

# Corporate Governance Report

The Board of Directors ("Board") is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2006.

The Company recognizes the importance of good governance as an essential component of the development of the Company and had, basing on the Principles and Code Provisions as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules"), established the Company's corporate governance practices appropriate to the conduct and growth of its business.

Throughout the period from the date of listing of its shares on the Stock Exchange on 6 October 2006 to 31 December 2006, the Company has complied with all the Code Provisions set out in the CG Code except with the deviation from Code Provision A.4.2.

The key corporate governance principles and practices of the Company are summarised as follows:

## THE BOARD

### Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their terms of reference respectively.

The Board reserves for its decisions all major matters of the Company, including: overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

### Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board currently comprises nine members, consisting of two executive directors, two non-executive directors and five independent non-executive directors. Biographical details of the directors and the relationships among them are set out in the "Biographies of Directors and Senior Management" on pages 14 to 17 of the Annual Report.

None of the members of the Board is related to one another.

The Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has met the recommended best practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive directors.

The Company has received written annual confirmation from each independent non-executive director of his/her 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 the Listing Rules.

## THE BOARD (continued)

### Appointment and Succession Planning of Directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Each of the executive directors of the Company is engaged on a service contract for a term of three years until determined by not less than three months' notice in writing served by either party. Each of the non-executive directors and the independent non-executive directors has been appointed for a term of one year, determinable by either party by giving three months (for non-executive directors) and two months (for independent non-executive directors) written notice.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Although all directors of the Company are subject to retirement by rotation at least once every three years, Article 86(3) of the Company's Articles of Association ("Articles") provides that any new director appointed by the Board to fill a casual vacancy shall hold office until the next following annual general meeting and shall be eligible for re-election.

In order to ensure full compliance of the Company's Articles with Code Provision A.4.2 of the CG Code, a special resolution will be proposed at the forthcoming annual general meeting of the Company to amend the Company's Articles so that any new director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment. It was noted that no general meeting was held by the Company after the listing.

In accordance with the Company's Articles, at the forthcoming 2007 annual general meeting, Mr. Hsu Yao-tsung, Mr. Lao Li-hua, Mr. Chiao Yu-heng, Mr. Simon Ho Ai-tang, Mr. Chao Yuan-san, Ms. Deborah Chen Shun Zu, Mr. Yeh Yu-an, Ms. Chang Pi-lan and Mr. Yen Chin-chang, having been appointed as directors of the Company during the year, shall retire pursuant to Article 86(3) of the Articles. All retiring directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Board recommended the re-appointment of the directors standing for re-election at the 2007 annual general meeting of the Company.

The Company's circular dated 29 March 2007 contains detailed information of the directors standing for re-election.

### Induction and Continuing Development for Directors

The Group has conducted corporate governance training to all the directors. Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has proper understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities.

## THE BOARD (continued)

### Board Meetings

The Company has held four board meetings and two committee meetings for initial public offer during the year ended 31 December 2006 and the attendance records are set out below:

Name of Directors	Attendance/Number of meetings held during the tenure of directorship	
	Board	Committee for Initial Public Offer
<i>Executive Directors</i>		
HSU Yao-tsung ( <i>Chief Executive Officer</i> )	4/4	2/2
LAO Li-hua	4/4	2/2
<i>Non-Executive Directors</i>		
CHIAO Yu-heng ( <i>Chairman and Chairman of Remuneration Committee</i> )	4/4	N/A
Simon HO Ai-tang	2/3	N/A
<i>Independent Non-Executive Directors</i>		
CHAO Yuan-san ( <i>Chairman of Audit Committee</i> )	2/3	N/A
Deborah CHEN Shun Zu	2/3	N/A
YEH Yu-an	2/3	N/A
CHANG Pi-lan	2/3	N/A
YEN Chin-chang	2/3	N/A

The Board held its first regular meeting on 19 March 2007 since its listing to approve the results for the year ended 31 December 2006. Notice of the meeting had been served to all directors at least 14 days before the meeting. The company will hold at least four regular board meetings a year from year 2007 onwards.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before the Board meetings or committee meetings to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

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. The minutes also record in sufficient detail the matters considered and decisions reached.

According to current 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. The Company's Articles also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. The positions of the Chairman and the Chief Executive Officer are held by Mr. Chiao Yu-heng and Mr. Hsu Yao-tsung respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations.

## BOARD COMMITTEES

The Board has established two committees, namely, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. Both Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request and steps are being taken to include the terms of reference on the Company's website.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

### Remuneration Committee

The Remuneration Committee consists of six members, five of whom are independent non-executive directors and one non-executive director, Mr. Chiao Yu-heng, who is the chairman of the Committee.

The primary objectives of the Remuneration Committee include reviewing and making recommendation on the policy and structure of the remuneration for the directors and senior management. The Remuneration Committee is also responsible for establishing formal and transparent procedures for developing such remuneration policy and structure and to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets towards the end of each year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

There was no Remuneration Committee meeting held during the period from the date of listing to 31 December 2006.

## BOARD COMMITTEES (continued)

### Audit Committee

The Audit Committee comprises five independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise) with Mr. Chao Yuan-san as the chairman. 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, internal auditor 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 held one meeting during the period from the date of listing to 31 December 2006 to discuss the financial reporting and compliance procedures and review the internal control system with the external auditors, the attendance record is set out below:

Name of committee members	Attendance/Number of meetings
CHAO Yuan-san ( <i>Committee Chairman</i> )	1/1
Deborah CHEN Shun Zu	1/1
YEH Yu-an	0/1
CHANG Pi-lan	1/1
YEN Chin-chang	0/1

The Company's annual results for the year ended 31 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, appointment, resignation or dismissal of external auditors.

### MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2006.

The Company has also established written guidelines on no less exacting terms than the Model Code for securities transactions by employees (the "Employees Written Guidelines") who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in "Independent Auditor's Report" on pages 25 to 26 of the Annual Report.

## AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services for the year ended 31 December 2006 amounted to HK\$1,000,000.

## INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company and for reviewing its effectiveness. The Board is also responsible for maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

The Company has developed its systems of internal control including financial, operational and compliance controls and risk management.

The internal auditor, who is independent of the Company's daily operations and accounting functions, is responsible for:

- establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.
- formulating the annual internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks.
- presenting their risk-based internal audit plan to the Audit Committee for approval.
- reporting to the Audit Committee on any key findings and progress of the internal audit process.

The Audit Committee, in turn, reports to the Board on any material issues and makes recommendations to the Board.

## INTERNAL CONTROLS (continued)

During the period from the date of listing to 31 December 2006, the Company and its subsidiaries have conducted corporate governance training to all the Directors and senior management, made efforts to enhance its information technology governance and strengthen its information systems security controls. Principal internal control enhancement actions taken by the Group include:

- with regard to the revenue recognition process, the Group has designed and implemented more effective control mechanism in ensuring appropriate revenue recognition;
- the Group has also tightened its credit control policy and the customer evaluation procedures in order to manage its receivables;
- in the areas of sales, procurement and inventory processes, the Group has set up and implemented stricter authorization policies and procedures.

The Directors believe that the proposed enhancements of internal control mechanisms enable them and senior management with reasonable grounds to make a proper assessment of the financial position and prospects of the Group in a considered manner.

The Board has conducted an annual review of the effectiveness of the system of internal control of the Company and its subsidiaries and will continue to review procedures implemented for assessing their effectiveness.

## SHAREHOLDER RIGHTS

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

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, shall be available to answer questions at the shareholders' meetings.

Separate resolutions will be proposed at the forthcoming 2007 annual general meeting on each substantial issue, including the re-election of the retiring directors.