase of property, plant & equipment and construction in progress	(69,217)		(69,217)
Acquisition of intangible assets	(10,627)		(10,627)
Proceeds from disposal of property, plant & equipment	663		663
Proceeds from disposal of non-current assets held for sale	31,315	300,704	332,019
Proceeds from disposal of financial assets at fair value through profit and loss	134,710		134,710
Purchase of financial assets at fair value through profit and loss	(40,752)		(40,752)
Repayment of other long-term liabilities	(1,342)		(1,342)
Dividend received from jointly controlled entities	17,325		17,325
Net receipt for derivative financial instruments	12		12
Interest received	410		410
Net cash generated from investing activities	62,497		363,201

	For the year ended 31 December 2011		
	Audited	Pro forma	Pro forma
	<i>Note(d)</i>	<i>adjustments</i>	
	<i>HK\$'000</i>	<i>Note(h)</i>	<i>HK\$'000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from financing activities			
Proceeds from borrowings	31,117		31,117
Repayments of borrowings	(36,240)		(36,240)
Decrease in pledged bank deposits	2,003		2,003
Increase in fixed deposits	(9,068)		(9,068)
Dividend paid to the Company's shareholders	(18,872)		(18,872)
Dividend paid to non-controlling interests	(627)		(627)
Acquisition from non-controlling interests	(44)		(44)
Net cash used in financing activities	<u>(31,731)</u>		<u>(31,731)</u>
Net increase in cash and cash equivalents	30,666		331,370
Cash and cash equivalents at beginning of the year	86,697		86,697
Exchange (losses)/gains on cash and cash equivalents	(199)	11,200	11,001
Cash and cash equivalents at end of the year	<u>117,164</u>		<u>429,068</u>

APPENDIX III**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

- d. The amounts are extracted from the audited consolidated income statement, audited consolidated statement of comprehensive income and audited consolidated statement of cash flows of the Group for the year ended 31 December 2011 as set out in the 2011 annual report of the Group.
- e. The adjustment reflects the exclusion of results of the Disposal Group for the year ended 31 December 2011 as if the Disposal had been completed on 1 January 2011. Figures are extracted from the audited consolidated income statement of the Group for the year ended 31 December 2011 as set out in the 2011 annual report of the Group.
- f. The adjustment reflects the write-back of the impairment of the interests in Disposal Group as if the Disposal had been completed on 1 January 2011. The amount due from the Disposal Group was not considered as part of the consideration and as a result, the impairment of amount due from the Disposal Group was not written-back. Such amount was determined by the management to be not recoverable during the year ended 31 December 2011.
- g. The adjustment reflects the gain on Disposal as if the Disposal had been completed on 1 January 2011.

HK\$'000

Estimated consideration of the Disposal	330,400
Less: Estimated direct expenses in relation to the Disposal	(29,696)
Net consideration	<u>300,704</u>
Carrying amount of the Disposal Group as at 1 January 2011 before impairment	(319,740)
Release of exchange reserve attributable to the Disposal Group	<u>23,102</u>
Estimated gain on disposal	<u><u>4,066</u></u>

For the purpose of preparing the unaudited pro forma financial information, the consideration for the Disposal of RMB280,000,000 was translated using an exchange rate of RMB1 to HK\$1.18, which was the prevailing exchange rate as at 1 January 2011.

The gain on Disposal is calculated as the difference between the consideration of the Disposal, the direct expenses in relation to the Disposal and the carrying amount of the Disposal Group and the exchange reserve attributable to the Disposal Group released at the completion date and are therefore subject to change upon completion of the Disposal.

- h. The adjustment reflects the net cash inflow and the exchange gains from such inflow for the year ended 31 December 2011, as if the Disposal had been completed on 1 January 2011.

HK\$'000

Consideration of the Disposal	330,400
Less: Estimated direct expenses in relation to the Disposal	(29,696)
Net cash inflow from the Disposal	<u>300,704</u>
Exchange gains on cash and cash equivalents	<u>11,200</u>
	<u><u>311,904</u></u>

For the purpose of preparing the unaudited pro forma financial information, the consideration for the Disposal of RMB280,000,000 was translated using an exchange rate of RMB1 to HK\$1.18, which was the prevailing exchange rate as at 1 January 2011.

- i. The above adjustments are not expected to have a continuing effect on the unaudited pro forma consolidated statement of comprehensive income of the Group and the unaudited pro forma consolidated statement of cash flows of the Remaining Group.
- j. Apart from the above, no other adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 1 January 2011.
- k. No adjustment has been made to reflect the dividend received from jointly controlled entities in the Unaudited Pro Forma Consolidated Statement of Cash Flows as it was related to the 2010 retained earnings of the PRC Entities which management anticipated to receive even if the disposal had been completed on 1 January 2011.

B. LETTER FROM REPORTING ACCOUNTANT

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

**ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO
THE DIRECTORS OF TAI PING CARPETS INTERNATIONAL LIMITED**

We report on the unaudited pro forma financial information set out on pages III-1 to III-9 under the heading of "Unaudited Pro Forma Financial Information" (the "Unaudited Pro Forma Financial Information") in Appendix III of the circular dated 29 June 2012 (the "Circular") of Tai Ping Carpets International Limited (the "Company"), in connection with the proposed disposal of Weihai Shanhua Huabao Carpet Co., Ltd., Weihai Shanhua Premier Carpets Co., Ltd. and Weihai Shanhua Weavers Carpet Co., Ltd. (together, the "PRC Entities") (the "Transaction") by the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Transaction might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages III-1 to III-9 to the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

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PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated statement of financial position of the Group as at 31 December 2011 and the audited consolidated income statement, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2011 extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2011 as set out in the 2011 annual report of the Group, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2011 or any future date, or
- the results and cash flows of the Group for year ended 31 December 2011 or any future periods.

Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 29 June 2012

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 30 April 2012 of the property interest of Tai Ping Carpets International Limited.



JONES LANG
LASALLE®

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行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No: C-030171

29 June 2012

The Board of Directors
Tai Ping Carpets International Limited
8/F, Tower 1
Kowloon Commerce Centre
51-53 Kwai Cheong Road
Kwai Chung
Hong Kong

Dear Sirs,

Tai Ping Carpets International Limited (the “Company”) has accepted a non-binding offer from Weihai Shanhua Carpets Group Co., Ltd. (“Weihai Shanhua”), the Chinese partner of its three Sino-foreign equity joint venture companies in the PRC, to acquire from the Company all of its equity interests in the three joint venture companies. These three companies are Weihai Shanhua Huabao Carpet Co., Ltd., Weihai Shanhua Premier Carpet Co., Ltd. and Weihai Shanhua Weavers Carpet Co., Ltd. (the “Joint Venture Companies”). The Company currently holds 49% equity interests in each of these companies through Treasure Looms (China) Ltd., an indirect wholly-owned subsidiary of the Company.

In accordance with your instructions to value the properties held by the Joint Venture Companies in the People's Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 30 April 2012 (the “date of valuation”).

