
Compliance with the Code on Corporate Governance Practices

During the six months ended 30 June 2006, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “Code”) as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”), with the following exception:

Code Provision A.4.1

This Code stipulates that Non-executive Directors should be appointed for a specific term subject to re-election.

The Company’s Non-executive Directors are not appointed for specific terms. However, in accordance with the Company’s Bye-laws, every Director other than any Executive Chairman or Managing Director retires by rotation at least once every 3 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 this code A.4.1 by asking any Executive Chairman or Managing Director to voluntarily retire by rotation at least once every 3 years.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”)

The Company 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 six-month period ended 30 June 2006 and up to the date of publication of this Interim Report.

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the six-month period ended 30 June 2006. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company’s shares during the period.

Directors' Interests in Equity Securities

As at 30 June 2006, the interests of the Directors in the shares of the Company and its associated corporations (within the meaning of the Part XV of Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

(a) Ordinary shares of HK\$0.10 each in the Company

No. of ordinary shares held (long position)

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

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

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

(b) Share Options

The existing share options scheme ("2002 Share Options Scheme" or the "Scheme") was approved by the shareholders of the Company at an Annual General Meeting held on 23 May 2002. The Scheme fully complies with Chapter 17 of the Listing Rules.

In 2005 a total of 2,000,000 share options were granted to Mr. James H. Kaplan, Chief Executive Officer of the Company. As at 30 June 2006 an aggregate of 1,000,000 share options granted under the 2002 Share Options Scheme remained outstanding, representing approximately 0.47% of the issued share capital of the Company.

Details of the share options outstanding as at 30 June 2006 were as follows:

Name	Balance as at 1 January 2006	Date of grant	Changes during the year			Balance as at 30 June 2006	Exercise price (HK\$) (Note a)	Exercisable period
			Granted	Lapsed	Exercised			
James H. Kaplan	500,000	10 January 2005	–	246,000	254,000	–	1.21	31 December 2005 – 31 January 2006
	500,000	10 January 2005	–	–	–	500,000	1.21	31 December 2006 – 31 January 2007
	500,000	10 January 2005	–	–	–	500,000	1.21	31 December 2007 – 31 January 2008

Note a: The exercise price of the share options granted to Mr. James H. Kaplan was fixed at the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days before the date of grant. The closing price of the shares at the date on which the options were granted was HK\$1.18.

Apart from the above, the Company had not granted any share option under the 2002 Share Options Scheme to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules.

The Company uses the Black Scholes option pricing model (the "Model") to value share options granted. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in such variables so adopted may materially affect the estimation of the fair value of an option.

The aggregate fair value of the options determined at the date of grant using the Model was HK\$341,000. Such value is expensed through the Group's profit and loss account over the respective vesting periods of each batch of options. Accumulated share options expenses of HK\$176,000 were recognised in the previous years, while in 2006 a further HK\$88,000 was expensed during the period, with a corresponding adjustment recognised in the Group's capital reserve.

The fair value of the share options are determined based on the following significant variables and assumptions:

Date of grant	10 January 2005
Closing price at the date of grant	HK\$1.18
Risk free rate (Note i)	0.58% — 1.63%
Expected life of options	1 — 3 years
Expected volatility (Note ii)	38.65%
Expected dividend per annum (Note iii)	HK\$0.0218

Notes:

- i. Risk free rate: being the approximate yields of Exchange Fund Notes and Bills traded on the date of grant, matching the expected life of each batch of options.
- ii. Expected volatility: being the approximate volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.
- iii. Expected dividend per annum: being the approximate average annual cash dividend for the past five financial years.

Save for the Directors' interests as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to hold any interests in the shares in, or debentures of, the Company or any other body corporate.

Substantial shareholders

As at 30 June 2006, the register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO showed that the Company had been notified of the following interests, being 5% or more in the issued ordinary share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors.

Name	No. of ordinary shares held in the Company of HK\$0.10 each (long position)	Aggregate % to the share capital
Bermuda Trust Company Limited	117,688,759*	55.465%
Harneys Trustees Limited (formerly known as HWR Trustees Limited)	117,688,759*	55.465%
Esko Limited	117,688,759*	55.465%
Hesko Limited	117,688,759*	55.465%
Lawrencium Corporation	117,688,759*	55.465%
Acorn Holdings Corporation	117,688,759*	55.465%
New Holmium Holding Corporation	117,688,759*	55.465%
Peak Capital Partners I, L.P.	32,575,875#	15.352%

* Bermuda Trust Company Limited and Harneys Trustees Limited are deemed to be interested in the 117,688,759 shares in which Esko Limited and Hesko Limited are deemed to be interested. Esko Limited and Hesko Limited are deemed to be interested in the 117,688,759 shares in which Lawrencium Corporation and Acorn Holdings Corporation are deemed to be interested. Lawrencium Corporation and Acorn Holdings Corporation are deemed to be interested in the same 117,688,759 shares in which New Holmium Holding Corporation is interested. The 117,688,759 shares are owned by New Holmium Holding Corporation.

Mr. John J. Ying (a 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).