

# CORPORATE GOVERNANCE REPORT

The Company is committed to adopting the high standards of corporate governance. The board of directors of the Company (the “Board”) believes that good governance is essential to achieving the Group’s objectives of maximizing shareholders’ value and safeguarding the interests of the shareholders.

The Code on Corporate Governance Practices (the “Code”) provides the code provisions and recommended best practices for corporate governance.

During the financial year ended 31st December, 2006, the Company complied with all requirements set out in the Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), with deviation from Code provision A.4.1, A.4.2 and B.1.1 in respect of the independent non-executive directors should be appointed under a specific terms, the rotation of directors and setting up of a Remuneration Committee with specific terms, respectively. Relevant amendment to the Bye-Laws of the Company to comply with Code provision A.4.2 was approved by shareholders of the Company at the annual general meeting of the Company held in May 2006. A service contract was signed with each of the independent non-executive directors with specific terms in April 2006. Remuneration Committee was set up in April 2006 with specific written terms of reference.

## A. DIRECTORS

### A.1 The Board

The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Company’s affairs. The Board sets strategies for the Company and monitors the performance of the management.

During the financial year ended 31st December, 2006, the Board held four regular meetings at approximately quarterly intervals according to the Code. The attendance of each director is set out as follows:–

<b>Name of Director</b>	<b>Number of attendance</b>
Mr. Wu Chen San, Thomas	4/4
Mr. Wu Jenn Chang, Michael	4/4
Mr. Wu Jenn Tzong, Jackson	4/4
Mr. Ho Chin Fa, Steven	4/4
Ms. Fang Yen Ling	2/4
Mr. Lai Jenn Yang, Jeffrey	2/4
Mr. Liu Chung Kang, Helios	2/4

## A.2 Chairman and Managing Director

The Company segregates the role of Chairman from the Managing Director. Mr. Wu Chen San, Thomas is the Chairman of the Company and Mr. Wu Jenn Chang, Michael is the Managing Director of the Company. They are brothers. The Chairman provides leadership to the Board and is responsible for the overall strategic planning and corporate development, whereas the Managing Director is responsible for policy making and corporate management in order to implement the strategies approved by the Board.

## A.3 Board composition

The Board consists of four executive directors and three independent non-executive directors:-

### **Executive directors**

Mr. Wu Chen San, Thomas

Mr. Wu Jenn Chang, Michael

Mr. Wu Jenn Tzong, Jackson

Mr. Ho Chin Fa, Steven

### **Independent non-executive directors**

Ms. Fang Yen Ling

Mr. Lai Jenn Yang, Jeffrey

Mr. Liu Chung Kang, Helios

The Board has met the recommended best practice under the Code that the number of independent non-executive directors is at least three. One independent non-executive director possesses recognized professional qualifications in accounting. The independent non-executive directors bring independent judgement, knowledge and experience to the Board.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considered all of the independent non-executive directors are independent within the definition of the Listing Rules.

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## A.4 Appointment, re-election and removal

The code provision A.4.1 provides that non-executive directors should be appointed for a specific terms, subject to re-election. A service contract was signed with each of the independent non-executive director with specific terms in April 2006. During the financial year ended 31st December, 2006, the non-executive directors are subject to retirement by rotation in accordance with the Bye-Law of the Company.

Each of the non-executive directors has entered into a service contract with the Company for a term of one year and continuing thereafter until terminated by either party giving to the other party a period of advance notice in writing one month.

The code provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Bye-Laws of the Company, before the relevant amendment was approved in the annual general meeting of the Company held in May 2006, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from the office by rotation provided that notwithstanding anything herein, the Chairman of the Board and/or the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. As the Chairman of the Board and the Managing Director of the Company are not subject to retirement by rotation under the Bye-Laws of the Company, this constitutes a deviation from code provision A.4.2 of the Code.

To comply with the code provision A.4.2 of the Code, the relevant amendment to the Bye-Laws of the Company was approved by shareholders at the annual general meeting of the Company held on 17th May, 2006. Accordingly, the Chairman of the Board and the Managing Director are subject to retirement by rotation as with other directors.

## A.5 Responsibilities of directors

The directors are continually updated with the regulatory requirements, business activities and development of the Group to facilitate the discharge of their responsibilities.

The independent non-executive directors participate actively in the board meetings. They bring an independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct. They will lead where potential conflicts of interests arise in connected transaction. They are also members of Audit Committee.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, all directors declared that they have complied with the Model Code throughout the year.

## A.6 Supply of and access to information

In respect of regular board meetings, an agenda and accompanying board papers of the meeting are sent in full to all directors at least 3 days before the intended date of a meeting.

The management has the obligation to supply the Board and the various Committees with adequate information in a timely manner to enable the members to make informed decisions. Each director has separate and independent access to the Group's senior management to acquire more information than is volunteered by management and to make further enquiries if necessary.

