

# Corporate Governance Report

The Board and the Management of the Company are committed to maintain a high standard of corporate governance. The Board recognizes that to uphold an accountable and transparent corporate culture will ultimately maximize the long-term value to shareholders and stakeholders.

Throughout the year under review, the Company complied with the Code Provision of the Code on Corporate Governance Practices (the "GC Code") as set out in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited except for a derivation in the rotation of directors as explained below. During the year, the Company also complied with, to a certain extent, the Recommended Best Practices in the GC Code.

## BOARD OF DIRECTORS

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company.

The Board is accountable for the supervision of the Management in the business and affairs of the Company and the Group. Apart from its statutory and fiduciary duties, the Board sets the Group's objective and approves strategic plans, key operational targets, capital expenditure, major investments and financing decisions. The Board regularly reviews businesses and performance of the Group.

The Board is also continuously reviewing the adequacy and effectiveness of the Group's internal control system. The Board recognizes that the maintenance of a sound system of control would safeguard the best interests of the shareholders.

The Board meets regularly and as and when required. In the year under review, four meetings had been held at approximately quarterly intervals. Details of Directors' attendance records in 2006 are set out below:

	Attendance (%)	
<b>Executive Directors</b>		
Dr. Tsang Hin Chi	(3/4)	75%
Mr. Tsang Chi Ming, Ricky	(4/4)	100%
Mdm. Wong Lei Kuan	(4/4)	100%
<b>Non-executive Director</b>		
Mr. Ng Ming Wah, Charles	(4/4)	100%
<b>Independent non-executive Directors</b>		
Dr. Lau Yue Sun	(4/4)	100%
Mr. Wong Ying Ho, Kennedy	(4/4)	100%
Mr. Yin, Richard Yingneng (appointed on 9th October 2006)	(1/1)	100%

*Note:* Dr. Wong Yu Hong, Philip resigned as the Company's independent non-executive Director on 22nd September 2006. He attended 1 out of 3 meetings during his tenure of office in 2006.

The Company Secretary assists the Chairman in establishing the meeting agenda, and each of the Directors may request inclusion of items in the agenda. Board members are also provided with timely and adequate information prior to the Board meetings, and on an on-going basis, can have separate and independent access to the Group's Senior Management.

At the Board meetings, there is open atmosphere for Directors to contribute alternative views and major decisions would only be taken after a full discussion at the meetings. For matters on transactions where Directors are considered having conflict of interests, the Directors concerned would not be counted in quorum of meeting and shall abstain from voting of the relevant resolution.

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## **BOARD OF DIRECTORS** *(continued)*

To assist in the execution of its responsibilities, the Board has established a number of Committees including the Audit Committee, the Remuneration Committee and the Nomination Committee. All of these Board Committees have clear written terms of reference and are available on the Company's website.

The Directors can have separate and independent access to the Company Secretary. Minutes of the meetings are kept by the Company Secretary and are open for inspection by Directors.

### **Chairman and Chief Executive Officer**

The roles of Chairman and Chief Executive Officer of the Company are segregated and are not performed by the same individual. Currently, Dr. Tsang Hin Chi is the Chairman of the Board and Mr. Tsang Chi Ming, Ricky, a son of Dr. Tsang Hin Chi, serves as the Company's Chief Executive Officer.

There are clear definitions of the responsibilities and functions between the Chairman and the Chief Executive Officer. The Chairman focuses on the Group's strategic development and provides leadership to the Board. The Chief Executive Officer is being assisted by Senior Management of the Group in assuming his executive duties and responsibility for the Group's operation and performance.

### **Board composition**

The Board has a balance of skills and experience appropriate for the requirements of the Group's business. Currently, the Board comprises totally seven members including three executive Directors, one non-executive Director and three independent non-executive Directors. The presence of independent non-executive Directors ensures that the Board functions effectively and independently.

Each of the independent non-executive Directors has confirmed in writing to the Company their independence in particular in regard to the requirements under Rule 3.13 of the Listing Rules. The Board considers that the independent non-executive Directors are free from any business or other relationship that may inference their exercise of independent judgement.

Biographical details of the Directors are set out on page 26 to 27.

### **Appointments, re-election and removal of directors**

In accordance with the Company's Articles of Association, any Director appointed to fill casual vacancy should be subject to election at the first general meeting after their appointment and every Director should be subject to retirement by rotation at least once every three years. However, all of the non-executive Directors of the Company have not been appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company, which is not in accordance with the requirements of Code Provision A.4.1.

Besides, the Board has established the Nomination Committee with specific terms of reference to handle the appointment of Directors. The Nomination Committee consists of three independent non-executive Directors, a non-executive Director and an executive Director. List of members of Nomination Committee is set out in the "Corporate Information" on page 2.

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## BOARD OF DIRECTORS *(continued)*

### Appointments, re-election and removal of directors *(continued)*

With a view to ensure that the Board has members with the right profile of expertise, skill and ability as well as an appropriate balance of independent directors, the Nomination Committee constantly reviews and assesses candidates for directorship before recommending to the Board. The Nomination Committee held one meeting during the year and the attendance was as follows:

Members	Attendance (%)	
Dr. Lau Yue Sun <i>(Chairman)</i>	(1/1)	100%
Mr. Wong Ying Ho, Kennedy	(1/1)	100%
Mr. Yin, Richard Yingneng (appointed on 9th October 2006)	(1/1)	100%
Mr. Ng Ming Wah, Charles	(1/1)	100%
Mr. Tsang Chi Ming, Ricky	(1/1)	100%

*Note:* Dr. Wong Yu Hong, Philip resigned as a member of the Committee on 22nd September 2006. No meeting of the Committee had been held during his tenure of office in 2006.

Mr. Yin, Richard Yingneng was appointed as the Company's Director on 9th October 2006. Before the appointment, the Nomination Committee had assessed the qualifications and experiences of Mr. Yin and had made a recommendation to the Board for its consideration of the appointment of Mr. Yin.

### Responsibilities of Directors

The Company has clear policy to ensure that all Directors have a proper understanding of the business and operation of the Group and that they are fully aware their roles and responsibilities as Directors under relevant legislations and regulatory requirements.

On appointment, new Directors will be given a comprehensive introduction to the Group's major business activities, induction into their responsibilities and duties, and other regulatory requirements.

From time to time, non-executive Directors are updated with comprehensive briefings on the Group's strategic and business development, financial objective, plans and actions.

All Directors have full and timely access to all relevant information about the Group so that they can discharge their duties and responsibilities as Directors effectively. Where any member of the Board, whether individual or as a group, needs independent professional advice, the Company will appointed a professional advisor to render such service. The costs of such professional services will be borne by the Company. A Directors' and officers' liabilities insurance has also been arranged.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. During the year, all the Directors have complied with the relevant requirements under the Model Code regarding their dealing in the securities of the Company.

## REMUNERATION COMMITTEE

The Board has established the Remuneration Committee with specific terms of reference. The Remuneration Committee consists of three independent non-executive Directors, a non-executive Director and an executive Director. List of members of Remuneration Committee is set out in the "Corporate Information" on page 2.

The key role of the Committee is to formulate the remuneration policy, to review and recommend to the Board the annual remuneration policy, and to fix the remuneration packages of the executive Directors and members of the Senior Management. The primary objective of the remuneration policy is to ensure that the Company is able to attract, retain and motivate a high-calibre team of staff.

In determining remuneration packages, the Company mainly considers employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of the individual Directors.

To maintain a proper management control, no Director and members of the Senior Management can determine his own remuneration.

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## REMUNERATION COMMITTEE *(continued)*

The Remuneration Committee reviews remuneration packages of the executive Directors and Senior Management regularly to ensure that those packages are commensurate with their performance. The Chairman of the Committee will report the work, findings and recommendations to the Board after each meeting.

The Remuneration Committee held two meetings during the year and the attendance records were as follows:

Members	Attendance (%)	
Mr. Wong Ying Ho, Kennedy <i>(Chairman)</i>	(2/2)	100%
Dr. Lau Yue Sun	(2/2)	100%
Mr. Yin, Richard Yingneng (appointed on 9th October 2006)	(1/1)	100%
Mr. Ng Ming Wah, Charles	(2/2)	100%
Mr. Tsang Chi Ming, Ricky	(2/2)	100%

*Note:* Dr. Wong Yu Hong, Philip resigned as a member of the Committee on 22nd September 2006. He had not attended the only meeting of the Committee that had been held during his tenure of office in 2006.

## ACCOUNTABILITY AND AUDIT

### Financial reporting

The Board is 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 Group and the results for the corresponding period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. In preparing the accounts for the year, the Directors have:

- selected suitable accounting policies and applied them consistently;
- adopted all accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants;
- make judgements and estimates that are reasonable; and have prepared the accounts on the going concern basis.

### Audit Committee

The Audit Committee was established in 1998. Currently the Committee comprises three independent non-executive Directors and a non-executive Director, and is primarily assisting the Board in fulfilling its oversight responsibilities for financial reporting, risk management and evaluation of internal controls and auditing processes. It also ensures that the Group complies with all applicable laws and regulations. List of members of Audit Committee is set out in the "Corporate Information" on page 2.

The Committee is also empowered to investigate any matter relating to the Group's accounting, auditing, internal controls and financial practices, with full access to records, resources and personnel, to enable it to discharge its functions properly.

In respect of maintaining an appropriate relationship with the Company's auditors, the Committee is responsible for making recommendation to the Board on the appointment, reappointment and removal of the Company's external auditors, and to approve their remuneration and terms of engagement, and any questions of resignation or dismissal of the auditors. The Committee reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee also discusses with the auditors the nature and scope of the audit and reporting obligations before the audit commences.

The Committee had held a meeting with the external auditors without the presence of the Management to discuss and review the scope and planning of the audit and its effectiveness. The Committee has also conducted regular reviews on the nature and extent of non-audit services supplied by the external auditors.

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## ACCOUNTABILITY AND AUDIT *(continued)*

### Audit Committee *(continued)*

The Chairman of the Committee will report the work, findings and recommendations to the Board after each meeting. The Audit Committee held five meetings during the year and the attendance records were as follows:

Members	Attendance (%)	
Mr. Yin, Richard Yingneng (Chairman and appointed on 9th October 2006)	(1/1)	100%
Dr. Lau Yue Sun	(5/5)	100%
Mr. Wong Ying Ho, Kennedy	(4/5)	80%
Mr. Ng Ming Wah, Charles	(5/5)	100%

*Note:* Dr. Wong Yu Hong, Philip resigned as chairman of the Committee on 22nd September 2006. He attended 3 out of 4 meetings of the Committee during his tenure of office in 2006.

### Internal controls

The Board has ultimate responsibility for the Group's internal control system, which is designed to provide reasonable but not absolute assurance against material errors, losses or fraud. The Board, through the Audit Committee, has reviewed the effectiveness of the system.

The Group's internal control system comprises an established organizational structure and comprehensive policies and working procedures. Areas of responsibilities of each business and operational unit are reasonably defined to ensure effective check and balances.

The key procedures that the Board established to provide effective controls are as follows:

- a distinct organization structure exists with defined lines of authority and control responsibilities;
- a comprehensive management accounting system is in place to provide financial and operational performance indicators to the management and the relevant financial information for reporting and disclosure purpose;
- policies and procedures are designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication;
- systems and procedures are also in place to identify, measure, manage and control risks including reputation, strategic, legal, credit, market, liquidity, interest rate and operational risks;
- procedures are designed to ensure compliance with applicable laws, rules and regulations;
- Audit Committee reviews reports submitted by external auditors to the Group's management in connection with the annual audit and interim review.

The Company has established its Internal Audit function to monitor the internal control of the Group. The Internal Audit function conducts systematic reviews of the Group's internal control system on an on-going basis in order to provide reasonable assurance of the effectiveness of the system. The Internal Audit function reports directly to the Audit Committee and has free access to review all aspects of the Group's activities and controlling system.

During the year, the Audit Committee, on behalf of the Board, has reviewed with the assistance of the Group's Internal Audit function the effectiveness of the various systems put in place by the management covering all material controls, including financial, operational and compliance controls as well as risk management functions.

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## ACCOUNTABILITY AND AUDIT *(continued)*

### Auditors' remuneration

During the year, total auditors' remuneration in relation to statutory audit work of the Group amounted to HK\$1,841,000, of which a sum of HK\$1,650,000 was paid to the Group's principal external auditors, PricewaterhouseCoopers. The remuneration for PricewaterhouseCoopers and its affiliated firms, for services rendered is broken down below:

	HK\$
Statutory audit	1,650,000
Tax consulting services	68,500
Total	1,718,500

## COMMUNICATION WITH SHAREHOLDERS

The Board strives for timeliness and transparency in its disclosures to shareholders and the public. The Company disseminates its information to shareholders in a timely manner through various channels including interim and annual reports, published announcements, press releases and shareholders' circulars. Regular meetings are held with investors, analysts, bankers and the press. The Group has a corporate website where shareholders and members of the public are able to access to up-to-date corporate information and events related to the Group.

The Annual General Meeting of the Company also provides a useful platform for dialogue and interaction with all the shareholders. At the Annual General Meeting, the Chairman as well as chairmen of the Board Committees, or in their absence, members of the Committees are available to answer shareholders' questions.