

# Corporate Governance Report

The board of directors (the “Board”) is committed to upholding a high standard of corporate governance practices and business ethics in the belief that they are essential for maintaining and promoting investors’ confidence and maximizing shareholders’ returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and comply with increasingly stringent regulatory requirements (both locally and internationally), and to fulfill its commitment to excellence in corporate governance.

The Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) came into effect on 1st January, 2005. The CG Code sets out two levels of corporate governance practices namely, mandatory code provisions that a listed company must comply with or explain its non-compliance, and recommended best practices that a listed company is encouraged to comply with but need not disclose in the case of non-compliance. The Company is in compliance with the mandatory code provisions of the CG Code except for certain areas of non-compliance that are discussed later in this report.

## **DIRECTORS’ SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules for securities transactions by the Directors of the Company. Having made specific enquiry, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31st December, 2006.

## **THE BOARD**

The Board is charged with overseeing the business and affairs of the Group that aims to enhancing the Company’s value for stakeholders. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its shareholders. Roles of the Board include reviewing and guiding corporate strategies and policies, monitoring financial and operating performance and setting appropriate risk management policies.

The primary role of the Board is to oversee how management serves the interests of shareholders and other stakeholders. To do this, the Board has adopted corporate governance principles aimed at ensuring that the Board is independent and fully informed on the key strategic issues facing the Company. The Board comprises three Executive Directors, two Non-executive Directors and three Independent Non-executive Directors.

The Company has received from the three Independent Non-executive Directors annual confirmations of their independence pursuant to Rule 3.13 of the Listing Rules and the Company considers such Directors to be independent.

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The Board has appointed Board Committees to oversee different areas of the Company's affairs. The composition of the Board and the Board Committees are given below and their respective responsibilities are discussed in this report.

Board of Directors	Audit Committee	Remuneration Committee
<b>Executive Directors</b>		
Mr. Yuen Shu Wah	—	—
Mr. Ko Jack Lum	—	—
Mr. Ng Kai On	—	—
<b>Non-executive Directors</b>		
Mr. Chung Tze Hien	—	—
Mr. Ng Seng Nam	—	—
<b>Independent Non-executive Directors</b>		
Mr. Lau Siu Ki, Kevin	✓	✓
Mr. Wu Wing Kit	✓	✓
Dr. Chui Hong Sheung	✓	✓

Regular Board meetings are scheduled in advance to facilitate fullest possible attendance. The Company Secretary assists the Managing Director in setting the agenda of Board meetings and each Director is invited to present any businesses that he wishes to discuss or propose at such meetings. Board papers are circulated to all Directors within reasonable time before the Board meetings to ensure timely access to relevant information. Directors may choose to take independent professional advice if necessary. Draft and final versions of minutes are circulated to all Directors for comments. The Company held four full Board meetings in 2006. Attendance of the full Board meetings are as follows:

Name of Director	No. of full Board meetings attended
Mr. Yuen Shu Wah	4
Mr. Ko Jack Lum	4
Mr. Ng Kai On	4
Mr. Chung Tze Hien	4
Mr. Ng Seng Nam	4
Mr. Lau Siu Ki, Kevin	4
Mr. Wu Wing Kit	4
Dr. Chui Hong Sheung	4

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## REMUNERATION COMMITTEE

The Remuneration Committee comprises the three Independent Non-executive Directors: Mr. Lau Siu Ki, Kevin (Committee Chairman), Mr. Wu Wing Kit and Dr. Chui Hong Sheung.

The written terms of reference stipulating the authority and duties of the Remuneration Committee were adopted on 15th September, 2005 which conform to the provisions of the CG Code.

The Remuneration Committee's major roles are to make recommendations to the Board on the remuneration policy and structure for Directors and senior management and to ensure that they are fairly rewarded for their individual contribution to the Group's overall performance, having regard to the interests of shareholders. The principal duties of the Remuneration Committee include determining the specific remuneration packages to all Executive Directors and senior management as well as review and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During the year, no meeting was held by the Remuneration Committee. However, on 12th April, 2007, it held a meeting to review matters relating to the remuneration for Executive Directors, as well as discussed Company's remuneration policy and structure. All the members attended the meeting.

