

# Corporate governance report

The Company is committed to maintain high standards of corporate governance with a view to assuring the conduct of management of the Company as well as protecting the interests of all shareholders. The good corporate governance principles of the Company emphasise a quality Board for leadership and control of the Company, effective internal controls, transparency and accountability to all shareholders.

## Code on Corporate Governance Practices

The Board is of the view that the Company has, for the year ended 31 December 2006, applied the principles and complied with the applicable provisions, and also complied with certain recommended best practices, of the Code on Corporate Governance Practices ("CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). However, the Board would like to highlight the following:

### CODE PROVISION A.2.1

The code provision A.2.1 of the Code provides that the roles of the chairman and the chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the CEO should be clearly established and set out in writing. Since the management restructuring on 6 June 2006 that the Company has appointed a CEO at its principal subsidiary – PCI, who is largely responsible for the day to day management of the Group's principal operating subsidiary. In this regard, the Company believes that it is in compliance with the meaning of the code provision A.2.1 because the existing management structure provides a proper segregation of duties between the Executive Chairman of the Group and the CEO of PCI.

## Board of Directors

The board of directors (the "Board") consists of the Executive Chairman, two executive directors, four non-executive directors and four independent non-executive directors. Each director has a duty to act in good faith and in the best interests of the Company. The directors, collectively and individually, are aware of their responsibilities and accountability to shareholders, for the manner in which the affairs of the Company are managed and operated.

The Board is comprised of the following directors:

Executive Chairman:

- YUEN Tin Fan, Francis<sup>1</sup>

Executive Directors:

- CHAN Ping Kan, Raymond (Chief Executive Officer of PCI)<sup>2</sup>
- SO Wing Hung, Peter (Group Chief Financial Officer)<sup>3</sup>

Non-Executive Directors:

- Peter Anthony ALLEN<sup>4</sup>
- CHUNG Cho Yee, Mico<sup>5</sup>
- FENG Xiaozeng<sup>5</sup>
- ZHENG Changyong<sup>5</sup>

Independent Non-Executive Directors:

- Professor CHANG Hsin Kang
- Timothy George FRESHWATER
- WANG Xianzhang<sup>6</sup>
- Professor WONG Yue Chim, Richard

Notes:

- 1 Realigned as Executive Chairman of the Company with effect from 6 June 2006.
- 2 Realigned as Chief Executive Officer of PCI with effect from 6 June 2006.
- 3 Realigned as Group Chief Financial Officer of the Company with effect from 6 June 2006.
- 4 Re-designated as non-executive director of the Company with effect from 1 March 2006.
- 5 Re-designated as non-executive director of the Company with effect from 17 March 2006.
- 6 Re-designated as independent non-executive director of the Company with effect from 17 March 2006.

The role of the Executive Chairman is separate from that of the Chief Executive Officer ("CEO") of PCI so as to delineate their respective areas of responsibility. The Board is responsible for leading and controlling the Company and collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs, including the monitoring of the performance of the management of the Company. The Board sets the overall direction, strategy and policies for the Company.

The Board delegates appropriate aspects of its management and administration functions to management, it also gives clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any material commitments on behalf of the Company.

The Board determines those functions reserved to the Board and those delegated to the management and these arrangements are reviewed on a periodic basis to ensure they remain appropriate to the needs of the Company.

One of the important roles of the Executive Chairman is to provide leadership to the Board to ensure that the Board works effectively and acts in the best interests of the Company. The Executive Chairman is responsible for approving the agenda for each board meeting taking into account, where appropriate, any matters proposed by other directors for inclusion in the agenda. The Executive Chairman is responsible for overseeing effective functioning of the Board, with good corporate governance practices and procedures. The Executive Chairman seeks to ensure that all directors are properly briefed on issues arising at board meetings and that all directors receive adequate information, which is complete and reliable, in a timely manner. The Executive Chairman also encourages all directors to make full and active contributions to the Board's affairs.

The CEO is responsible for managing the business and day-to-day management of the Group's principal operating subsidiary, PCI.

The non-executive directors, including the independent non-executive directors, are all seasoned individuals from diversified backgrounds and industries and at least one member has an appropriate accounting qualification and related financial management expertise as required by the Stock Exchange. With their expertises, they offer independent judgement and advice on the overall management of the Company. They take the lead where potential conflicts of interests arise. The independent non-executive directors' responsibilities include maintaining a balance between the interests of the minority shareholders and the Company as a whole. The independent non-executive directors are also key members of the Audit Committee, Remuneration Committee and Nomination Committee.

