



Corporate Governance Report
Report of the Directors
Independent Auditor's Report

Corporate Governance Report

Corporate Governance Practice

The Board of Directors (the “Board”) of the Company is committed to maintaining high standards of corporate governance. The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (“the Code”) in Appendix 14 of the Listing Rules as its own code of corporate governance practice.

In the opinion of the directors, the Company has complied with the Code throughout the year.

Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all existing directors, the Company confirms that they have fully complied with the required standard set out in the Model Code throughout the year.

Board of Directors

The Board is responsible for the leadership and control of the Company and oversees the Group’s businesses, strategic decisions and performance. The Board has delegated the day-to-day responsibility to the Executive Directors and senior management who perform their duties under the leadership of the Managing Director.

The Board has scheduled at least four meetings a year and meets as and when required. During the year, the Board held seven meetings. The Company Secretary assists the Chairman in establishing the meeting agenda, and each director may request inclusion of other items in the agenda. For all such meetings, at least 14 days’ notice is given to all directors. Adequate and appropriate information are circulated normally three days in advance of board meetings to the directors. The attendance of the directors at the board meetings are as follows:

Directors’ attendance at board meetings

	Directors	Number of attendance
Executive Directors	Lam Man Tin (<i>Managing Director</i>) (<i>Note 1</i>)	7/7
	Yutaka Fukumoto (<i>Deputy Managing Director</i>) (<i>Note 2</i>)	3/7
	Wong Mun Yu	7/7
Non-executive Directors	Toshiji Tokiwa (<i>Chairman</i>)	6/7
	Akihito Tanaka (<i>Note 3</i>)	2/7
	Tatsuichi Yamaguchi	6/7
	Naoyuki Miyashita (<i>Note 4</i>)	7/7
	Motoya Okada (<i>Note 5</i>)	0/7
	Kazumasa Ishii (<i>Note 5</i>)	4/7
Independent Non-executive Directors	Shao You Bao (<i>Note 6</i>)	1/7
	Lam Pei Peggy	6/7
	Sham Sui Leung Daniel	7/7
	Cheng Yin Ching Anna (<i>Note 7</i>)	3/7

Corporate Governance Report (Continued)

Notes:

1. Mr. Lam Man Tin was appointed as the Managing Director of the Company on 19 May 2006.
2. Mr. Yutaka Fukumoto was appointed as the Deputy Managing Director of the Company on 2 June 2006 and there have been three board meetings held after his appointment.
3. Mr. Akihito Tanaka was appointed as a Non-executive Director of the Company on 2 June 2006 and there have been three board meetings held after his appointment.
4. Mr. Naoyuki Miyashita resigned as the Managing Director and was appointed as a Non-executive Director of the Company on 19 May 2006.
5. Mr. Motoya Okada and Mr. Kazumasa Ishii resigned as Non-executive Directors on 2 June 2006.
6. Dr. Shao You Bao passed away on 12 March 2006.
7. Ms. Cheng Yin Ching Anna was appointed as an Independent Non-executive Director of the Company on 2 June 2006 and there have been three board meetings held after her appointment.

Board and committee minutes are recorded in appropriate detail and draft minutes are circulated to all directors and committee members for comments before being approved by the Board and committees respectively at the next immediate meeting. All minutes are kept by the Company Secretary and are open for inspection by the directors.

The directors are entitled, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the directors to assist the relevant directors to discharge their duties.

The Company has received annual confirmations of independence from all existing Independent Non-executive Directors and considers them to be independent.

The Board members have no financial, business, family or other material/relevant relationship with each other. Given the nature and business objectives of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of directors and their respective biographies are set out on pages 13 to 14 of this annual report respectively.

The Company has not fixed the terms of appointment for all directors but they are subject to retirement and are entitled to re-election at each annual general meeting of the Company.

Corporate Governance Report (Continued)

Chairman and Chief Executive Officer

The Board considered that the duties of the Managing Director (“MD”) were no difference from that required of a chief executive officer stipulated under the code provision A.2 of the Code. The management would regard that the term MD will have the same meaning as the chief executive officer of the Company.

The Chairman of the Board is a Non-executive Director, who is responsible for the leadership and effective running of the Board, and ensuring that all significant and key issues are discussed and where required, resolved by the Board timely and constructively.

The MD of the Board is delegated with the authority and responsibility to run the Group’s business and day-to-day operation, and implement the Group’s strategy with respect to the achievement of its business objectives with the assistance of the Executive Directors and senior management.