Our valuation of the property interests represents the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

We have valued the property interest of property nos. 2 to 8 in Group I and property nos. 10 to 11 in Group II by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Due to the nature of the buildings and structures of property no. 1 in Group I and property no. 9 in Group II and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales readily available. The property interests have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subjected to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interests in Group III, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including tenancy agreements relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company’s PRC legal advisers – Shandong Qindao Law Firm concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out in the period from 28 February 2012 to 30 March 2012 by Kathy Hao, Tracy Song, Arnold Gao, James Liang, Wayne Xiao, Corrina Li and Hugo Shen. Kathy Hao and Tracy Song are members of the Royal Institution of Chartered Surveyors, Arnold Gao is a qualified China Land Valuer and James Liang, Wayne Xiao, Corrina Li and Hugo Shen possess more than 3 years' valuation experience in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached below.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Associate Director

Note: Eddie T. W. Yiu is a Chartered Surveyor who has 18 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Group I – Property interests held and occupied by the Joint Venture Companies in the PRC

No.	Property	Capital value in existing state as at 30 April 2012 <i>RMB</i>	Interest attributable to the Company	Capital value attributable to the Group as at 30 April 2012 <i>RMB</i>
1.	3 parcels of land, 25 buildings and various structures No. 118 Wenquan Road Huancui District Weihai City Shandong Province the PRC	237,836,000	49%	116,540,000
2.	Units 17B and 17C Junhui Mansion No. 5 Tiyuxi Road Tianhe District Guangzhou City Guangdong Province the PRC	3,442,000	49%	1,687,000
3.	Unit 2 6th building Xintiandi Composite Building No. 29 Xinyi Road Xiangshan District Guilin City Guangxi Province the PRC	No commercial value	49%	No commercial value
4.	Unit 504 Block 2 Hangyang Building No. 13-1 Minzhu Road Nanning City Guangxi Province the PRC	No commercial value	49%	No commercial value

APPENDIX IV

PROPERTY VALUATION

No.	Property	Capital value in existing state as at 30 April 2012 RMB	Interest attributable to the Company	Capital value attributable to the Group as at 30 April 2012 RMB
5.	Units 1404 and 1405 Yuanfu Building No. 188 Hongqiao Road Xuhui District Shanghai the PRC	6,806,000	49%	3,335,000
6.	A commercial unit located at No. 129 Nanqi Zhong Road Tiexi District Shenyang City Liaoning Province the PRC	2,581,000	49%	1,265,000
7.	Units 3021 on Level 2 and Unit 1 on Level -1, Building 2, Yard 3 No. Dong Tucheng Road Chaoyang District Beijing the PRC	No commercial value	49%	No commercial value
8.	Units 1416 and 1417 Building No. 1 Hongxing Garden (now known as Qiyeyihao) No. 19 Minhang Road Zhengzhou City Henan Province the PRC	No commercial value	49%	No commercial value
	Sub-total:	<u>250,665,000</u>		<u>122,827,000</u>

Group II – Property interests held for investment by the Joint Venture Companies in the PRC

No.	Property	Capital value in existing state as at 30 April 2012 <i>RMB</i>	Interest attributable to the Company	Capital value attributable to the Group as at 30 April 2012 <i>RMB</i>
9.	A parcel of land and 5 buildings located at Qingshan Town Wendeng City Shandong Province the PRC	6,066,000	49%	2,972,000
10.	Unit 15F North Tower Lijing Building Caiwuwei Jintang Street Lo Wu District Shenzhen the PRC	2,220,000	49%	1,088,000
11.	Unit A2 on Level 24 No. 388 Yulin Road Chenghua District Chengdu City Sichuan Province the PRC	1,835,000	49%	899,000
	Sub-total:	<u>10,121,000</u>		<u>4,959,000</u>

Group III – Property interests rented and occupied by the Joint Venture Companies in the PRC

No.	Property	Capital value in existing state as at 30 April 2012 <i>RMB</i>	Interest attributable to the Company	Capital value attributable to the Group as at 30 April 2012 <i>RMB</i>
12.	An industrial building located at YageZhuang Qiaotou Town Weihai City Shandong Province the PRC	No commercial value	49%	No commercial value
13.	An office building No. 112 Heping Road Huancui District Weihai City Shandong Province the PRC	No commercial value	49%	No commercial value
	Sub-total:	Nil		Nil
	Grand total:	<u>260,786,000</u>		<u>127,786,000</u>

VALUATION CERTIFICATE

Group I – Property interests held and occupied by the Joint Venture Companies in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012 RMB
1.	3 parcels of land 25 buildings and various structures No. 118 Wenquan Road Huancui District Weihai City Shandong Province the PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 388,587 sq.m. and 25 buildings and various ancillary structures erected thereon which were completed in various stages between 2004 and 2011.</p> <p>The buildings have a total gross floor area of approximately 157,716.23 sq.m.</p> <p>The buildings mainly include 16 industrial buildings, 2 dormitories, a canteen, an office building, 2 storage buildings and ancillary buildings.</p> <p>The structures mainly include boundary fences, roads, a well and a pool.</p> <p>The land use rights of the property have been granted for various terms with the expiry dates between 5 August 2047 and 31 December 2056 for industrial use.</p>	<p>The property is currently occupied by Weihai Huabao for production purpose, except for a portion of the property is leased to Weihai Weavers (see note 5).</p>	<p>237,836,000</p> <p>49% interest attributable to the Company: RMB116,540,000</p>

Notes:

- Weihai Shanhua Huabao Carpet Co., Ltd. (威海山花華寶地毯有限公司, “Weihai Huabao”) is a 49% interest owned joint venture company of the Company.
- Pursuant to 3 State-owned Land Use Rights Certificates – Wei Huan Guo Yong (2004 Chu) Di No. 406, Wei Huan Guo Yong (2006 Chu) Di No. 019 and Wei Huan Guo Yong (2007 Chu) Di No. 264, the land use rights of 3 parcels of land with a total site area of approximately 388,587 sq.m. have been granted to Weihai Shanhua Huabao Carpet Co., Ltd. for various terms with the expiry dates between 5 August 2047 and 31 December 2056 for industrial use.
- Pursuant to 9 Building Ownership Certificates – Wei Fang Quan Zheng Zi Di Nos. 2009062679, 2009062733, 2009062738, 2009062746, 2009062750, 2009062752, 2009062757, 2009062761 and 2009062765, 13 buildings with a total gross floor area of approximately 116,930.56 sq.m. are owned by Weihai Huabao.
- For the remaining 12 buildings with a total gross floor area of approximately 40,785.67 sq.m., we have not been provided with any title certificate.

5. According to two Tenancy Agreements entered into between Weihai Huabao and Weihai Shanhua Weavers Carpet Co., Ltd. (“Weihai Weavers”), another 49% interest owned joint venture company of the Company, a portion of buildings of the property with a total gross floor area of approximately 38,200 sq.m. is rented to Weihai Weavers for a term of one year expiring on 31 October 2012 at a total annual rent of RMB2,750,400, exclusive of management fees, water and electricity charges.
6. Treasure Looms (China) Limited (寶隆地氈(中國)有限公司, “TLC”) is an indirect wholly-owned subsidiary of the Company.
7. Pursuant to the Joint Venture Contract of the Weihai Shanhua Weavers Carpet Co., Ltd. (合資經營威海山花惠美地毯有限公司合同書), Weihai Weavers is an equity joint venture company between Weihai Shanhua (“Party A”) and TLC (“Party B”). Its joint venture period is 35 years commencing on 13 February 2007 and expired on 12 February 2042.
8. According to the Joint Venture Contract, the equity contribution of the Weihai Weavers between Party A and Party B is 51% and 49% respectively, amounting a registered capital of US\$6,000,000. The parties may obtain the profits of Weihai Weavers once a year after profit tax, provident fund, staff bonus and welfare fund. The extraction ratios are determined by the board of directors. The distribution of the profits is according to the ratio of the equity contribution of the parties and no profit would be allocated if there is any un-recovered loss of the last fiscal year.
9. Pursuant to a Mortgage Contract – 37109900-2011 Nian Ke Hu (Di) Zi No. 0008 entered into between Weihai Huabao and Weihai Commercial Bank Xicheng Branch, a parcel of land with a site area of approximately 168,980 sq.m. and 7 buildings with a total GFA of approximately 76,438.07 sq.m. of the property are subject to a mortgage for a loan of RMB120,000,000 for a term of 3 years from 26 September 2011 to 25 September 2014.
10. In the valuation of this property, we have attributed no commercial value to the 12 buildings mentioned in note 4 which have not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land) as at the date of valuation would be RMB46,308,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.
11. As the property contributes a significant portion of revenue of Weihai Huabao, we are of the view that the property is a material property.

Details of the material property:

- | | | | |
|-----|--|---|--|
| (a) | General description of location of the property | : | Wenquan Road, which the property is located at, is at south of Weihai City, where many industrial enterprises are located therein. The property is located near the S301 Road and Shugang Road, which are the main roads of the city. It takes about 15 minutes to drive to the city center and about 1 hour to drive to the Weihai International Airport. |
| (b) | Details of encumbrances, liens, pledges, mortgages against the property | : | Refer to note 9 |
| (c) | Environmental Issue | : | No environmental impact assessment has been carried out. |
| (d) | Details of investigations, notices, pending litigation, breaches of law or title defects | : | Nil |
| (e) | Future plans for construction, renovation, improvement or development of the property and estimated associated costs | : | Nil |

12. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
- a. Weihai Huabao has obtained the land use rights certificates of these 3 parcels of land as mentioned in note 2 and is the only legal user of these 3 parcels of land. The rights to occupy and use the lands are protected by the PRC laws;
 - b. Within the land use rights terms and the permitted use in accordance with the land use rights certificates, Weihai Huabao owns the legal and valid state-owned land use rights of these parcels of land, and can freely use, transfer, let and mortgage the land parcels without further obtaining the approval, permit and consent of any government authorities.;
 - c. If Weihai Huabao transfers, sells, leases, re-mortgages or otherwise disposes of the land use rights mentioned in note 2 according to the law, the ownership rights of the buildings located on the lands will also be transferred, sold, leased, re-mortgaged or otherwise disposed.; and
 - d. Regarding the parcel of land with Land Use Rights Certificates - Wei Huan Guo Yong (2007 Chu) Di No. 264 and the 7 buildings with a total GFA of approximately 76,438.07 sq.m, which are subject to a mortgage as mentioned in note 9, Weihai Huabao should obtain prior written consent from the mortgagee when transferring, selling, leasing re-mortgaging or otherwise disposing of such land use rights and ownership rights of the buildings.
 - e. As advised by the Company's PRC legal advisers, Weihai Huabao has obtained all necessary licences to operate in Weihai and in the following locations where it has established its branch offices, namely Beijing, Shanghai, Zhengzhou, Chengdu, Shenyang and Shenzhen. Weihai Huabao does not have any branch office in Guangzhou, Nanning and Guilin, and it is not required to obtain any licence in these locations.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012 RMB
2.	Units 17B and 17C Junhui Mansion No. 5 Tiyuxi Road Tianhe District Guangzhou City Guangdong Province the PRC	<p>The property comprises 2 units on Level 17 of a 26-storey residential building completed in about 2001.</p> <p>The property has a gross floor area of approximately 169.82 sq.m.</p> <p>The land use rights of the property have been granted for a term of 70 years expiring on 17 September 2068 for residential use.</p>	<p>The property is currently occupied by the joint venture companies for office purposes.</p>	<p>3,442,000</p> <p>49% interest attributable to the Company: RMB1,687,000</p>

Notes:

1. Weihai Shanhua Huabao Carpet Co., Ltd. (威海山花華寶地毯有限公司, "Weihai Huabao") is a 49% interest owned joint venture company of the Company.
2. Pursuant to 2 Real Estate Title Certificates – Yue Fang Di Zheng Di Nos. C19978665 and C19978666, the property with a gross floor area of approximately 169.82 sq.m. is owned by Weihai Huabao.
3. Pursuant to the Joint Venture Contract of the Weihai Shanhua Huabao Carpet Co., Ltd. (合資經營威海華寶地毯有限公司合同書), Weihai Huabao is an equity joint venture company between Weihai Shanhua ("Party A") and TLC ("Party B"). Its joint venture period is 50 years commencing on 8 June 1992 and expired on 7 June 2042.
4. According to the Joint Venture Contract, the equity contribution of the Weihai Huabao between Party A and Party B is 51% and 49% respectively, amounting a registered capital of US\$15,090,000. The parties may obtain the profits of Weihai Huabao once a year after profit tax, provident fund, staff bonus and welfare fund. The extraction ratios are determined by the board of directors. The distribution of the profits is according to the ratio of the equity contribution of the parties and no profit would be allocated if there is any un-recovered loss of the last fiscal year. The undistributed profits of the previous fiscal year, if any, would not be distributed in the current fiscal year.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Weihai Huabao has obtained the Real Estate Title Certificates as mentioned in note 2 and is the only legal user of the property. The rights to occupy and use the property are protected by the PRC laws; and
 - b. Weihai Huabao has the rights to freely use, transfer, let and mortgage the property without further obtaining the approval, permit and consent of any government authorities.
 - c. As advised by the Company's PRC legal advisers, Weihai Huabao has obtained all necessary licences to operate in Weihai and in the following locations where it has established its branch offices, namely Beijing, Shanghai, Zhengzhou, Chengdu, Shenyang and Shenzhen. Weihai Huabao does not have any branch office in Guangzhou, Nanning and Guilin, and it is not required to obtain any licence in these locations.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012 RMB
3.	Unit 2 6th building Xintiandi Composite Building No. 29 Xinyi Road Xiangshan District Guilin City Guangxi Province the PRC	The property comprises a unit on Level 6 of a 6-storey residential building completed in about 1996. The property has a gross floor area of approximately 63 sq.m.	As advised by Weihai Shanhua, the property is currently occupied by Deng Jiyang (鄧基陽)	No commercial Value

Notes:

1. Weihai Shanhua Huabao Carpet Co., Ltd. (威海山花華寶地毯有限公司, "Weihai Huabao") is a 49% interest owned joint venture company of the Company.
2. Pursuant to a Building Ownership Certificate – Gui Fang Zheng Zi Di No. 3042791, the property with a gross floor area of approximately 63 sq.m. is owned by Weihai Huayin Carpet Co., Ltd (威海華銀地毯有限公司, "Weihai Huayin").
3. We have not been provided with any Land Use Rights Certificate.
4. According to Weihai Huabao, the property is owned by Weihai Huayin and the fee to purchase the property was paid by Weihai Huabao. Weihai Huayin is a joint-venture company set up by Weihai Shanhua and China Construction Investment (Hong Kong) Limited (中國建設投資(香港)有限公司), an independent third party, and was de-registered on 18 July 2011.
5. According to an 'Instruction on liquidation matters of Weihai Shanhua Huayin Carpet Co., Ltd', the property is owned by Weihai Shanhua. In 8 December 2011, Weihai Huabao sold the property to Deng Jiyang (鄧基陽) at a consideration of RMB160,000 without any Sale & Purchase Agreement nor legal procedure to transfer the property.
6. In the valuation of this property, we have attributed no commercial value to the property based on the legal opinion that Weihai Huabao has not obtained the legal and valid property ownership rights to freely transfer the property. For reference purpose, we are of the opinion that the capital value of the property would be RMB364,000 assuming the property has obtained all the relevant title documents and could be freely transferred.
7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Weihai Huayin is the registered owner of the property and Weihai Huabao has sold the property to Deng Jiyang without Sale & Purchase Agreement but has received the transaction fee while the property is currently occupied by Deng Jiyang. So, according to the property law, Weihai Huabao has not obtained the legal and valid property ownership rights to freely use, transfer, let and mortgage the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012 RMB
4.	Unit 504 Block 2 Hangyang Building No. 13-1 Minzhu Road Nanning City Guangxi Province the PRC	The property comprises a unit on Level 5 of a 9-storey residential building completed in about 2002. The property has a gross floor area of approximately 98.01 sq.m.	As advised by Weihai Shanhua, the property is currently vacant.	No commercial value