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules and still considers them to be independent.

To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among the members of the Board or between the Executive Chairman and the Chief Executive Officer of PCI.

The non-executive director is appointed for a specific term. Mr Peter Anthony ALLEN was appointed for a period of two years commencing from 1 March 2006. Messrs CHUNG Cho Yee, Mico, FENG Xiaozeng, ZHENG Changyong and WANG Xianzhang were appointed for a period of two years commencing from 17 March 2006. Professor CHANG Hsin Kang, Mr Timothy Geroge FRESHWATER and Professor WONG Yue Chim, Richard were appointed for a period of two years commencing from 8 June 2006.

All directors are subject to retirement by rotation at least once every three years pursuant to the Company's Bye-Laws and the Listing Rules. Also, any directors appointed to fill a casual vacancy would be subject to election by shareholders at the first general meeting after their appointment. The biographical details and experience of the directors are set out on pages 6 to 9.

Every newly appointed director is provided with a package of orientation materials detailing the duties and responsibilities of directors under the Listing Rules, the Company's Bye-Laws, related ordinances and relevant regulatory requirements of Hong Kong. Presentations are, as necessary, given by senior executives on the Company's businesses. Training and updates are offered to directors as necessary to ensure that directors are aware of the latest changes in the commercial and regulatory environment in which the Company conducts its business.

Every director is aware that, before accepting appointment as a director, he must be able to give sufficient time and attention to the affairs of the Company.

The Company has directors' and officers' liability insurance coverage in place to protect directors from loss as a result of legal proceeding against the Company.

## Board Meetings

A total of nine board meetings were held in 2006 with individual attendance of each director as follows:

<b>Directors</b>	<b>Attendance</b>
<b>Executive Directors</b>	
YUEN Tin Fan, Francis (Executive Chairman) <sup>1</sup>	9/9
CHAN Ping Kan, Raymond (Chief Executive Officer of PCI) <sup>2</sup>	9/9
SO Wing Hung, Peter (Group Chief Financial Officer) <sup>3</sup>	9/9
CHEUNG Sum, Sam <sup>7</sup>	2/3
<b>Non-Executive Directors</b>	
Peter Anthony ALLEN <sup>4</sup>	9/9
Alexander Anthony ARENA <sup>8</sup>	5/5
CHUNG Cho Yee, Mico <sup>5</sup>	6/9
FENG Xiaozeng <sup>5</sup>	2/9
ZHENG Changyong <sup>5</sup>	5/9
<b>Independent Non-Executive Directors</b>	
Professor CHANG Hsin Kang	7/9
Timothy George FRESHWATER	9/9
WANG Xianzhang <sup>6</sup>	8/9
Professor WONG Yue Chim, Richard	9/9

Notes:

- 1 Realigned as Executive Chairman of the Company with effect from 6 June 2006.
- 2 Realigned as Chief Executive Officer of PCI with effect from 6 June 2006.
- 3 Realigned as Group Chief Financial Officer of the Company with effect from 6 June 2006.
- 4 Re-designated as non-executive director of the Company with effect from 1 March 2006.
- 5 Re-designated as non-executive director of the Company with effect from 17 March 2006.
- 6 Re-designated as independent non-executive director of the Company with effect from 17 March 2006.
- 7 Resigned as executive director of the Company with effect from 23 February 2006.
- 8 Retired as non-executive director of the Company with effect from 21 April 2006.

Meetings of the Board are held regularly and at least four times a year at approximately quarterly intervals to approve, inter alia, the financial results of the Company. Regular board meetings are scheduled in advance in the preceding year to give the directors an opportunity to attend. Directors can attend board meetings either in person or by other electronic means of communication.

Directors have timely access to relevant information prior to each board meeting. Directors are given the opportunity to include matters in the agenda for regular board meetings. Notices of regular board meetings are dispatched to directors at least 14 days before each meeting. An agenda and accompanying board papers for regular board meetings are circulated to directors not less than three business days before each meeting. Directors are entitled to have access to board papers and related materials to allow them to make informed decisions on matters arising from board meetings.

Directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures and all applicable rules and regulations are followed.

Minutes of board meetings and meetings of other committees are kept by the Company Secretary and are open for inspection by directors.

Minutes of board meetings and meetings of board committees record in sufficient detail the matters considered by the Board and board committees and decisions reached, including any concerns raised by directors or dissenting views expressed.