## AUDIT COMMITTEE

The Audit Committee comprises the three Independent Non-executive Directors: Mr. Lau Siu Ki, Kevin (Committee Chairman), Mr. Wu Wing Kit and Dr. Chui Hong Sheung.

The written terms of reference stipulating the authority and duties of the Audit Committee were adopted in 2002 and subsequently amended in 2005 to conform to the provisions of the CG Code.

The Audit Committee reviews and supervises the Group's financial reporting and internal control systems. It has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and has discussed auditing, internal controls and financial reporting matters.

The Audit Committee held two meetings during the year. All the members attended the two meetings.

## CODE OF ETHICS AND SECURITIES TRANSACTIONS (“Code of Ethics”)

The Company adopted the Code of Ethics on 21st December, 2005 as written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealing in the securities of the Company.

## DEVIATIONS FROM CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the CG Code except for the following deviations:

### Code provision A.2.1

Code provision A.2.1 stipulates that the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company does not have a separate chairman and chief executive officer and Mr. Yuen Shu Wah currently assumes both roles. The Board believes that the vesting of the roles of chairman and chief executive officer in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies, as well as ensuring effective oversight of management. The Board also believes that the Company already has a strong corporate governance structure and as such the present structure is considered to be appropriate under the circumstances.

### Code provisions A.4.1 and A.4.2

Code provisions A.4.1 and A.4.2 stipulate that (a) non-executive directors should be appointed for a specific term and subject to re-election; and (b) all directors appointed to fill a causal vacancy should be subject to election at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company does not fully comply with code provisions A.4.1 and A.4.2. The existing Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting.

The Board does not believe that arbitrary term limits on Directors' service are appropriate given that Directors ought to be committed to representing the long-term interests of the Shareholders.

Pursuant to the Articles of Association of the Company, the Managing Director is not subject to rotation and the Directors are not subject to retirement by rotation at least once every three years. This constituted a deviation from code provision A.4.2. However, the Articles of Association requires one-third of the Directors (other than the Managing Director or Joint Managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire from the office by rotation at every annual general meeting. The Board believes that the continuity in office of the Managing Director is of considerable benefit to the Group in view of his leadership, vision and profound knowledge in the business conducted by the Group.

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## DIRECTORS' RESPONSIBILITY FOR THE GROUP'S FINANCIAL REPORTING

The Directors are responsible for the preparation of financial statements of the Group which give a true and fair view, and are prepared in accordance with the relevant statutory requirements and applicable accounting standards in force, and are published in a timely manner. The Directors are responsible for selecting and applying on a consistent basis suitable accounting policies and ensuring timely adoption of Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards.

The Board understands the importance of presenting a clear and comprehensive assessment of the Group's overall performance, financial positions as well as prospects in a timely manner; and the Board is pleased to report that, so far, the annual and interim results of the Group are announced within the four months and three months limit respectively after the end of the relevant periods.

## INTERNAL CONTROL AND INTERNAL AUDIT

The Board acknowledges its responsibility in maintaining sound and effective internal control system for the Group to safeguard investments of the shareholders and assets of the Company at all times. The system of internal controls aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of the system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought.

Management has conducted regular reviews during the year on the effectiveness of the internal control system covering all material controls in area of financial, operational and compliance controls, various functions for risks management as well as physical and information systems security. The Financial Controllor has reported to the Audit Committee two times during the year, in conjunction with key findings identified by the external auditors. The Audit Committee in turn reports any material issues to the Board.

Independent consultants were appointed to perform documentation and review on the internal controls system of the Group. Relevant recommendations made by the consultants would be implemented by the Group in stages to further enhance its internal control policies, procedures and practices.

## EXTERNAL AUDITORS

The Report of the Auditors of the Company, Deloitte Touche Tohmatsu, in respect of the audit of the Group's financial statements for the year is set out on pages 21 to 22 of the annual report. The Board takes steps in ensuring continuing auditors' objectivity and independence.

For the year ended 31st December, 2006, the remuneration of HK\$872,000 payable to the auditors only related to its audit services provided to the Group.