

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") firmly believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, transparency and accountability to all shareholders.

Throughout the year ended 31st December, 2006, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code") listed out in Appendix 14 of the Rules Governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule"). The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business operation and enhancing shareholders' value.

THE BOARD

The Board assumes responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs. Every Director ensures that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the best interests of the Company and its shareholders at all times.

The Board and Senior Management have clearly defined responsibilities under various internal control and check-and-balance mechanism. The day-to-day operation of the Company are delegated to the Senior Management while the Board provides leadership and approves strategic policies and plan with a view to enhance shareholders' interests. The Board reserves for its decisions on all major matters, including: senior officer appointments, annual budget and financial matters, equity related transactions such as issuance of shares/options, repurchase of shares, dividend, raising of capital loan; determination of major business strategy, merger and acquisition; disposal of business unit; major investment; annual financial budget; and matters as required by laws and ordinance.

When the Board delegates aspects of its management and administration functions to the Senior Management, it has given clear directions, in particular, with respect to the circumstances where the Senior Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

Board Meetings

The Board is currently composed of five executive directors and three independent non-executive directors. During the year, six full board meetings were held and attendance (either in person or through other electronic means of communication) record of each Director at the meetings of the Board together with the meetings of the audit and remuneration committee during the year ended 31st December, 2006 is set out below:

Directors	Attendance/Number of Meetings		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr. Yao Yuan (<i>Chairman</i>)	6/6	N/A	N/A
Mr. Chien Hoe Yong, Henry (<i>Chief Executive Officer</i>) (<i>Note 1</i>)	6/6	N/A	1/1
Mr. Hu Jun	6/6	N/A	N/A
Mr. Yu Tin Jun	6/6	N/A	N/A
Mr. Iu Chung (<i>Note 2</i>)	2/6	N/A	N/A
Independent Non-Executive Directors			
Dr. Lam Lee G.	2/6	2/2	1/1
Mr. Hu Jin Hua	2/6	2/2	N/A
Mr. Lee Sze Ho, Henry	2/6	2/2	1/1

Notes:

1. Mr. Chien Hoe Yong, Henry was appointed as Chief Executive Officer of the Company with effect from 3rd October, 2006.
2. Mr. Lu Chung was appointed as Executive Director of the Company with effect from 3rd October, 2006.

Regular board meetings are scheduled in advance to facilitate fullest possible attendance. At least 14 days notice of all board meetings is given to all Directors and they can include matters for discussion in the agenda if the need arises. For Committee Meetings, notices are served in accordance with the required notice period stated in the relevant terms of reference. Minutes of all Board Meetings and Committee Meetings are kept by the Company Secretary. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

Every Board member is entitled to have access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required. The Company Secretary continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

According to the Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

With the appointment of Mr. Chien Hoe Yong, Henry as Chief Executive Officer of the Company with effect from 3rd October, 2006, the roles of the Chairman and Chief Executive Officer are segregated and assumed by separate individuals who have no relationship with each other. In the past years, the functions of the chief executive officer were collectively performed by all the executive directors of the Company. Mr Chien acts as the chief coordinator for the different sources of management contributions and together with other executive directors, oversee the operations of the Company. With the new appointment as Chief Executive Officer, Mr. Chien is responsible for the implementation of the Company's overall strategies, and coordination of overall business operation.

The Chairman, Mr. Yao Yuan, will continue to provide leadership in formulating overall strategies and policies of the Company, ensures the effective performance by the Board of its functions including compliance with good corporate governance practices. The Chairman also ensures effective communication with shareholders of the Company and receipt by the Directors of adequate and complete information.

DIRECTORS

Appointment and Re-election of Directors

Provision A.4.1 of the Code provides that non-executive directors should be appointed for a specific term, subject to reelection. The existing Independent Non-executive Directors are not appointed for a specific term, but subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company's Bye-laws. The Board does not believe that arbitrary term limits on the Directors' services are appropriate given that Directors ought to be committed at all time in serving the Company and to representing the long-term interests of the shareholders. Based on the number of Directors as at 31st December, 2006, an Independent Non-executive Director will serve on the Board for a term of about two years until he becomes due to retire from the Board by rotation.

Bye-law 109 of the Bye-laws of the Company provides that at each general meeting of the Company, with the exception of the Executive Chairman, one-third of the Directors of the Company (or if their number is not three or a multiple of three, the then number nearest to but not exceeding one-third) who have been longest in office since their last election shall retire from office and the retiring Directors shall be eligible for re-election. Exemption on the Chairman from retirement by rotation constitutes a deviation with the provision A.4.2 of the Code.

Independence

During the year ended 31st December, 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-Executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each Independent Non-Executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-Executive Directors to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

Each Director, upon reasonable request, is given access to independent professional advice in circumstances he may deem appropriate and necessary for the discharge of his duties to the Company, at the expense of the Company.