There is a procedure in place agreed by the Board to enable directors to seek independent professional advices in appropriate circumstances at the Company's expense. The Board provides separate independent professional advices to assist a director or directors to discharge his/their duties to the Company as and when necessary.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would not be dealt with by way of circulation or by a committee but a board meeting would be held. In such circumstance, independent non-executive directors who, and whose associates, have no material interest in the transaction would be present at such board meeting.

The management supplies the Board and its committees with adequate information which is complete and reliable, in a timely manner to enable them to make informed decisions.

### **Model Code for Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") on 9 August 2004 on terms no less exacting than the required standards as set out in Appendix 10 to the Listing Rules.

The Company has made specific enquiry of the directors regarding any non-compliance with the Model Code during the year ended 31 December 2006 and all of them confirmed that they have fully complied with the required standards as set out in the Model Code.

### **Directors' and Auditors' Responsibilities for the Financial Statements**

The directors acknowledge their responsibilities for preparing the financial statements of the Group. The Board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as the information required to be disclosed pursuant to statutory requirements.

The statement of the external auditors of the Company regarding their responsibilities for the financial statements of the Group is set out in the Independent Auditors' Report on page 42.

## Board Committees

The Board has appointed a number of committees consisting of certain executive and non-executive directors and the Board prescribes sufficiently clear terms of reference to enable committees to discharge their functions properly. The terms of reference of the committees require them to report back to the Board on their decisions or recommendations. The following are the principal committees:

### Executive Committee

The Executive Committee of the Board meets on a monthly basis and at such other times as the Committee determines to be appropriate to carry out its responsibilities and operate as a general management committee under the direct authority of the Board. It is responsible for the implementation of the strategy and policies set by the Board under the leadership of the Executive Chairman.

Members of the Executive Committee comprise:

- YUEN Tin Fan, Francis (Executive Chairman)
- CHAN Ping Kan, Raymond (Chief Executive Officer of PCI)
- SO Wing Hung, Peter (Group Chief Financial Officer)
- CHENG Koon Wing (Appointed Actuary of PCI) <sup>Note</sup>
- FUNG Yiu Fai, Herman (Managing Director of PCIIM) <sup>Note</sup>

Note: Appointed as members of the Executive Committee with effect from 11 May 2006.

### Investment Committee

The Investment Committee meets on a monthly basis and at such other times as the Committee determines to be appropriate to carry out its responsibilities to make investment decisions in accordance with the policies and directions of the Board, to review the current investment climate and make appropriate adjustments to the Company's investments (if necessary), to manage the overall financial risk of investment portfolio including interest rate risk, market risk, currency risk as well as credit risk and to review and approve special investment opportunities outside the investment mandate.

The Investment Committee comprises all the members of the Executive Committee and one senior management of PCIIM who has extensive experience in the investment industry:

- YUEN Tin Fan, Francis (Executive Chairman)
- CHAN Ping Kan, Raymond (Chief Executive Officer of PCI)
- SO Wing Hung, Peter (Group Chief Financial Officer)
- CHENG Koon Wing (Appointed Actuary of PCI) <sup>Note</sup>
- FUNG Yiu Fai, Herman (Managing Director of PCIIM)
- WU Chi Keung, Walter (Executive Director of PCIIM)

Note: Appointed as a member of the Investment Committee with effect from 10 August 2006.

## Audit Committee

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise.

All members of the Audit Committee are non-executive directors, the majority are independent non-executive directors and they possess appropriate professional qualifications and/or experience in financial matters.

Members of the Audit Committee include:

- Professor WONG Yue Chim, Richard (Chairman)
- Professor CHANG Hsin Kang
- Timothy George FRESHWATER
- Peter Anthony ALLEN <sup>Note</sup>

Note: Appointed as a member of the Audit Committee with effect from 2 March 2006.

The Audit Committee meets as and when required to discharge its responsibilities, and to coincide with key periods in the Company's financial reporting cycle, and not less than two times a year in total. The Company's annual report for the year ended 31 December 2006 has been reviewed by the Audit Committee.

The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and approving the remuneration and terms of engagement of the external auditors, handling any questions of resignation or dismissal of the external auditors, ensuring the independence of external auditors, reviewing and monitoring the completeness, accuracy and fairness of the Company's annual reports and financial statements, half-year reports and any significant financial reporting judgements contained therein.