Remuneration Committee

The Remuneration Committee is responsible for ensuring that the Company has formal and transparent procedures for developing and overseeing its policies on the remuneration of the directors and senior management. The Committee’s authorities and duties are set out in written terms of reference, which are posted on the Company’s website.

Members of the Remuneration Committee and the attendance of each member are set out as follows:

	Directors	Number of attendance
Non-executive Directors	Tatsuichi Yamaguchi (<i>Chairman</i>) (<i>Note 1</i>)	3/4
	Akihito Tanaka (<i>Chairman</i>) (<i>Note 1</i>)	0/4
Independent Non-executive Directors	Shao You Bao (<i>Note 2</i>)	0/4
	Lam Pei Peggy	4/4
	Sham Sui Leung Daniel (<i>Note 2</i>)	3/4

Notes:

1. Mr. Akihito Tanaka was appointed to replace Mr. Tatsuichi Yamaguchi as a member and the Chairman of the Committee on 2 June 2006 and there has been one committee meeting held after his appointment.
2. Mr. Sham Sui Leung Daniel was appointed as a member of the Committee on 24 March 2006 to replace Dr. Shao You Bao, who passed away on 12 March 2006 and there have been three committee meetings held after his appointment.

During 2006, the Remuneration Committee reviewed the remuneration of the Executive Directors (including the Managing Director and the Deputy Managing Director) and the senior management and recommended the Board to approve their remuneration.

Corporate Governance Report (Continued)

Nomination of Directors

The Company has not established a Nomination Committee. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no director being involved in fixing his/her own terms of appointment and no independent non-executive director being involved in assessing his/her own independence.

New directors are sought mainly through internal promotions and referrals. In assessing whether a candidate is suitable for appointment as a director, the Board will consider relevant factors including the independence, experience, skills, personal ethics, integrity and time commitment.

Auditors' Remuneration

During the year under review, the remuneration payable to the Company's auditors, Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fees payable HK\$'000
Audit services	2,204
Non-audit services:	
Review of interim results	541
Taxation services	540
Audit of occupational retirement scheme	18
Other services	6
	3,309

Audit Committee

The Audit Committee is responsible for ensuring the objectivity and credibility of the Group's financial reporting. The Committee's authority and duties are set out in written terms of reference, which are posted on the Company's website.

The Audit Committee is responsible to review the Group's financial statements, internal financial reports, and internal control systems. The Audit Committee meets at least twice a year with management and external auditors and reviews their reports.

Members of the Audit Committee and the attendance of each member are set out as follows:

	Directors	Number of attendance
Non-executive Directors	Akihito Tanaka (Note 1)	0/2
	Tatsuichi Yamaguchi (Note 1)	1/2
Independent Non-executive Directors	Shao You Bao (Note 2)	0/2
	Sham Sui Leung Daniel (Chairman) (Note 2)	2/2
	Lam Pei Peggy	2/2
	Cheng Yin Ching Anna (Note 3)	1/2

Corporate Governance Report (Continued)

Notes:

1. Mr. Akihito Tanaka was appointed as a member of the Committee on 2 June 2006 to replace Mr. Tatsuichi Yamaguchi and there has been one committee meeting held after his appointment.
2. Mr. Sham Sui Leung Daniel was appointed as the Chairman of the Committee on 24 March 2006 to replace Dr. Shao You Bao, who passed away on 12 March 2006.
3. Ms. Cheng Yin Ching Anna was appointed as a member of the Committee on 2 June 2006 and there has been one committee meeting held after her appointment.

During 2006, the Audit Committee performed the following duties:

- reviewed the audited financial statements for the year ended 31 December 2005 with a recommendation to the Board for approval;
- reviewed the un-audited financial statements for the six months ended 30 June 2006 with a recommendation to the Board for approval;
- reviewed various reports on internal control system covering financial, operational, procedural compliance and risk management functions;
- met the external auditors and reviewed their reports to the Committee in respect of the audit of the annual results and review of interim results of the Company; and
- met the management and reviewed their reports on connected transactions of the Company.

All members of the Audit Committee possess in-depth experience in their own profession. At least one of the committee members possesses appropriate professional qualifications in finance and accounting and meets the requirements of rule 3.21 of the Listing Rules. No member of the Audit Committee is a former partner of the existing auditing firm of the Company.

Accountability

The directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cashflows of the Group. In preparing the accounts for the six months ended 30 June 2006 and for the year ended 31 December 2006, the directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

Internal Controls

The Board has, through the Audit Committee, conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions.