



Corporate Governance Practices

The Board and the Management are committed to promoting good corporate governance to safeguard the interests of shareholders. The Company codified its corporate governance practices by reference to the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). Except for the deviations discussed below, the Company has applied the principles in the Code and complied with the code provisions set out in the Code for the year ended 31st December 2005.

Directors’ Securities Transactions

The Company has adopted a code of conduct regarding the Directors’ transactions in the securities of the Company on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”). Specific enquiry has been made of all the Directors of the Company and they have confirmed their compliance with the required standard set out in the Model Code and the Company’s code of conduct in this respect throughout the year ended 31st December 2005 and up to the date of publication of this Annual Report.

Board of Directors

The Board of Directors is accountable to the shareholders for the leadership and management and control of the business of the Company. The Board delegates to the Chief Executive Officer and his management team day-to-day management of the Company’s business, including the preparation of annual and interim accounts and implementation of internal controls, in accordance with the strategy, policies and programs approved by the Board.

The members of the Board and their attendances at the Board meetings during the financial year are set out as follows:

	Attendances at Board meetings
<hr/> Independent Non-executive Directors	
Yvette Y. H. Fung	4/4
Michael T. H. Lee	3/4
Roderic N. A. Sage (appointed on 15th November 2005)	1/1
Lincoln C. K. Yung	4/4

**Attendances at
Board meetings**

Non-executive Directors

Nicholas T. J. Colfer (Chairman from 13th May 2005)	4/4	
Ian D. Boyce	4/4	
Lincoln K. K. Leong	0/4	(attended by his Alternate)
Nelson K. F. Leong (Alternate Director to Lincoln K. K. Leong)	4/4	
David C. L. Tong (appointed on 13th May 2005, previously as Alternate Director to Ian D. Boyce, Nicholas T. J. Colfer and James S. Dickson Leach)	3/3	
John J. Ying	3/4	
James S. Dickson Leach (resigned as Chairman and Non-executive Director on 13th May 2005)	0/1	(attended by his Alternate)
Anthony Y. C. Yeh (resigned on 8th September 2005)	2/2	
Kent M. C. Yeh (resigned on 8th September 2005)	0/2	

Executive Directors

James H. Kaplan	4/4
Alison S. Bailey (resigned on 1st November 2005)	3/3

The Company's Non-executive Directors are not appointed for specific terms as required by code provision A.4.1 of the Code. However, at the Company's Annual General Meeting on 10th June 2005, in order to be more consistent with code provision A.4.1, the relevant Bye-law of the Company was amended to ensure that every Director other than any Executive Chairman or Managing Director retire by rotation at least once every three years. The Executive Chairman or Managing Director cannot be required to retire by rotation in the Bye-laws as pursuant to section 2(e) of the Tai Ping Carpets International Limited Company Act 1990 of Bermuda. Notwithstanding this, the Directors intend to comply with code provision A.4.1 by asking any Executive Chairman or Managing Director to voluntarily retire by rotation at least once every three years.

Mr. Lincoln K. K. Leong and Mr. Nelson K. F. Leong (being Alternate Director to Mr. Lincoln K. K. Leong) are brothers. Mr. Nicholas T. J. Colfer, Mr. Ian D. Boyce, and Mr. David C. L. Tong are Directors of certain companies which are associates of the Company's substantial shareholders, namely Bermuda Trust Company Limited, Hesco Limited, Esko Limited, and New Holmium Holding Corporation. Save for these relationships, to the best knowledge of the Company, there are no other business, family or other material/relevant relationships among members of the Board.

The Company considers that its Non-executive Directors and Independent Non-executive Directors bring to the Board a good mix of expertise and experience in the fields of accounting, investment and business. At least one of the Independent Non-executive Directors has appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. Pursuant to the requirements of the Listing Rules, each Independent Non-executive Director has given the Company an annual confirmation of his/her independence. The Company considers all the Independent Non-executive Directors to be independent with due regard to the guidelines as set out in Rule 3.13 of the Listing Rules.

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Nicholas T. J. Colfer and the Chief Executive Officer is Mr. James H. Kaplan. To comply with code provision A.2.1 of the Code, the division of responsibilities between the Chairman and the Chief Executive Officer was formally set out in writing at the Board meeting on 23rd September 2005. Essentially, the Chairman takes the lead to oversee the Board functions while the Chief Executive Officer, supported by his management team, is responsible for the day-to-day management of the business of the Company.

Board Committees

Currently the Company has set up three board committees, namely, Executive Committee, Remuneration Committee, and Audit Committee.

1. Executive Committee

The Executive Committee was established in August 2005 and operates as an executive management committee under the Board to monitor and control the financial and operational performance of the Group. During the year under review, it held three meetings and the attendances of the members were:

	No. of meetings attended
Nicholas T. J. Colfer	3/3
Nelson K. F. Leong	2/3
David C. L. Tong	3/3
John J. Ying	2/3
James H. Kaplan	3/3
Alison S. Bailey (resigned on 1st November 2005)	2/2

2. Remuneration Committee

The terms of reference of the Company's Remuneration Committee were not formally set out as those contained in code provision B.1.3 of the Code and the majority of its members were not Independent Non-executive Directors as required by code provision B.1.1 of the Code. To comply with these code provisions, at the Board meeting on 23rd September 2005, written terms of reference for the Remuneration Committee in line with the Code were adopted and its composition was changed on 15th November 2005 upon the appointment of Mr. Roderic N. A. Sage as an Independent Non-executive Director so that the majority of its members are Independent Non-executive Directors.

The roles and functions of the Remuneration Committee under its terms of reference are to:

- Make recommendation as to the Company's senior executive and Director remuneration policy
- Determine remuneration of Executive Directors
- Make recommendation as to the remuneration of Non-executive Directors
- Review and approve performance-based remuneration
- Review and approve compensation for termination and appointment of Executive Directors and senior executives

The members of the Remuneration Committee and their attendances at the meetings of the committee are set out below:

Members of the Remuneration Committee before 15th November 2005	No. of meetings attended
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Ian D. Boyce (Chairman)	3/3
Lincoln K. K. Leong	1/3
Nelson K. F. Leong	3/3
David C. L. Tong	3/3
John J. Ying	2/3

Members of the Remuneration Committee after 15th November 2005	No. of meetings attended
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Roderic N. A. Sage (Chairman)	1/1
Yvette Y. H. Fung	1/1
David C. L. Tong	1/1

During the year under review, the Remuneration Committee held 4 meetings. It determined the remuneration of Executive Directors, authorised the discretionary bonus payments to senior management, and approved the adoption of a performance-based incentive plan for Executive Directors and senior management.

3. Audit Committee

The terms of reference of the Company's Audit Committee were not in accordance with those set out in code provision C.3.3 of the Code. In order to comply with this code provision, at the Board meeting on 23rd September 2005, the Company adopted the terms of reference of the Audit Committee as set out in the Code.

Under these terms of reference, the responsibilities of the Audit Committee include overseeing the relationship with the Company's external auditors (including making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the audit fee and reviewing the audit scope), review of financial information of the Group, oversight of the Group's financial reporting system and internal controls.

The composition of the Audit Committee was changed upon the appointment of Mr. Roderic N. A. Sage on 15th November 2005 as an Independent Non-executive Director. The members of the Audit Committee before and after 15th November 2005 and their attendances at the meetings are as follows:

Members of the Audit Committee before 15th November 2005	No. of meetings attended
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Michael T. H. Lee (Chairman)	2/2
Yvette Y. H. Fung	2/2
John J. Ying	1/2
Nelson K. F. Leong (retired from Audit Committee on 15th April 2005)	1/1

Members of the Audit Committee after 15th November 2005	No. of meetings attended
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Roderic N. A. Sage (Chairman)	1/1
Michael T. H. Lee	1/1
John J. Ying	1/1

During the year under review, the Audit Committee held 3 meetings with the management and the external auditors for reviewing the interim and annual reports before submission to the Board for consideration and approval, reviewing the external auditors' annual audit plan and scope, and discussing issues arising from the audits including internal controls and financial reporting.

Nomination of Directors

The Company has not established a Nomination Committee for the time being. By virtue of the Company's Bye-laws, the Board has power from time to time to appoint any person as a Director. However, any Director so appointed shall hold office until the first Annual General Meeting and shall then be eligible for re-election. In considering the nomination of a new Director, the Board will review the Board composition and evaluate the candidate's qualifications and experience before appointing him/her as member of the Board.

During the year, Mr. Roger N. A. Sage was appointed as Independent Non-executive Director with effect from 15th November 2005. In accordance with the Company's Bye-law, Mr. Sage is subject to re-election by the shareholders at the first Annual General Meeting of the Company after his appointment by the Board.

Auditors' Remuneration

For the year under review, the fees charged to the accounts of the Company and its subsidiaries by the Company's external auditors, PricewaterhouseCoopers (including Hong Kong and overseas firms) for services provided are analysed as follows:

(HK\$'000)

Audit services	1,845
Non-audit services	115

Financial Reporting and Internal Controls

The consolidated accounts of the Company for the year ended 31st December 2005 have been reviewed by the Audit Committee and audited by the external auditors, PricewaterhouseCoopers. The Directors acknowledge their responsibilities for preparing the consolidated accounts of the Company and they are not aware of any events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The report of the auditors is on page 42.

The Company is currently in the process of developing the procedures for the review of the internal control systems and is reviewing the need for an independent internal audit function. The review requirement of the effectiveness of the Company's internal control systems under the Code shall apply to the Company's 2006 annual report.