The Audit Committee is also responsible for overseeing the Company's financial reporting system and internal control procedures. In 2006, the Audit Committee held seven meetings. The attendance record of each Audit Committee member is set out below.

<b>Members</b>	<b>Attendance</b>
Professor WONG Yue Chim, Richard (Chairman)	7/7
Professor CHANG Hsin Kang	5/7
Timothy George FRESHWATER	6/7
Peter Anthony ALLEN <sup>Note</sup>	5/5

Note: Appointed as a member of the Audit Committee with effect from 2 March 2006.

## Nomination Committee

The Nomination Committee was established in November 2004 with specific written terms of reference which deal clearly with its authority and duties. The majority of the members are independent non-executive directors:

- Professor CHANG Hsin Kang (Chairman)
- Timothy George FRESHWATER
- Professor WONG Yue Chim, Richard
- YUEN Tin Fan, Francis
- WANG Xianzhang <sup>Note</sup>

Note: Appointed as a member of the Nomination Committee with effect from 17 March 2006.

The Nomination Committee reviews the structure, size and composition of the Board on a regular basis and makes recommendations to the Board regarding any proposed changes, identifies individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individual nominated for directorships. It is also responsible for assessing the independence of independent non-executive directors and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

The criteria for the Nomination Committee select and recommend candidates for directorship include the candidates' skill, character, experience and integrity and whether he/she can demonstrate a standard of competence commensurate with his/her position as a director of the Company.

The Nomination Committee held three meetings in year 2006 to review the structure, size and composition of the Board. The Nomination Committee proposed to re-designate Mr Wang Xianzhang as an independent non-executive director at the beginning of January 2006 and was subsequently re-designated as an independent non-executive director with effect from 17 March 2006.

In 2006, the attendance record of each Nomination Committee member is set out below.

<b>Members</b>	<b>Attendance</b>
Professor CHANG Hsin Kang (Chairman)	3/3
Timothy George FRESHWATER	3/3
Professor WONG Yue Chim, Richard	3/3
YUEN Tin Fan, Francis	3/3
WANG Xianzhang <sup>Note</sup>	N/A

Note: Appointed as a member of the Nomination Committee with effect from 17 March 2006.

## Remuneration Committee

The Remuneration Committee was established in November 2004 with specific written terms of reference which deal clearly with its authorities and duties. The majority of the members are independent non-executive directors:

- Timothy George FRESHWATER (Chairman)
- Professor CHANG Hsin Kang
- Professor WONG Yue Chim, Richard
- YUEN Tin Fan, Francis
- WANG Xianzhang <sup>Note</sup>

Note: Appointed as a member of the Remuneration Committee with effect from 17 March 2006.

The Remuneration Committee is responsible for ensuring that formal and transparent procedures for developing remuneration policies, and for overseeing the remuneration packages of directors and senior management are in place. It also provides effective oversight and administration of the Company's share option scheme and any other share incentive schemes or other equity based schemes.

The Remuneration Committee consults the Executive Chairman regarding their proposals relating to the remuneration packages of directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office of appointment, and makes recommendations to the Board regarding the remuneration of non-executive directors. The Remuneration Committee is provided with sufficient resources to discharge its duties.

The emoluments of directors are based on each director's knowledge, skill and involvement in the Company's affairs and are determined by reference to the Company's profits and performance, as well as the remuneration standards offered by comparable companies in the industry and market. Details of the emoluments of each director, on a named basis, are disclosed in note 10 to the financial statements with the heading "Directors' Remuneration" on pages 76 to 78.

The Remuneration Committee held four meetings in year 2006 to review and approve the proposed terms of employment of a senior executive, discuss the remuneration package and re-designations of certain executive directors. The attendance record of each Remuneration Committee member in 2006 is set out below.

<b>Members</b>	<b>Attendance</b>
Timothy George FRESHWATER (Chairman)	4/4
Professor CHANG Hsin Kang	4/4
Professor WONG Yue Chim, Richard	3/4
YUEN Tin Fan, Francis	4/4
WANG Xianzhang <sup>Note</sup>	1/1

Note: Appointed as member of the Remuneration Committee with effect from 17 March 2006.

## Risk Management Committee

The Risk Management Committee was established on 13 November 2006 to oversee and enhance risk management initiatives across the Group. Members of the Risk Management Committee include:

- YUEN Tin Fan, Francis (Executive Chairman)
- SO Wing Hung, Peter (Executive Director)
- Peter Anthony ALLEN (Non-Executive Director)
- CHENG Koon Wing (Appointed Actuary of PCI)
- CHOI Ling Chi, Vivian (Chief Operating Officer of PCI)
- CHEUNG Man Yi, Eva (Financial Controller)
- TSUI Wai Man, Raymond (Compliance Officer)

## Financial Reporting

The Company aims to present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. Management provides such explanations and information to the Board to enable the Board to make informed assessments of the financial and other information put before the Board for approval.

The Company has voluntarily published financial results on a quarterly basis.

## Internal Controls

The Board is responsible for ensuring that a sound and effective system of internal controls and risk management to safeguard the shareholders' investments and the Company's assets at all times. The Board at least annually conducts a fully adequate review of the effectiveness of the system of internal controls of the Group and report to shareholders that they have done so in the Corporate Governance Report.

The internal control system is designed to provide reasonable, but not absolute, assurance. The system aims to manage, instead of eliminate, risks of failure in achieving the Company's objectives.

The Company's internal audit function, under the supervision of the Chief Internal Auditor, reviews the internal control system and evaluates its adequacy, effectiveness and compliance. The Chief Internal Auditor reports to the Board through the Audit Committee and presents internal audit reports to the Audit Committee four times a year. Besides, the Chief Internal Auditor is delegated with the responsibility to conduct comprehensive review of the Group's internal controls procedures annually and is required to present a full report to the Audit Committee and the Board for consideration.

The Risk Management Committee of the Company was established on 13 November 2006 to oversee and enhance risk management initiatives across the Group. The Risk Management Committee comprises two executive directors, one non-executive director and four senior executives of the Group.

Formal risk management methodology and mechanisms to identify, classify, monitor and report risks have been established which forms the framework of risk management. The Group also has established procedures to address and manage major risks identified, such as liquidity, solvency and product risks.

A monitoring and reporting mechanism has been put into place to continuously identify risks that have potential impact on its business operation and regularly monitor the management of risks. Significant steps have been taken on an ongoing basis to implement and enhance the risk management function.

## Auditors' Remuneration

Ernst & Young were re-appointed as the Company's external auditors by shareholders at the 2006 AGM on 21 April 2006 until the conclusion of the next AGM. They are primarily responsible for providing audit services in connection with annual financial statements of the Group for the year ended 31 December 2006.

For the year ended 31 December 2006, the total remuneration in respect of statutory audit services provided by Ernst & Young amounted to HK\$1,740,000. They also provided audit related services to the Group with total fee of HK\$740,000 which mainly includes review of the interim report of the Group for 2006 and performance of agreed upon procedures for the financial statements of the Group for the first quarter and third quarter of 2006.

## Investor Relations and Shareholders' Rights

To enhance transparency, the Company endeavours to maintain an on-going dialogue with shareholders and investors through a variety of communication channels.

The Company is committed to providing clear and reliable information on the performance of the Group to shareholders through the publication and despatch of interim and annual reports.

Press conferences and briefing meetings with investment analysts are arranged from time to time and particularly when financial results are announced.

The Company's website offers an ongoing communication channel between the Company and shareholders. Key information on the Group is provided on the website and is updated from time to time.

The Company's AGM provides a platform for shareholders to have a direct dialogue with the Board. Shareholders are encouraged to attend the AGM for which notice and related papers are despatched at least 21 calendar days before the meeting. Such notice is also published in at least one English newspaper and one Chinese newspaper. The Executive Chairman, other members of the Executive Committee and the chairmen of Audit, Remuneration and Nomination Committees or their duly appointed delegates are available at the AGM to answer questions from shareholders. In respect of each substantially separate issue at a general meeting, a separate resolution is proposed by the Executive Chairman.

The Company's circulars to shareholders disclose the procedures for and the rights of shareholders to demand a poll. All proxy votes are counted and, except where a poll is required, the Executive Chairman indicates at the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. All votes cast are counted and recorded by the Company's Registrar. The Executive Chairman, at the commencement of each meeting, explains the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands. Whenever voting by way of a poll is required, the Executive Chairman explains the detailed procedures for conducting a poll and then answers any questions from shareholders in respect thereof.

The Company maintains effective two-way communications with shareholders and other investors whose feedback is valuable to the Company in developing and fostering relationships. Comments and suggestions are welcome and can be addressed to the Investor Relations Division at the principal place of business of the Company set out on page 124 in the section "Corporate Information".