

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”) throughout the financial year ended 31 December 2006 save as hereinafter mentioned. However, the following actions have been taken by the Company in order to achieve compliance with the Code.

1. As mentioned in the Corporate Governance Report to the Company’s Annual Report 2005, the Company’s non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company’s Bye-Laws. The Board has agreed that all directors (including non-executive directors) appointed or elected in the future be appointed or elected for fixed terms of not more than three years. At the Annual General Meeting held on 14 June 2006, four retiring directors (including non-executive directors) were re-elected for fixed terms of not more than three years. The Company shall continue this practice with the rest of the directors (including non-executive directors) so that when their current terms are up by rotation, they may only be re-elected for fixed terms of not more than three years.
2. As stated in the Corporate Governance Report to the Company’s Annual Report 2005, according to the Company’s Bye-Laws, any directors appointed by the Board to fill a casual vacancy shall hold office only until the following annual general meeting and one-third of the directors (except the Chairman and the Managing Director) are subject to retirement by rotation at each annual general meeting. A special resolution was passed at the Annual General Meeting held on 14 June 2006 to amend the Company’s relevant Bye-Laws to specify that any director appointed by the board of directors to fill a casual vacancy shall hold office until the next following general meeting and to provide for the retirement of every director (excluding those holding office as Chairman and Managing Director) at least once every three years at annual general meetings of the Company. The Company has been advised by its Bermuda lawyers that the Bye-Laws cannot be amended to include the retirement by rotation of the Chairman and the Managing Director as there is a provision in the Company’s private act “Wing On Company International Limited Company Act, 1991” which specifically exempt the Chairman and the Managing Director of the Company from retirement by rotation. However, in the spirit of good corporate governance practice, the Chairman has agreed to retire on a voluntary basis at least once every three years at annual general meeting of the Company. Mr. Karl C. Kwok, the Chairman of the Company, voluntarily retired at the said Annual General Meeting and was re-elected for a fixed term of three years until the 2009 Annual General Meeting. Mr. Lester Kwok, the Chief Executive Officer of the Company (whose role is equivalent to that of the Managing Director), retired by rotation at the said Annual General Meeting and was re-elected for a fixed term of two years until the 2008 Annual General Meeting.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its code of conduct regarding directors’ securities transactions. The Company has made specific enquiries of all directors and all directors have confirmed that they have complied with the required standard set out in the Model Code during the financial year ended 31 December 2006.

# CORPORATE GOVERNANCE REPORT

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## BOARD OF DIRECTORS

The Board currently comprises of ten directors, including the Chairman, the Deputy Chairman, one executive director, three non-executive directors and four independent non-executive directors. The names and biographies of the directors and relationship between members of the Board are set out on pages 5 to 7.

Mr. Lester Kwok (executive director), Mr. Mark Kwok (executive director), Dr. Bill Kwok (non-executive director) are brothers of Mr. Karl C. Kwok (chairman) and Dr. Philip Kwok (non-executive director) is their cousin.

The Board meets regularly to review and approve the financial statements, including the quarterly, half-yearly and annual financial statements, of the Group. Four regular Board meetings were held during the financial year ended 31 December 2006. The attendance of each director at the Board meetings during the financial year ended 31 December 2006 is set out in the table below:

<b>Directors</b>	<b><u>Meetings attended/held</u></b>
<b>Executive Directors</b>	
Mr. Karl C. Kwok (Chairman)	3/4
Mr. Lester Kwok (Deputy Chairman and Chief Executive Officer)	4/4
Mr. Mark Kwok	4/4
<b>Non-executive Directors</b>	
Dr. Bill Kwok	4/4
Dr. Philip Kwok	1/4
Dr. Kwok Man Cho	4/4
<b>Independent Non-executive Directors</b>	
Mr. Iain F. Bruce	3/4
Miss Maria Tam Wai Chu	4/4
Mr. Ignatius Wan Chiu Wong	4/4
Mr. Anthony Francis Martin Conway	4/4

All directors well understand their roles, responsibilities and obligations as stated in the Company's Corporate Governance Practices Code ("the Company's Code"). The Directors acknowledge their responsibility for preparing financial statements which give a true and fair view of the state of affairs of the Group. The statement of the auditor of the Company about their reporting responsibilities on the financial statements of the Company is set out on page 27 in the independent auditor's report. The Directors, having made appropriate enquires, confirm that there are no material uncertainties relating to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

The Board is responsible for the determination of the overall business strategies, policies and plans of the Group. All major and significant acquisitions, disposals, capital transactions and investments are subject to the approval of the Board. The management is delegated with the day to day running and operational matters of the Group's businesses and to formulate business plans for the Board's review and approval.

# CORPORATE GOVERNANCE REPORT

(Continued)

## BOARD OF DIRECTORS (Continued)

The Company has received from each independent non-executive director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers the independent non-executive directors to be independent.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are segregated and are not exercised by the same individual and are clearly defined in the Company's Code. Briefly, Mr. Karl C. Kwok, the Chairman, is responsible for ensuring that all directors are properly briefed on issues arising at Board meetings and to provide leadership for the Board. The Chairman is also responsible for ensuring that good corporate governance practices and procedures are established and followed. Mr. Lester Kwok, the Chief Executive Officer, is responsible for providing leadership to the management and to manage and oversee the business affairs of the Group. The Chief Executive Officer is to implement Board policies and decisions applicable to the management and operational matters of the Group in addition to presenting annual business budgets of the Group to the Board for approval.

