

Corporate Governance

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”). The Company has applied the principles in the Code and complied with the code provisions set out in the Code throughout the year ended 31 December 2006.

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 31 December 2006 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 four formal Board meetings scheduled during the financial year are set out as follows:

	No. of meetings attended
Chairman and Non-executive Director	
Nicholas T. J. Colfer	4/4
Chief Executive Officer and Executive Director	
James H. Kaplan	4/4
Non-executive Directors	
Ian D. Boyce	4/4
Lincoln K. K. Leong	2/4
Nelson K. F. Leong	3/4
(Alternate Director to Lincoln K. K. Leong)	
David C. L. Tong	4/4
John J. Ying	3/4
Independent Non-executive Directors	
Yvette Y. H. Fung	3/4
Michael T. H. Lee	3/4
Roderic N. A. Sage	3/4
Lincoln C. K. Yung	3/4

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 23 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.

Non-executive Directors

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 10 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. Save for this relationship, 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.

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 seven meetings and the attendances of the members were:

	No. of meetings attended
Nicholas T. J. Colfer	7/7
James H. Kaplan	7/7
David C. L. Tong	5/7
John J. Ying	6/7
Nelson K. F. Leong	5/7

2. Remuneration Committee

Written terms of reference for the Remuneration Committee in line with code provision B.1.3 of the Code were adopted at the Board meeting on 23 September 2005 and the majority of its members of the Committee are Independent Non-executive Directors, as required by code provision B.1.1 of the Code.

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

- Make recommendation on the Company's policy and structure for remuneration of the Directors and senior executives
- Determine remuneration of all Executive Directors and senior executives
- Review and approve performance-based remuneration
- Review and approve compensation in connection with any loss or termination of office or appointment of any Executive Directors and senior executives

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

	No. of meetings attended
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 a meeting to determine the remuneration of the Executive Director, authorise the discretionary bonus payments to senior management, and approve the adoption of performance-based incentive plans for the Executive Director and senior management.

3. Audit Committee

Written terms of reference of the Audit Committee in line with code provision C.3.3 of the Code were adopted at the Board meeting on 23 September 2005.

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.

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

The composition of the Audit Committee and the attendances of the members are as follows:

	No. of meetings attended
Roderic N. A. Sage (Chairman)	2/3
Michael T. H. Lee	3/3
John J. Ying	2/3

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 next 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 a member of the Board.

During the year, there was no change in the composition of the Board.

Auditors' Remuneration

For the year under review, the fees charged to the accounts of the Company and its subsidiaries by the Group's external auditors, BDO McCabe Lo Limited for services provided are analysed as follows:

	(HK\$'000)
Audit services	2,082
Non-audit services	16

Financial Reporting and Internal Controls

The consolidated accounts of the Company for the year ended 31 December 2006 have been reviewed by the Audit Committee and audited by the external auditor, BDO McCabe Lo Limited. 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 independent auditor's report is on page 36.

The Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. The internal control system of the Group is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss and manages rather than eliminates risks associated with its business activities.

During the year, an independent internal audit function was established, which has written terms of reference and reports directly to the Audit Committee. Internal Audit conducts reviews of the effectiveness of the Group's internal control system based on the internal audit plan and ad hoc requests from the Audit Committee and senior management. The annual internal audit plan is developed based on an assessment of the various business and operational risks of the Group and is approved by the Audit Committee. The Audit Committee reviews the findings and opinion of Internal Audit in respect of the effectiveness of the Group's internal control system periodically, and reports annually to the Board the key findings of such reviews.

