

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The management of the Company believes that well-balanced corporate governance practices enable the Company to better manage its business risks, and thereby create long-term value for the stakeholders. As such, the Company is committed to maintaining a high standard of corporate governance.

The Company complied throughout the year ended 30 June 2006 with the code provisions set out in the Code on Corporate Governance Practices, except that the non-executive directors and independent non-executive directors of the Company 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 provisions of the Company's articles of association.

In order for the Company to comply with the amendment to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), a special resolution will be proposed at the forthcoming annual general meeting of the Company to amend the Company's articles of association. The principal amendment include (i) the Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the Listing Rules; and (ii) the voting by poll shall be demanded by the chairman of a general meeting and/or directors of the Company (the "Directors") who, individually or collectively, hold proxies in respect of the Company's ordinary share representing 5% or more of the total voting rights at a particular general meeting.

The Board of Directors (the "Board") of the Company will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding securities transactions by directors and employees who are likely to be in possession of unpublished price sensitive information of the Company on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules.

Having made specific enquiry by the Company, all directors have confirmed that they have complied with the required standard set out in such code of conduct for the year ended 30 June 2006.

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## **BOARD OF DIRECTORS**

The Board collectively oversees the management of the business and affairs of the Company and its subsidiaries (the "Group") with the overriding objective of enhancing share value. With delegating authorities from the Board, management of the Company is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

The Board currently comprises five executive directors, two non-executive directors and three independent non-executive directors whose biographical details are set out on pages 18 to 21 of this annual report. The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to the Listing Rules and the Company considers the independent non-executive directors to be fully independent.

All Directors have separate and independent access to senior management and the Company Secretary at all times and they are entitled to have full access to Board papers and related materials. Directors are invited to put forward agenda items for Board meetings. Agenda and accompanying Board papers are circulated not less than 3 days before Board meetings to ensure that the Directors have sufficient time to review the documents.

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The attendances of the Board and Committee meetings for the year ended 30 June 2006 as follows:

Name of directors	Attendance records				Audit Committee	
	Board Meetings				Meetings	
	5/10/2005	8/12/2005	13/3/2006	27/7/2006	9/3/2006	5/10/2006
Dr. Cheng Kar Shun, Henry	✓	✓	✓	X	N/A	N/A
Mr. Chow Yu Chun, Alexander	✓	X	✓	✓	N/A	N/A
Mr. Doo Wai Hoi, William, JP	✓	✓	✓	X	N/A	N/A
Mr. Ho Hau Chong, Norman	✓	✓	X	X	N/A	N/A
Mr. Hui Chiu Chung, JP	X	✓	✓	✓	✓	✓
Mr. Kwong Che Keung, Gordon	✓	X	✓	✓	✓	✓
Mr. Lo Lin Shing, Simon	✓	✓	✓	X	N/A	N/A
Mr. To Hin Tsun, Gerald	✓	✓	✓	✓	N/A	N/A
Dr. Wai Fung Man, Norman	✓	✓	✓	✓	N/A	N/A
Mr. Wei Chi Kuan, Kenny <sup>(1)</sup>	X	✓	X	X	✓	N/A
Mr. Tsui Hing Chuen, William, JP <sup>(2)</sup>	N/A	N/A	N/A	N/A	N/A	✓
<b>Number of directors present:</b>	8	8	8	5	3	3

Notes:

(1) Resigned on 8 September 2006.

(2) Appointed on 8 September 2006.

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## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The position of the Chairman and the Chief Executive Officer of the Company are held by separate individuals to ensure a clear distinction between their responsibilities by means of segregation of duties.

The principal responsibilities of the Chairman, Dr. Cheng Kar Shun, Henry, include:

- (a) providing leadership for the Board;
- (b) approving and monitoring the overall strategies and policies of the Group;
- (c) ensuring that the Board works effectively, discharges its responsibilities and discusses all key issues in a timely manner;
- (d) ensuring all directors are properly briefed on matters to be discussed at Board meetings and providing them with opportunities to express their views at the meetings;
- (e) ensuring all directors receive adequate, complete and reliable information in a timely manner; and
- (f) ensuring Board meetings and general meetings are properly convened and held in accordance with the Company's articles of association and other applicable rules and regulations.

On the other hand, the Chief Executive Officer, Dr. Wai Fung Man, Norman, is responsible for:

- (a) providing leadership for the management;
- (b) assuming full accountability to the Board for the day-to-day operations of the Group;
- (c) implementing the strategies and policies adopted by the Board;
- (d) providing all such information to the Board as is necessary to enable the Board to perform its works effectively;
- (e) establishing and maintaining proper internal controls and systems as well as disclosure controls and procedures; and
- (f) discharging such duties and authority as may be delegated by the Board.

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## NON-EXECUTIVE DIRECTORS

The role of the non-executive directors is to enhance independence and objectivity of the Board's deliberations and decisions.

There is no specific term for the appointment of non-executive directors of the Company. As mentioned in the section headed "CORPORATE GOVERNANCE PRACTICES" above, the non-executive directors (including independent non-executive directors) are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

## REMUNERATION OF DIRECTORS AND REMUNERATION COMMITTEE

The emoluments of the directors are determined by reference to the skill, knowledge and experience of the respective directors and their involvement in the Company's affairs as well as the prevailing market conditions. Share options may also be granted to the directors as long-term incentive or rewards for their continuous contributions to the Group.

Pursuant to the CGP Code, the Company has established a Remuneration Committee with written terms of reference on 28 June 2005. The majority members are independent non-executive directors. Members of the Remuneration Committee are the Chief Executive Officer, Dr. Wai Fung Man, Norman (Chairman of the Remuneration Committee), and two independent non-executive directors, namely, Mr. Hui Chiu Chung, *JP* and Mr. Tsui Hing Chuen, William, *JP*.

The principal responsibilities of the Remuneration Committee include reviewing, considering and approving proposals as well as making recommendations to the Board on the Company's policy and structure relating to the remuneration of executive directors and members of senior management.

During the year, the Remuneration Committee Meeting has met one time together with the management of the Company. Details of the emoluments of each director and senior management of the Company are set out in note 14 to the financial statements.

In fulfilling its responsibilities, the Remuneration Committee had performed the following major duties during the year:

- (i) review, approve and recommend the Company's policy and structure relating to the remuneration of executive directors and members of senior management;

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- (ii) review and recommend the Group's share option scheme, bonus structure, provident fund and other compensation-related issues; and
- (iii) assess the performance of executive directors and members of senior management and determine the remuneration of executive directors and members of senior management.

The attendances of the Remuneration Committee Meeting as follows:

<b>Name of Committee Member</b>	<b>Attendance records 5/10/2006</b>
<i>Executive Director</i>	
Dr. Wai Fung Man, Norman (Chairman of the Remuneration Committee)	✓
<i>Independent Non-Executive Directors</i>	
Mr. Hui Chiu Chung, JP	✓
Mr. Tsui Hing Chuen, William, JP	✓
<b>Number of directors present:</b>	<b>3</b>

### NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee. The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy on or as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience.

According to the Company's articles and association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not three nor a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

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## AUDITORS' REMUNERATION

During the year ended 30 June 2006, the fees paid/payable to the auditors of the Group in respect of audit and non-audit services provided by the auditors of the Group were as follows:

Nature of services	Amount HK\$'000
Audit services ( <i>Note a</i> )	3,095
Non-audit services	
(i) Tax services	108
(ii) Other ( <i>Note b</i> )	6,852

Note:

- (a) Included in the amount was HK\$1,347,000 and HK\$748,000 charged to the continuing operations and discontinued operations respectively, and HK\$1,000,000 capitalised as professional fee incurred for the acquisition of investments in associated companies.
- (b) Mainly incurred and capitalised as professional fee incurred for the acquisition of investments in associated companies.

## AUDIT COMMITTEE

The Audit Committee was established in May 1999 and has written terms of reference. The Audit Committee, which comprises the three independent non-executive directors of the Company, namely, Mr. Kwong Che Keung, Gordon, Mr. Hui Chiu Chung, *JP* and Mr. Tsui Hing Chuen, William, *JP*. The Committee, which is chaired by Mr. Kwong Che Keung, Gordon, possesses appropriate accounting and financial management expertise as required under the Rule 3.10(2) of the Listing Rules, is responsible for overseeing the Group's financial reporting and internal control system and has reviewed the audited consolidated financial statements of the Group for the year ended 30 June 2006.

The Audit Committee is responsible for providing independent review of the effectiveness of the financial reporting process and internal control system of the Group. The Audit Committee will report its findings and make recommendations to the Board for consideration at board meetings.

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During the year, the Audit Committee met two times together with the Company's external auditors and the management of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the final results announcement for the year ended 30 June 2006. Details of the attendance records are set out in the section headed "BOARD OF DIRECTORS" above.

In fulfilling its responsibilities, the Audit Committee had performed the following major duties during the year:

- (i) review of the draft interim and annual financial statements and the related draft results announcement;
- (ii) review of the change in accounting standards and assessment of potential impacts on the Group's financial statements;
- (iii) review of the results of external audit and discuss with the external auditors and the management on any significant findings and issues;
- (iv) review of the continuing connected transactions and comment on the fairness and reasonableness of the transactions; and
- (v) review of the adequacy and effectiveness of the Group's internal control system and discuss with the Board and management of the Company on the findings.

### INTERNAL CONTROL

The Directors acknowledge their responsibility for preparing all information and representation contained in the consolidated financial statements of the Company for the year under review. As at 30 June 2006, the Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the ability of the Company to continue as a going concern basis.

The statement of the external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the "AUDITORS' REPORT" on page 49. The remuneration paid to the external auditors of the Company in respect of audit services and tax consulting services for the year ended 30 June 2006 is set out in the section headed "AUDITORS' REMUNERATION" above.

The Audit Committee discussed the overall review on the effectiveness of the internal control system and reported its findings and made recommendations to the Board. The Directors have conducted an annual review of the effectiveness of the Group's internal control system. The review includes financial, operational and compliance control and risk management function.