Notes:

1. Weihai Shanhua Huabao Carpet Co., Ltd. (威海山花華寶地毯有限公司, "Weihai Huabao") is a 49% interest owned joint venture company of the Company.
2. Pursuant to a Building Ownership Certificate – Yong Fang Zheng Zi Di No. 01318124, the property with a gross floor area of approximately 98.01 sq.m. is owned by Zhao Xinsheng (趙新生).
3. In valuation of this property, we have attributed no commercial value to property as the title of property is not vested in Weihai Huabao. For reference purpose, we are of the opinion that the capital value of the property would be RMB744,000 assuming that the title of property is vested in Weihai Huabao and it could be freely transferred by Shanhua Huabao.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Zhao Xinsheng is the registered owner of the property and Weihai Huabao has paid to purchase the property but has not obtained the legal and valid property ownership rights of the property.; and
 - b. Weihai Huabao has the rights to occupy and use the property and can freely use, transfer, let and mortgage the property after further obtaining the approval, permit and consent of Zhao Xinsheng.
 - c. As advised by the Company's PRC legal advisers, Weihai Huabao has obtained all necessary licences to operate in Weihai and in the following locations where it has established its branch offices, namely Beijing, Shanghai, Zhengzhou, Chengdu, Shenyang and Shenzhen. Weihai Huabao does not have any branch office in Guangzhou, Nanning and Guilin, and it is not required to obtain any licence in these locations.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012 RMB
5.	Units 1404 and 1405 Yuanfu Building No. 188 Hongqiao Road Xuhui District Shanghai the PRC	<p>The property comprises 2 units on Level 14 of a 28-storey composite building which was completed in 2001.</p> <p>The property has a gross floor area of approximately 253.65 sq.m.</p> <p>The land use rights of the property have been granted to Weihai Huabao for composite use without defined term and expiry dates.</p>	The property is currently occupied by Weihai Huabao for office purpose.	6,806,000 49% interest attributable to the Company: RMB3,335,000

Notes:

1. Weihai Shanhua Huabao Carpet Co., Ltd. (威海山花華寶地毯有限公司, "Weihai Huabao") is a 49% interest owned subsidiary of the Company.
2. Pursuant to 2 Real Estate Title Certificates – Hu Fang Di Xu Zi (2002) Di Nos. 009805 and 009806, the property with a total gross floor area of approximately 253.65 sq.m. is owned by Weihai Huabao. The relevant land use rights of the property have been granted to Weihai Huabao for composite use without defined term and expiry dates.
3. Pursuant to the Joint Venture Contract of the Weihai Shanhua Huabao Carpet Co., Ltd. (合資經營威海華寶地毯有限公司合同書), Weihai Huabao is an equity joint venture company between Weihai Shanhua ("Party A") and TLC ("Party B"). Its joint venture period is 50 years commencing on 8 June 1992 and expired on 7 June 2042.
4. According to the Joint Venture Contract, the equity contribution of the Weihai Huabao between Party A and Party B is 51% and 49% respectively, amounting a registered capital of US\$15,090,000. The parties may obtain the profits of Weihai Huabao once a year after profit tax, provident fund, staff bonus and welfare fund. The extraction ratios are determined by the board of directors. The distribution of the profits is according to the ratio of the equity contribution of the parties and no profit would be allocated if there is any un-recovered loss of the last fiscal year. The undistributed profits of the previous fiscal year, if any, would not be distributed in the current fiscal year.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Weihai Huabao is the only legal user of the property. The rights to occupy and use the property are protected by the PRC laws; and
 - b. Weihai Huabao owns the legal and valid rights to occupy and use the property, and can freely use, transfer, let and mortgage the land parcel without further obtaining the approval, permit and consent of any government authorities.
 - c. As advised by the Company's PRC legal advisers, Weihai Huabao has obtained all necessary licences to operate in Weihai and in the following locations where it has established its branch offices, namely Beijing, Shanghai, Zhengzhou, Chengdu, Shenyang and Shenzhen. Weihai Huabao does not have any branch office in Guangzhou, Nanning and Guilin, and it is not required to obtain any licence in these locations.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012 RMB
6.	A commercial unit located at No. 129 Nanqi Zhong Road Tiexi District Shenyang City Liaoning Province the PRC	The property comprises a unit on Levels 1 and 2 of an 8-storey composite commercial/residential building completed in about 1994. The property has a gross floor area of approximately 317.46 sq.m.	The property is currently occupied by the Weihai Huabao for retail purpose.	2,581,000 49% interest attributable to the Company: RMB1,265,000

Notes:

1. Weihai Huabao Carpet Co., Ltd. (威海華寶地毯有限公司, "Weihai Huabao") is a 49% interest owned subsidiary of the Company.
2. Pursuant to a Building Ownership Certificate – Shen Fang Quan Zheng Tie Xi Zi Di No. 52625, a unit with a gross floor area of approximately 317.46 is owned by Weihai Huabao.
3. Pursuant to the Joint Venture Contract of the Weihai Shanhua Huabao Carpet Co., Ltd. (合資經營威海華寶地毯有限公司合同書), Weihai Huabao is an equity joint venture company between Weihai Shanhua ("Party A") and TLC ("Party B"). Its joint venture period is 50 years commencing on 8 June 1992 and expired on 7 June 2042.
4. According to the Joint Venture Contract, the equity contribution of the Weihai Huabao between Party A and Party B is 51% and 49% respectively, amounting a registered capital of US\$15,090,000. The parties may obtain the profits of Weihai Huabao once a year after profit tax, provident fund, staff bonus and welfare fund. The extraction ratios are determined by the board of directors. The distribution of the profits is according to the ratio of the equity contribution of the parties and no profit would be allocated if there is any un-recovered loss of the last fiscal year. The undistributed profits of the previous fiscal year, if any, would not be distributed in the current fiscal year.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Weihai Huabao is the only legal user of the property. The rights to occupy and use the property are protected by the PRC laws;
 - b. Weihai Huabao has not applied the Land Use Rights Certificate.; and
 - c. according to the verbal confirmation from the Registration Centre of Shenyang City Real Estate Transaction (瀋陽市房地產交易權屬登記中心), Although Weihai Huabao has not obtained the Land Use Right Certificate, it has obtained the Building Ownership Certificate, therefore it can freely transfer, lease out and mortgage the property.
 - d. As advised by the Company's PRC legal advisers, Weihai Huabao has obtained all necessary licences to operate in Weihai and in the following locations where it has established its branch offices, namely Beijing, Shanghai, Zhengzhou, Chengdu, Shenyang and Shenzhen. Weihai Huabao does not have any branch office in Guangzhou, Nanning and Guilin, and it is not required to obtain any licence in these locations.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012 RMB
7.	Units 3021 on Level 2 and Unit 1 on Level -1, Building 2, Yard 3 No. Dong Tucheng Road Chaoyang District Beijing the PRC	The property comprises 2 units on Level 2 and a unit on Level -1 of a 15-storey residential building completed in about 2000. The property has a total gross floor area of approximately 259.82 sq.m.	The property is currently occupied by the Joint Venture Companies for staff quarters purpose except of Unit 1 which is leased to a tenant (See note 5).	No commercial value

Notes:

1. Weihai Huabao Carpet Co., Ltd. (威海華寶地毯有限公司, "Weihai Huabao") is a 49% interest owned subsidiary of the Company.
2. Pursuant to 2 Building Ownership Certificates – Jing Fang Quan Zheng Chao Si 07 Zi Di Nos. 228659 and 244129 (京房權證朝私07字第228659和244129號), the property with a total gross floor area of approximately 259.82 sq.m. is owned by Liu Xinhui (劉新惠).
3. Pursuant to the Joint Venture Contract of the Weihai Shanhua Huabao Carpet Co., Ltd. (合資經營威海華寶地毯有限公司合同書), Weihai Huabao is an equity joint venture company between Weihai Shanhua ("Party A") and TLC ("Party B"). Its joint venture period is 50 years commencing on 8 June 1992 and expired on 7 June 2042.
4. According to the Joint Venture Contract, the equity contribution of the Weihai Huabao between Party A and Party B is 51% and 49% respectively, amounting a registered capital of US\$15,090,000. The parties may obtain the profits of Weihai Huabao once a year after profit tax, provident fund, staff bonus and welfare fund. The extraction ratios are determined by the board of directors. The distribution of the profits is according to the ratio of the equity contribution of the parties and no profit would be allocated if there is any un-recovered loss of the last fiscal year. The undistributed profits of the previous fiscal year, if any, would not be distributed in the current fiscal year.
5. Pursuant to a Tenancy Agreement dated 9 April 2011, the basement was leased to Ma Jianjie (馬建杰) for a term of 12 months expiring on 9 April 2012 at an annual rental of RMB70,000 for retail use and thereafter the tenancy continues on monthly basis.
6. In valuation of this property, we have attributed as commercial value to the property as the title of property is not vested in Weihai Huabao. For reference purpose, we are of the opinion that the capital value of the property would be RMB6,468,000 assuming that the title of property is vested in Weihai Huabao and it could be freely transferred by Weihai Huabao.
7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Liu Xinhui is the registered owner of the property and Weihai Huabao has paid to purchase the property but has not obtained the legal and valid property ownership rights of the property.; and
 - b. Weihai Huabao has the rights to occupy and use the property and can freely use, transfer, let and mortgage the property after further obtaining the approval, permit and consent of Liu Xinhui.
 - c. As advised by the Company's PRC legal advisers, Weihai Huabao has obtained all necessary licences to operate in Weihai and in the following locations where it has established its branch offices, namely Beijing, Shanghai, Zhengzhou, Chengdu, Shenyang and Shenzhen. Weihai Huabao does not have any branch office in Guangzhou, Nanning and Guilin, and it is not required to obtain any licence in these locations.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012 RMB
8.	Units 1416 and 1417 Building No. 1 Hongxing Garden (now known as Qiyeyihao) No. 19 Minhang Road Zhengzhou City Henan Province the PRC	The property comprises 2 units on Level 14 of a 27-storey residential building completed in about 2006. The property has a gross floor area of approximately 177.24 sq.m.	The property is currently occupied by the Joint Venture Companies for staff quarter purpose.	No commercial value

Notes:

1. We have not been provided with any title document of the property.
2. Pursuant to the Joint Venture Contract of the Weihai Shanhua Huabao Carpet Co., Ltd. (合資經營威海華寶地毯有限公司合同書), Weihai Huabao is an equity joint venture company between Weihai Shanhua ("Party A") and TLC ("Party B"). Its joint venture period is 50 years commencing on 8 June 1992 and expired on 7 June 2042.
3. According to the Joint Venture Contract, the equity contribution of the Weihai Huabao between Party A and Party B is 51% and 49% respectively, amounting a registered capital of US\$15,090,000. The parties may obtain the profits of Weihai Huabao once a year after profit tax, provident fund, staff bonus and welfare fund. The extraction ratios are determined by the board of directors. The distribution of the profits is according to the ratio of the equity contribution of the parties and no profit would be allocated if there is any un-recovered loss of the last fiscal year. The undistributed profits of the previous fiscal year, if any, would not be distributed in the current fiscal year.
4. In valuation of this property, we have attributed no commercial value to the property due to lack of any title certificate. For reference purpose, we are of the opinion that the capital value of the property would be RMB760,000 assuming that the property has obtained relevant title certificate and could be freely transferred.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Weihai Huabao has not obtained the building ownership certificate;
 - b. Weihai Huabao does not have the legal and valid property ownership rights to freely use, transfer, let and mortgage the property; and
 - c. Weihai Huabao has signed the Sale & Purchase Agreement with the developer and has rights to occupy and use the property;
 - d. As advised by the Company's PRC legal advisers, Weihai Huabao has obtained all necessary licences to operate in Weihai and in the following locations where it has established its branch offices, namely Beijing, Shanghai, Zhengzhou, Chengdu, Shenyang and Shenzhen. Weihai Huabao does not have any branch office in Guangzhou, Nanning and Guilin, and it is not required to obtain any licence in these locations.

VALUATION CERTIFICATE

Group II – Property interest held for investment by the Joint Venture Companies in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012 RMB
9.	A parcel of land and 5 buildings located at Qingshan Town Wendeng City Shandong Province the PRC	<p>The property comprises a parcel of land with a site area of approximately 33,332 sq.m. and 5 buildings erected thereon which were completed in 2003.</p> <p>The buildings have a total gross floor area of approximately 6,832 sq.m.</p> <p>The buildings include an industrial building, a dormitory, a canteen, an electric building and a guardhouse.</p> <p>The land use rights of the property have been granted for a term expiring on 23 September 2043 for industrial use.</p>	The property is currently leased to an independent third party (see note 7).	6,066,000 49% interest attributable to the Company: RMB2,972,000

Notes:

- Weihai Shanhua Huabao Carpet Co., Ltd. (威海山花華寶地毯有限公司, “Weihai Huabao”) is a 49% interest owned joint venture company of the Company.
- Pursuant to a State-owned Land Use Rights Certificate – Wen Man Shan Guo Yong (2001) Zi Di No. 03008, the land use rights of a parcel of land with a site area of approximately 33,332 sq.m. have been granted to Weihai Huabao for a term expiring on 23 September 2043 for industrial use.
- For the buildings of the property with a total gross floor area of approximately 6,832 sq.m., we have not been provided with any title certificate.
- In the valuation of this property, we have attributed no commercial value to the 5 buildings of the property which have not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land) as at the date of valuation would be RMB4,857,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.
- Pursuant to the Joint Venture Contract of the Weihai Shanhua Huabao Carpet Co., Ltd. (合資經營威海華寶地毯有限公司合同書), Weihai Huabao is an equity joint venture company between Weihai Shanhua (“Party A”) and TLC (“Party B”). Its joint venture period is 50 years commencing on 8 June 1992 and expired on 7 June 2042.
- According to the Joint Venture Contract, the equity contribution of the Weihai Huabao between Party A and Party B is 51% and 49% respectively, amounting a registered capital of US\$15,090,000. The parties may obtain the profits of Weihai Huabao once a year after profit tax, provident fund, staff bonus and welfare fund. The extraction ratios are determined by the board of directors. The distribution of the profits is according to the ratio of the equity contribution of the parties and no profit would be allocated if there is any un-recovered loss of the last fiscal year. The undistributed profits of the previous fiscal year, if any, would not be distributed in the current fiscal year.

7. Pursuant to a Tenancy Agreement dated 25 March 2011, the property is leased to Wendeng City Taihe Chemical Factory (文登市泰和化工廠), an independent third party, from Weihai Shanhua Weavers Carpet Co., Ltd. (威海山花惠美地毯有限公司) on behalf of Shanhua Huabao, for a term of 2 years, at an annual rental of RMB180,000.
8. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Weihai Huabao has obtained the land use rights certificate of the land as mentioned in note 2 and is the only legal user of the land. Shanhua Huabao owns the legal and valid state-owned land use rights of this parcel of land, and can freely use, transfer, let and mortgage the land parcel without further obtaining the approval, permit and consent of any government authorities;
 - b. If Weihai Huabao transfers, sells, leases, re-mortgages or otherwise disposes of the land use rights mentioned in note 2 according to the law, the ownership rights of the buildings located at the lands will also be transferred, sold, leased, re-mortgaged or otherwise disposed.;
 - c. Weihai Huabao has the rights to occupy and use the 5 buildings mentioned in note 4 and can freely use, transfer, let and mortgage the property after further obtaining the Building Ownership Certificate.; and
 - d. In case of any dispute regarding the tenancy of the property, the tenancy agreement is not valid if Weihai Huabao could not provide any construction and planning permit or approval from the relevant government department before the end of the debate on the Court of First Instance.
 - e. As advised by the Company's PRC legal advisers, Weihai Huabao has obtained all necessary licences to operate in Weihai and in the following locations where it has established its branch offices, namely Beijing, Shanghai, Zhengzhou, Chengdu, Shenyang and Shenzhen. Weihai Huabao does not have any branch office in Guangzhou, Nanning and Guilin, and it is not required to obtain any licence in these locations.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012 RMB
10.	Unit 15F North Tower Lijing Building Caiwuwei Jintang Street Lo Wu District Shenzhen the PRC	<p>The property comprises a unit on Level 15 of a residential building completed in about 2004.</p> <p>The property has a gross floor area of approximately 102.8 sq.m.</p> <p>The land use rights of the property have been granted for a term of 70 years expiring on 22 March 2068 for commercial and residential uses.</p>	The property is currently lease to an independent third party (see note 5).	2,220,000 49% interest attributable to the Company: RMB1,088,000

Notes:

1. Weihai Shanhua Huabao Carpet Co., Ltd. (威海山花華寶地毯有限公司, "Weihai Huabao") is a 49% interest owned subsidiary of the Company.
2. Pursuant to a Real Estate Title Certificate – Shen Fang Di Zi Di Nos. 2000402126, the property with a gross floor area of approximately 102.8 sq.m. is owned by Weihai Huabao.
3. Pursuant to the Joint Venture Contract of the Weihai Shanhua Huabao Carpet Co., Ltd. (合資經營威海華寶地毯有限公司合同書), Weihai Huabao is an equity joint venture company between Weihai Shanhua ("Party A") and TLC ("Party B"). Its joint venture period is 50 years commencing on 8 June 1992 and expired on 7 June 2042.
4. According to the Joint Venture Contract, the equity contribution of the Weihai Huabao between Party A and Party B is 51% and 49% respectively, amounting a registered capital of US\$15,090,000. The parties may obtain the profits of Weihai Huabao once a year after profit tax, provident fund, staff bonus and welfare fund. The extraction ratios are determined by the board of directors. The distribution of the profits is according to the ratio of the equity contribution of the parties and no profit would be allocated if there is any un-recovered loss of the last fiscal year. The undistributed profits of the previous fiscal year, if any, would not be distributed in the current fiscal year.
5. Pursuant to a Tenancy Agreement, the property is leased to Shenzhen City Putong International Freight Agency Limited (深圳市浦通國際貨運代理有限公司) from Weihai Huabao, for a term of 1 year expiring on 30 June 2012, at an monthly rental of RMB5,500.
6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Weihai Huabao is the only legal user of the property. The rights to occupy and use the property are protected by the PRC laws;
 - b. Weihai Huabao owns the legal and valid rights to occupy and use the property, and can freely use, transfer, let and mortgage the property without further obtaining the approval, permit and consent of any government authorities.; and
 - c. The Tenancy Agreement has been registered with the relevant authority.
 - d. As advised by the Company's PRC legal advisers, Weihai Huabao has obtained all necessary licences to operate in Weihai and in the following locations where it has established its branch offices, namely Beijing, Shanghai, Zhengzhou, Chengdu, Shenyang and Shenzhen. Weihai Huabao does not have any branch office in Guangzhou, Nanning and Guilin, and it is not required to obtain any licence in these locations.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012 RMB
11.	Unit A2 on Level 24 No. 388 Yulin Road Chenghua District Chengdu City Sichuan Province the PRC	<p>The property comprises a residential unit on level 24 of a 33-storey residential/commercial building which was completed in about 2002.</p> <p>The property has a gross floor area of approximately 191.69 sq.m.</p> <p>The land use rights of the property have been granted for a term expiring on 21 July 2068 for residential uses.</p>	<p>The property was leased to and occupied by an independent third party for operating/office purposes as at the date of valuation. (Refer to note 6).</p>	<p>1,835,000</p> <p>49% interest attributable to the Group: RMB899,000</p>

Notes:

1. Weihai Shanhua Huabao Carpet Co., Ltd. (威海山花華寶地毯有限公司, "Weihai Huabao") is a 49% interest owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate – Cheng Hua Guo Yong (2005) Zi Di No. 033349, the land use rights of a parcel of land with an apportioned site area of approximately 21.99 sq.m. have been granted to Weihai Huabao for a term expiring on 21 July 2068 for residential use.
3. Pursuant to a Building Ownership Certificate – Rong Fang Quan Zheng Cheng Fang Jian Zheng Zi Di No. 1094987, a residential unit on level 24 of a 33-storey residential/commercial building with a gross floor area of approximately 191.69 sq.m. is owned by Weihai Huabao.
4. Pursuant to the Joint Venture Contract of the Weihai Shanhua Huabao Carpet Co., Ltd. (合資經營威海華寶地毯有限公司合同書), Weihai Huabao is an equity joint venture company between Weihai Shanhua ("Party A") and TLC ("Party B"). Its joint venture period is 50 years commencing on 8 June 1992 and expired on 7 June 2042.
5. According to the Joint Venture Contract, the equity contribution of the Weihai Huabao between Party A and Party B is 51% and 49% respectively, amounting a registered capital of US\$15,090,000. The parties may obtain the profits of Weihai Huabao once a year after profit tax, provident fund, staff bonus and welfare fund. The extraction ratios are determined by the board of directors. The distribution of the profits is according to the ratio of the equity contribution of the parties and no profit would be allocated if there is any un-recovered loss of the last fiscal year. The undistributed profits of the previous fiscal year, if any, would not be distributed in the current fiscal year.
6. Pursuant to a Tenancy Agreement, the property is leased to Yue Anwei (岳安偉), from Weihai Huabao, for a term of 1 year expiring on 30 April 2012, at a monthly rental of RMB5,000.
7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Weihai Huabao is the only legal user of the property. The rights to occupy and use the property are protected by the PRC laws;
 - b. Weihai Huabao owns the legal and valid rights to occupy and use the property, and can freely use, transfer, let and mortgage the property without further obtaining the approval, permit and consent of any government authorities.; and
 - c. the Tenancy Agreement has not been registered with the relevant authority, but the validity of the agreement will not be affected.
 - d. As advised by the Company's PRC legal advisers, Weihai Huabao has obtained all necessary licences to operate in Weihai and in the following locations where it has established its branch offices, namely Beijing, Shanghai, Zhengzhou, Chengdu, Shenyang and Shenzhen. Weihai Huabao does not have any branch office in Guangzhou, Nanning and Guilin, and it is not required to obtain any licence in these locations.