## A.7 Nomination Committee

The Company set up a Nomination Committee in April 2006. The Nomination Committee comprises the three independent non-executive directors. Mr. Liu Chung Kang, Helios is the chairman of the Nomination Committee.

The primary function of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

The chairman of the Nomination Committee will report the findings and recommendations of the Nomination Committee to the Board after each meeting. The minutes of all meetings of Nomination Committee will be circulated to the Board for information.

For the financial year ended 31st December, 2006, the Nomination Committee considered its structure, size and composition (including the skills, knowledge and experience) possesses of a diversity of skills, expertise, experience and qualifications and believed that Board would perform its duties competently.

## B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

### B.1 The level and make-up of remuneration and disclosure

The code provision B.1.1 provides that the Company should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

The Company set up a remuneration committee in April 2006. The Remuneration Committee comprises the three independent non-executive directors. Mr. Lai Jenn Yang, Jeffrey is the chairman of the Remuneration Committee.

For the financial year ended 31st December, 2006, the emolument of the directors of the Company are decided by the remuneration committee, having regard to the Company's operation results, individual performance and comparable market statistics.

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The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis.

## C. ACCOUNTABILITY AND AUDIT

### C.1 Financial reporting

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, the Board has prepared the accounts on a going concern basis.

The Company has announced its annual and interim results in a timely manner within approximately four months and three months, respectively, after the end of the relevant periods in order to enhance high level of corporate transparency.

### C.2 Internal controls

The Board is responsible for the Group's internal control system and for reviewing its effectiveness. The review should cover all moderial controls, including financial, operational and compliance controls and risk management functions. Through the Audit Committee, the Board has reviewed the effectiveness of the system. No material deficiencies have been identified so far. The Audit Committee and the Board considered the Group's internal control system effective and that there were no significant areas of concern, which might affect the shareholders of the Company. However, there is room for improvement.

The Group shall use its best endeavor to implement changes in order to further improve Company's internal control system.

### C.3 Audit Committee

An Audit Committee was established by the Company in 1999. The Audit Committee comprises the three independent non-executive directors, one of them possess recognized professional qualifications in accounting and has wide experience in audit and accounting. Ms. Fang Yin Ling is the chairman of the Audit Committee.

The primary function of the Audit Committee is to review and supervise the Group's financial reporting process and internal controls and compliance procedures, and to make recommendations to the Board on the re-appointment of the external auditors.

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Two Audit Committee meetings were held during the financial year ended 31st December, 2006. The attendance of each member is set out as follows:-

<b>Name of Member</b>	<b>Number of attendance</b>
Ms. Fang Yen Ling	2/2
Mr. Lai Jenn Yang, Jeffrey	2/2
Mr. Liu Chung Kang, Helios	2/2

The chairman of the Audit Committee will report the findings and recommendations of the Audit Committee to the Board after each meeting. The minutes of all meetings of Audit Committee are circulated to the Board for information.

A summary of the work performed by the Audit Committee for the financial year ended 31st December, 2006 is set out in "Audit Committee Report" on page 19.

## **C.4 Fee paid/payable to Group's auditors**

For the financial year ended 31st December, 2006, the fee paid/payable to the Group's auditors, Messrs. Deloitte Touche Tohmatsu, is set out as follows:-

<b>Services rendered</b>	<b>Fee paid/payable</b>
	HK\$'000
Audit services	830
Non-audit services	650
Taxation services	30

## **D. DELEGATION BY THE BOARD**

### **D.1 Management functions**

The Board is responsible for determining the overall strategy and corporate development and ensuring the business operations are properly monitored. The Board reserves the right to decide all policy matters of the Group and material transactions.

The Board delegates the day-to-day operations to general managers and department heads who are responsible for different aspects of the operations of the Group.

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## D.2 Board committees

The Company has maintained the Audit Committee throughout the year to oversee particular aspects of the Group's affairs. The Audit Committee, Remuneration Committee and Nomination Committee have specific written terms of reference which deal clearly with their authority and duties. The chairman of the Committees will report the findings and recommendations to the Board after each meeting. The minutes of all meetings of the committee are circulated to the Board for information.

## E. COMMUNICATION WITH SHAREHOLDERS

### E.1 Effective communication

The annual general meeting enables the shareholders of the Company to exchange views with the Board. The chairman of the Board and the Managing Director have attended at the annual general meeting to be available to answer the questions of the shareholders of the Company.

Separate resolutions are proposed at the annual general meeting on each substantially separate issue, including the election of individual director.

### E.2 Voting by poll

The right to demand a poll was set out in the circular to shareholders of the Company dispatched together with the annual report of the Company for the year ended 31st December, 2006.