## NON-EXECUTIVE DIRECTORS

There are currently three non-executive directors and four independent non-executive directors. Except for Dr. Kwok Man Cho and Mr. Iain F. Bruce, all of the non-executive directors are not appointed for a specific term as they were appointed before 14 June 2006 but are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Bye-Laws. All directors (including non-executive directors) appointed in the future will be appointed for a fixed term of not more than three years.

## REMUNERATION OF DIRECTORS

The Remuneration Committee was formed on 30 June 2005 and comprises of two independent non-executive directors (including the Committee Chairman) and one executive director.

The terms of reference of the Remuneration Committee are as set out in the Company's Code. The Remuneration Committee has the responsibility for determining the specific remuneration packages of all executive directors and senior management and for making recommendations to the Board on the remuneration of non-executive directors. It also reviews and approves any performance-based remuneration and compensation arrangements for loss of office of directors and senior management. The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of directors and senior management of the Group and to ensure that no director takes part in deciding his/her own remuneration. The remuneration of directors is determined with reference to factors such as salaries paid by comparable companies, individual duties, responsibilities, performance and time commitments of the directors and the results of the Group. The Remuneration Committee considers that discretionary performance bonuses should be incentives for executive directors to monitor and improve the performance of the Group. Discretionary performance bonuses to be awarded to the executive directors are based on an incremental scale linked to the after tax profit target levels of the Group. Directors serving on the Audit Committee or the Remuneration Committee will receive extra allowances for such additional services rendered.

# CORPORATE GOVERNANCE REPORT

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## REMUNERATION OF DIRECTORS (Continued)

During the financial year ended 31 December 2006, the Remuneration Committee has reviewed the remuneration packages of all executive directors and senior management. The Remuneration Committee has also reviewed the directors' fees and allowances for 2006. Three meetings were held in 2006. The attendance of committee members during 2006 is set out in the table below:

<b>Remuneration Committee Members</b>	<b><u>Meetings attended/held</u></b>
Mr. Anthony Francis Martin Conway (Committee Chairman)	3/3
Mr. Karl C. Kwok	3/3
Mr. Ignatius Wan Chiu Wong	3/3

The amount of remuneration paid to each director of the Company for 2006 is set out in Note 7 to the financial statements.

At the forthcoming Annual General Meeting to be held on 13 June 2007, the Board will propose a director's fee of HK\$100,000 for each director for the year 2007 as recommended by the Remuneration Committee.

## NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee. The Chairman of the Board is responsible for nominating any suitable person to join the Board if considered necessary. Such nomination will have to be approved by the Board. During the financial year ended 31 December 2006, there were no new directors appointed to the Board.

## AUDITOR'S REMUNERATION

During the financial year ended 31 December 2006, the fees charged for statutory audit services provided to the Company and its subsidiaries amounted to HK\$2,282,000 (2005: HK\$1,981,000), and in addition HK\$2,310,000 (2005: HK\$2,560,000) was charged for other non-statutory audit services, such as tax compliance and advisory services, accounting advice, interim review and internal systems reviews. Included in the fees for non-statutory audit services is an amount of HK\$554,000 (2005: HK\$621,000) paid to the Group's auditor for performing internal systems review services as approved by the Audit Committee.

## AUDIT COMMITTEE

The Board has since 1998 established an Audit Committee. The present Audit Committee comprises of two independent non-executive directors (including the Committee Chairman who possesses the necessary business and financial knowledge and experience to understand financial statements) and one non-executive director.

# CORPORATE GOVERNANCE REPORT

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## AUDIT COMMITTEE (Continued)

The terms of reference of the Audit Committee are as set out in the Company's Code. According to its terms of reference, the Audit Committee is required, amongst others, to oversee the Company's relationship with the external auditor, to review the Group's interim results and annual financial statements and to monitor compliance with statutory and listing requirements and to engage external consultants to review the scope and effectiveness of the Group's internal control function. During the financial year ended 31 December 2006, the Audit Committee has reviewed and discussed with management and the external auditor the interim and annual results with a view to ensuring that the Group's financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The Audit Committee has engaged an external consultant to perform internal audit services as and when required. The Audit Committee has also reviewed the independence and quality of work of KPMG and has recommended to the Board to re-appoint KPMG as auditor for 2007. Three meetings were held in 2006. The attendance of committee members during 2006 is set out in the table below:

<b>Audit Committee Members</b>	<b><u>Meetings attended/held</u></b>
Mr. Iain F. Bruce (Committee Chairman)	3/3
Miss Maria Tam Wai Chu	3/3
Dr. Philip Kwok	3/3

## INTERNAL CONTROLS

The Board recognises its responsibility for maintaining an adequate and sound internal control system to safeguard the assets of the Group. An external consultant has been appointed to conduct regular reviews of the Group's internal control systems.

In February 2006 the Audit Committee met the external consultant to discuss the requirements for conducting an annual review of the effectiveness of the systems of internal control of the Group for future reporting to shareholders in order to comply fully with the Code Provision C.2.1 of the Code. The Audit Committee agreed to the proposal for the review of the effectiveness of the internal control systems of the Group made by the external consultant and the review for 2006 covered all material controls, including financial, operational and compliance controls and risk management functions. The external consultant, based on the results of the review work, noted that there were no material or significant internal control deficiencies during the course of the review. The Board, through the Audit Committee and the external consultant, has reviewed the internal controls of the Group and is satisfied that this Code requirement has been complied with in respect of the year ended 31 December 2006.