Nomination of Directors

The Board has not set up a nomination committee. The nomination of new directors has been delegated to the Chairman and other executive directors. They review regularly the need for appointment of new directors with appropriate professional knowledge and industry experience. The Board will then consider the candidates nominated as directors of the Company. During the year, Mr. Lu Chung has been nominated and appointed as Executive Director of the Company.

Training for Directors

The Company provides every newly appointed Director with comprehensive induction program on the first occasion of his appointment, where such Directors are provided with information on the Company's organization and business; the membership, duties and responsibilities of the Board, Board Committee and Senior Management; corporate governance practices and procedures; and latest financial information on the operation of the Company and with visits to the Company's key plant sites.

There are also arrangements in place for providing continuing briefing of the latest development of the Listing Rules, other applicable legal and regulatory requirements, and professional development to Directors on a regular basis.

Accountability and Audit

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Company and of the results and cash flow for that period. In preparing the accounts for the year ended 31st December, 2006, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operation and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

THE BOARD COMMITTEES

Audit Committee

The Audit Committee of the Company comprises the three Independent Non-Executive Directors (including two Independent Non-Executive Directors who possess the appropriate professional qualifications or accounting or related financial management expertise) and Dr. Lam Lee G. is the Chairman of the committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee had two meetings with the Financial Controller during the year ended 31st December, 2006 to review the financial results and reports; financial controls, internal controls and risk management systems; and the re-appointment of the external auditors. The Company's annual results for the year ended 31st December, 2006 has been reviewed by the Audit Committee.

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, and appointment of the external auditors.

Remuneration Committee

The Remuneration Committee is duly formed on 27th March, 2006 and is comprised of two Independent Non-Executive Directors, namely: Dr. Lam Lee G (Chairman) and Mr. Lee Sze Ho and the Chief Executive Officer, Mr. Chien Hoe Yong, Henry. The first Remuneration Committee Meeting was held in 25th May, 2006.

The primary objectives of the Remuneration Committee include establishing a formal and transparent procedure for setting policy on the remuneration of Directors and Senior Management. The Remuneration Committee is also responsible for ensuring the remuneration packages are sufficient to attract and retain top caliber executives and Directors; to fairly and responsibly reward executives based on their performance and the performance of the Company, and the general pay environment.

The Remuneration Committee normally meets twice a year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the Directors and Senior Management. The Remuneration Committee has the right to seek any information it considers necessary to fulfill its duties, which includes the right to obtain appropriate external advice at the Company's expense.

Corporate Governance Report (Continued)

INTERNAL CONTROL

The Board and Senior Management are responsible for establishing, maintaining and operating an effective system of internal control. The internal control system of the Company comprises a well-established organizational structure and comprehensive policies and standards. The Board has clearly defined the authorities and key responsibilities of each business and operational unit to ensure adequate checks and balances.

The Board is of the view that the system of internal controls is in place for the year under review and up to the date of issuance of the annual report is sound and sufficient to safeguard the interests of shareholders, customers and employees, as well as the assets of the Company.

CODE OF CONDUCT ON SECURITIES TRANSACTION

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") based of the Model Code for Securities Transaction by Directors of Listed Issuers set out in Appendix 10 of the Listing Rule. The Code of Conduct applies to all Directors and members of the Senior Management who, because of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.

Specific enquiry has been made of all Directors and members of the Senior Management who have confirmed their compliance with the required standards set out in the Code of Conduct during the year under review.

AUDITORS' REMUNERATION

Messrs. Deloitte Touche Tohmatsu ("Deloitte") has been appointed as the External Auditors of the Company for the year under review. An amount of HK\$1,333,000 (2005: HK\$1,192,000) was charged to the 2006 financial statements of the Group for Deloitte's audit services. The amount paid by the Company for other non-audit services provided by Deloitte for the Company and its subsidiaries during the year under review (i.e. taxation assessment and computation) was HK\$67,000 (2005: HK\$58,000).

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Auditors' Report".

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company regards the Annual General Meeting as an important event as it provides an opportunity for direct communications between the Board and its shareholders. The Chairman, all Directors, Senior Management and external auditors will make effort to attend such meetings to address shareholders' queries.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights and procedures are included in all circulars to shareholders and will be explained during the proceeding of the meetings.

At the Company's 2006 Annual General Meeting, all the resolutions were dealt with on a show of hands. All resolutions were unanimously passed.

The Company adopts a proactive policy of promoting investor relations and communication by maintaining regular meetings with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. The Company provides information relating to its operating and financial performance in its interim and annual report, and also disseminates such information electronically through its website at www.mymedicare.com.hk on a timely basis.