VALUATION CERTIFICATE

Group III – Property interests rented and occupied by the Joint Venture Companies in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012 RMB
12.	An industrial building located at YageZhuang Qiaotou Town Weihai City Shandong Province the PRC	<p>The property comprises an industrial building with a lease area of approximately 7,185 sq.m. completed in 2009.</p> <p>The property is leased to Weihai Shanhua Huabao Carpet Co., Ltd. (“Weihai Huabao”) from Weihai Shanhua Carpets Group Co., Ltd. (“Weihai Shanhua”) for a term of 3 years expiring on 31 December 2012, at an annual rental of RMB517,320 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by Weihai Huabao for production purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property is leased to Weihai Huabao from Weihai Shanhua for a term of 3 years expiring on 31 December 2012, at an annual rental of RMB517,320 exclusive of management fees, water and electricity charges.
2. Pursuant to the Joint Venture Contract of the Weihai Shanhua Huabao Carpet Co., Ltd. (合資經營威海華寶地毯有限公司合同書), Weihai Huabao is an equity joint venture company between Weihai Shanhua (“Party A”) and TLC (“Party B”). Its joint venture period is 50 years commencing on 8 June 1992 and expired on 7 June 2042.
3. According to the Joint Venture Contract, the equity contribution of the Weihai Huabao between Party A and Party B is 51% and 49% respectively, amounting a registered capital of US\$15,090,000. The parties may obtain the profits of Weihai Huabao once a year after profit tax, provident fund, staff bonus and welfare fund. The extraction ratios are determined by the board of directors. The distribution of the profits is according to the ratio of the equity contribution of the parties and no profit would be allocated if there is any un-recovered loss of the last fiscal year. The undistributed profits of the previous fiscal year, if any, would not be distributed in the current fiscal year.
4. We have been provided with a legal opinion on the legality of the tenancy agreement(s) to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. the Tenancy Agreement has not been registered with the relevant authority, but the validity of the agreement will not be affected.
 - b. As advised by the Company’s PRC legal advisers, Weihai Huabao has obtained all necessary licences to operate in Weihai and in the following locations where it has established its branch offices, namely Beijing, Shanghai, Zhengzhou, Chengdu, Shenyang and Shenzhen. Weihai Huabao does not have any branch office in Guangzhou, Nanning and Guilin, and it is not required to obtain any licence in these locations.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012 RMB
13.	An office building No. 112 Heping Road Huancui District Weihai City Shandong Province the PRC	The property comprises a 7-storey office building with a lease area of approximately 4,131 sq.m. completed in 2005. The property is leased to Weihai Shanhua Huabao Carpet Co., Ltd. (“Weihai Huabao”) from Weihai Shanhua Carpets Group Co., Ltd. (“Weihai Shanhua”) at an annual rent of RMB792,540 exclusive of management fees, water and electricity charges.	The property is currently occupied by the Weihai Huabao for office purpose.	No commercial value

Notes:

1. We have not been provided with any a Lease Agreement related to the property. As advised by Weihai Huabao, the property is leased to Weihai Huabao from Weihai Shanhua from 2006, at an annual rent of RMB792,540 exclusive of management fees, water and electricity charges.
2. Pursuant to the Joint Venture Contract of the Weihai Shanhua Huabao Carpet Co., Ltd. (合資經營威海華寶地毯有限公司合同書), Weihai Huabao is an equity joint venture company between Weihai Shanhua (“Party A”) and TLC (“Party B”). Its joint venture period is 50 years commencing on 8 June 1992 and expired on 7 June 2042.
3. According to the Joint Venture Contract, the equity contribution of the Weihai Huabao between Party A and Party B is 51% and 49% respectively, amounting a registered capital of US\$15,090,000. The parties may obtain the profits of Weihai Huabao once a year after profit tax, provident fund, staff bonus and welfare fund. The extraction ratios are determined by the board of directors. The distribution of the profits is according to the ratio of the equity contribution of the parties and no profit would be allocated if there is any un-recovered loss of the last fiscal year. The undistributed profits of the previous fiscal year, if any, would not be distributed in the current fiscal year.
4. We have been provided with a legal opinion on the legality of the tenancy agreement(s) to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. the Tenancy Agreement has not been registered with the relevant authority, but the validity of the agreement will not be affected.
 - b. As advised by the Company’s PRC legal advisers, Weihai Huabao has obtained all necessary licences to operate in Weihai and in the following locations where it has established its branch offices, namely Beijing, Shanghai, Zhengzhou, Chengdu, Shenyang and Shenzhen. Weihai Huabao does not have any branch office in Guangzhou, Nanning and Guilin, and it is not required to obtain any licence in these locations.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(1) Interests of Directors and chief executives

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 (the “**Model Code**”) were as follows:

Long Positions

Name	Beneficial owner	Interests of controlled corporation	Aggregate % of the share capital
Ian D. Boyce	831,371	–	0.392%
David C. L. Tong	431,910	–	0.204%
Lincoln C. K. Yung	30,000	–	0.014%
Nelson K.F. Leong ¹	–	2,000,000	0.943%
John J. Ying ²	–	32,605,583	15.366%
Aubrey K. S. Li	100,000	–	0.047%
James H. Kaplan	522,000	–	0.246%

Note:

- ¹ The Shares are held through a company which is controlled by Mr. Nelson K.F. Leong.
- ² The Shares are held through Peak Capital Partners I, L.P. of which Mr. John J. 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).

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.

(2) Interests of Substantial Shareholders

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the 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

Name	No. of Shares held	Aggregate % of the share capital
Acorn Holdings Corporation ¹	40,014,178	18.858%
Bermuda Trust Company Limited ¹	40,014,178	18.858%
Harneys Trustees Limited ¹	77,674,581	36.607%
Lawrencium Holdings Limited ¹	77,674,581	36.607%
The Mikado Private Trust Company Limited ¹	77,674,581	36.607%
The Hon. Sir Michael Kadoorie ¹	77,674,581	36.607%
Peak Capital Partners I, L.P. ²	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 interested. The Mikado Private Trust Company Limited and Harneys Trustees Limited are deemed to be interested in the same 77,674,581 Shares in which Lawrencium Holdings Limited is interested. 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 77,674,581 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.
- ² 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 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).

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 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. Mr. Kaplan is also entitled to participate in a profit sharing scheme. 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.

Save as disclosed above, none of the Directors has any existing or proposed service contract with any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date:

- (i) none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2011 (being the date to which the latest published audited financial statement of the Group were made), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (ii) none of the Directors was materially interested, direct or indirectly, in any contracts or arrangements entered into by any member of the Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group.

7. EXPERTS AND CONSENTS

The following is the qualification of the experts whose letter and report are contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property valuers
Shandong Qindao Law Firm (山東琴島律師事務所)	PRC legal advisers

Each of PricewaterhouseCoopers, Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Shandong Qindao Law Firm has given and has not withdrawn their respective written consents to the issue of this circular with the inclusion of their respective letters and reports and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of PricewaterhouseCoopers, Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Shandong Qindao Law Firm did not have any shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of PricewaterhouseCoopers, Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Shandong Qindao Law Firm did not have any direct or indirect interest in any assets which have been, since 31 December 2011 (the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this circular and are or may be material:

- (a) the agreement for sale and purchase dated 2 November 2010 entered into between Hong Kong Carpet (Holdings) Limited (a wholly-owned subsidiary of the Company, as seller) and Access Rich Limited (a wholly-owned subsidiary of Winsor Properties Holdings Limited, as purchaser) in relation to the sale of 26th Floor, Tower A, Regent Centre, No. 63 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong; and
- (b) the Master Contract.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011 (being the date to which the latest audited accounts of the Company were made up).

10. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Lee Siu Kau, a fellow member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is at Canon's Court, 22 Victoria Street, P.O. Box HM 1179, Hamilton HM EX, Bermuda.
- (c) The principal place of business of the Company is at 8th Floor, Tower 1, Kowloon Commerce Centre, 51-53 Kwai Cheong Road, Kwai Chung, Hong Kong.
- (d) The branch share registrar of the Company is Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) The principal share registrar of the Company is HSBC Securities Services (Bermuda) Limited, 6 Front Street, Hamilton HM11, Bermuda.
- (f) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at 8th Floor, Tower 1, Kowloon Commerce Centre, 51-53 Kwai Cheong Road, Kwai Chung, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the SGM:

- (a) the bye-laws of the Company;
- (b) the material contracts referred to in the paragraph headed “Material Contracts” in this Appendix;
- (c) the service contracts referred to in the paragraph headed “Service Contracts” in this Appendix;
- (d) the review report from PricewaterhouseCoopers on the financial information of the Disposal Group as set out in Appendix II to this circular;
- (e) the report from PricewaterhouseCoopers on the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix III to this circular;
- (f) the valuation report on the property of the PRC Entities prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which is set out in Appendix IV to this circular;
- (g) the legal opinion on the properties of the PRC Entities prepared by Shandong Qindao Law Firm (山東琴島律師事務所), which is referred to in Appendix IV to this circular;
- (h) the annual reports of the Company for the two years ended 31 December 2010 and 31 December 2011;
- (i) the letters of consent from the experts referred to in the paragraph headed “Experts and Consents” in this Appendix; and
- (j) this circular.

NOTICE OF THE SGM

TAI PING CARPETS INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 146)



NOTICE OF THE SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting (the “**SGM**”) of members of Tai Ping Carpets International Limited (the “**Company**”) will be held at 21st Floor, St. George’s Building, 2 Ice House Street, Central, Hong Kong, on Friday, 27 July 2012 at 10:00 a.m. for the following purposes:

ORDINARY RESOLUTION

“THAT:

- (a) the master contract which sets out the framework for the transactions contemplated under the PRC Contracts (as defined below) and TLC Agreement (as defined below) (copies of which having been produced to the meeting marked “A” and signed by the chairman of the meeting for identification purposes) dated 3 May 2012 (the “**Master Contract**”) entered into between Treasure Looms Limited (“**Treasure Looms**”), Treasure Looms (China) Limited (“**TLC**”), Ms. Liu Xiaohong (“**Ms. Liu**”) and Weihai Huixiang Investment Co., Ltd. (威海惠祥投資有限公司, “**Weihai Company**”) and the transactions and agreements contemplated thereunder, be and are hereby approved, confirmed and/or ratified;
- (b) the draft contracts for the transfer of equity interests (the “**PRC Contracts**”) (copies of which having been produced to the meeting marked “B” and signed by the chairman of the meeting for identification purposes) to be entered into between TLC (as vendor) and Weihai Company (as purchaser) pursuant to which TLC has agreed to sell and Weihai Company has agreed to purchase (i) 49% equity interests in each of Weihai Shanhua Huabao Carpet Co., Ltd. (威海山花華寶地毯有限公司) and Weihai Shanhua Premier Carpets Co., Ltd. (威海山花博美地毯有限公司), and (ii) 24% equity interest in Weihai Shanhua Weavers Carpet Co., Ltd. (威海山花惠美地毯有限公司) for an aggregate consideration of RMB225,410,000 (approximately HK\$275,000,000) upon and subject to the terms and conditions contained therein, and the transactions and agreements contemplated thereunder, be and are hereby approved, confirmed and/or ratified;
- (c) the draft sale and purchase agreement for the sale and purchase of the entire shareholdings (the “**TLC Agreement**”) (a copy of which having been produced to the meeting marked “C” and signed by the chairman of the meeting for identification purposes) to be entered into between Treasure Looms (as vendor) and a company to be incorporated and wholly-owned by Ms. Liu (the “**Offshore Purchaser**”, as purchaser) pursuant to which Treasure Looms and the Offshore Purchaser have agreed that subject to completion of the PRC Contracts, Treasure Looms will sell and the Offshore Purchaser will purchase all the shares held by Treasure Looms in TLC (representing the entire issued share capital of TLC) for an aggregate consideration of

NOTICE OF THE SGM

RMB54,590,000 (approximately HK\$66,600,000) upon and subject to the terms and conditions contained therein, and the transactions and agreements contemplated thereunder, be and are hereby approved, confirmed and/or ratified; and

- (d) any director or directors of the Company be and is or are hereby authorised to sign, execute and deliver any agreements, deeds, instruments and any other documents (and, where necessary, to affix the seal of the Company on them in accordance with the bye-laws of the Company) in connection with the Master Contract, PRC Contracts and TLC Agreement, to make such amendments and changes relating thereto and to do and take all such action, steps, deeds and things in such manner as he or they may deem necessary, desirable or appropriate to give effect to the Master Contract, PRC Contracts and TLC Agreement, and the transactions and agreements contemplated thereunder.”

By order of the Board
Tai Ping Carpets International Limited
Lee Siu Kau
Company Secretary

Hong Kong, 29 June 2012

Notes:

1. Any member of the Company entitled to attend and vote at the meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. Where there are joint registered holders of any Shares, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such Shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, then one of the said persons whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.
3. Completion and return of the form of proxy will not preclude a member from attending and voting at the above meeting or any adjournment thereof if he so wishes. In that event, his form of proxy will be deemed to have been revoked.
4. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be returned to the Company's branch share registrar and registration office in Hong Kong, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
5. As at the date of this notice, the directors of the Company are: Chairman and Non-executive Director – Mr. Nicholas T. J. Colfer; Chief Executive Officer and Executive Director – Mr. James H. Kaplan; Independent Non-executive Directors – Mrs. Yvette Y. H. Fung, Mr. Roderic N. A. Sage, Mr. Lincoln C. K. Yung and Mr. Aubrey K. S. Li; Non-executive Directors – Mr. Ian D. Boyce, Mr. David C. L. Tong, Mr. Nelson K.F. Leong and Mr. John J. Ying.