

# CORPORATE GOVERNANCE REPORT

The Company is committed to fulfilling its responsibilities to shareholders by ensuring a high standard of corporate governance practices. This report describes its corporate governance practices and explains the applications of the principles of the Code on Corporate Governance Practices (the “CG Code”) in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

## CORPORATE GOVERNANCE PRACTICES

The Company has complied with all provisions of the CG Code throughout the year ended 31 December 2006, except the following deviations from certain CG Code provisions in respect of which remedial steps for compliance have been taken or considered reasons are given below:

### **CG Code Provision A.2.1**

#### **Chairman and Chief Executive Officer (“CEO”)**

This CG Code provision requires that the roles of chairman and CEO should be separate and should not be performed by the same individual.

Mr. Lo Ying Shek, who was the founder of the Company and the Chairman of the Board, passed away on 1 September 2006. Before the said date, Dr. Lo Ka Shui was the Deputy Chairman and both the late Mr. Lo Ying Shek and Dr. Lo Ka Shui were Managing Directors of the Company but the function of CEO has been assumed by Dr. Lo Ka Shui since 1985.

Dr. Lo Ka Shui was appointed as Chairman of the Board on 20 September 2006 and continued his office as Managing Director. This is a deviation from Code Provision A.2.1. The Board considered this arrangement appropriate as it can preserve the consistent leadership of the Company and allows for efficient discharge of the executive functions of the CEO. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals including three Independent Non-executive Directors.

### **CG Code Provision A.4.1 and A.4.2**

#### **Appointments, Re-Election and Removal**

CG Code provision A.4.1 requires that non-executive directors should be appointed for a specific term, subject to re-election.

The non-executive directors have no fixed term of office. The Bye-laws of the Company requires that one-third of the directors (other than the executive chairman and managing directors) should retire by rotation. The Company considers that its corporate governance measures in this respect are no less exacting than those prescribed by CG Code provision A.4.1 and therefore does not intend to take any steps in this regard.

CG Code provision A.4.2 requires that every director should be subject to retirement by rotation at least once every three years.

Under the existing Bye-laws of the Company, the executive chairman and managing directors of the Company are not subject to retirement by rotation. The same provision is contained in The Great Eagle Holdings Limited Company Act, 1990 of Bermuda. As such, the executive chairman and managing directors are by statute not required to retire by rotation. After due consideration, the Board considers that it is not appropriate to propose any amendment to The Great Eagle Holdings Limited Company Act, 1990 simply to require the Chairman and Managing Directors of the Company to retire by rotation.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES (continued)

### CG Code Provision E.1.2

#### Communication with Shareholders

This CG Code provision E.1.2 requires that the Chairman of the Board should attend the annual general meeting (the “AGM”) and arrange for the chairmen of the audit, remuneration and nomination committees (or in the absence of the chairman of any such committee, another member of the committee) to be available to answer questions at the AGM.

The former Chairman of the Board, the late Mr. Lo Ying Shek who passed away on 1 September 2006, had not attended the AGM held in June 2006. The said AGM was chaired by Dr. Lo Ka Shui, the then Deputy Chairman, who was appointed Chairman on 20 September 2006. The date of the AGM to be held in 2007 was fixed in consultation with the Chairman of the Board as well as the chairmen and members of the aforesaid committees regarding their availabilities of attendance.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard as set out in the Model Code throughout the financial year ended 31 December 2006.

## BOARD OF DIRECTORS

Since the passing away of the late Mr. Lo Ying Shek, the Board comprises 11 Directors, of whom 3 are Independent Non-executive Directors. The participation of Independent Non-executive Directors in the Board brings independent judgement on issues relating to the Group’s strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The Board members for the year ended 31 December 2006 were:

The late Mr. LO Ying Shek, *Former Chairman and Managing Director (who passed away on 1 September 2006)*

Dr. LO Ka Shui, *Chairman and Managing Director (Appointed Chairman on 20 September 2006)*

Mr. LO Kai Shui, *Deputy Managing Director*

Madam LO TO Lee Kwan

Mr. CHENG Hoi Chuen, Vincent\*

Professor WONG Yue Chim, Richard\*

Mrs. LEE Pui Ling, Angelina\*

Mr. LO Hong Sui, Antony

Madam LAW Wai Duen

Mr. LO Hong Sui, Vincent

Dr. LO Ying Sui, Archie

Mr. KAN Tak Kwong

\* Independent Non-executive Directors

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

## BOARD OF DIRECTORS (continued)

The Board has four meetings held during the financial year ended 31 December 2006 and the attendance record, on a named basis, of all the four Board meetings is set out below:

### Attendance of individual Directors at Board meetings in 2006

Number of meetings	4	
The late Lo Ying Shek	0/4	0%
Lo Ka Shui	4/4	100%
Lo Kai Shui	3/4	75%
Lo To Lee Kwan	0/4	0%
Cheng Hoi Chuen, Vincent *	4/4	100%
Wong Yue Chim, Richard *	2/4	50%
Lee Pui Ling, Angelina *	4/4	100%
Lo Hong Sui, Antony	4/4	100%
Law Wai Duen	3/4	75%
Lo Hong Sui, Vincent	2/4	50%
Lo Ying Sui, Archie	3/4	75%
Kan Tak Kwong	4/4	100%

\* Independent Non-executive Directors

---

<b>Average attendance rate</b>	<b>68.75%</b>
--------------------------------	---------------

---

The relationships (including financial, business, family or other material or relevant relationships) if any, among members of the Board are disclosed in the 2006 Annual Report.

## REMUNERATION OF DIRECTORS

The Company established a Remuneration Committee on 8 March 2004 and adopted the terms of reference of the Remuneration Committee in 2005 in alignment with the mandatory provisions set out in the CG Code, with additional functions and duties covering the Company's employees and share option scheme(s).

The terms of reference include the specific duties as set out in the CG Code provision B.1.3 as well as the followings:

- (a) to have the delegated responsibility to determine the Company's policy and structure for all remuneration of the Company's employees; and
- (b) to decide on the grant of share options under such Share Option Scheme as may from time to time be adopted by the Company.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION OF DIRECTORS (continued)

The Remuneration Committee now comprises all of the three Independent Non-executive Directors, namely, Mrs. Lee Pui Ling, Angelina (who is the chairman of the Remuneration Committee), Mr. Cheng Hoi Chuen, Vincent and Professor Wong Yue Chim, Richard.

During the financial year ended 31 December 2006, a meeting of the Remuneration Committee was held on 5 January 2006, when the chairman of the Remuneration Committee and the other two members had attended the meeting.

The review by the Remuneration Committee of the emoluments of Directors and senior management during the year was based on the skill, knowledge and involvement in the Company's affairs and were determined by reference to the Company's performance and profitability as well as remuneration benchmark in the industry and the prevailing market conditions.

## NOMINATION OF DIRECTORS

The Company established a Nomination Committee on 8 March 2005 and adopted the terms of reference of the Nomination Committee in alignment with the provisions set out in the CG Code. The Nomination Committee now comprises all of the three Independent Non-executive Directors, namely, Professor Wong Yue Chim, Richard (who is the chairman of the Nomination Committee), Mr. Cheng Hoi Chuen, Vincent and Mrs. Lee Pui Ling, Angelina.

During the financial year ended 31 December 2006, a meeting of the Nomination Committee was held on 13 September 2006 for the purpose of considering, for recommending to the Board, the appointment of a new chairman of the Board due to the passing away of Mr. Lo Ying Shek, the former Chairman, and other matters related thereto. The chairman and the other two members of the Nomination Committee had attended the meeting.

## AUDITORS' REMUNERATION

The remuneration in respect of the services provided by the Company's auditors, Messrs. Deloitte Touche Tohmatsu, is analysed as follows:

	<b>31 December 2006 HK\$'000</b>	31 December 2005 HK\$'000
<b>Services rendered</b>		
Audit services	<b>5,975</b>	4,581
Non-audit services		
Taxation services	<b>550</b>	594
Other services	<b>828</b>	1,099
	<b>7,353</b>	6,274

## AUDIT COMMITTEE

The Board is responsible for preparing the financial statements and the external auditors have a primary responsibility for auditing and reporting on the financial statements.

The Company established an Audit Committee in 1999 and adopted the terms of reference of the Audit Committee based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants.

The principal duties of the Audit Committee are as follows:

- (a) to review the half-year and annual financial statements of the Company and provide comments and advices thereon to the Board;
- (b) to review the Company's internal control systems, where an internal audit function exists, to review the internal audit programme, and internal auditors' reports, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and
- (c) to consider the appointment and resignation of the external auditor and the audit fee, and to review the external auditor's management letter and management's response to the points raised.

The Audit Committee now comprises all of the three Independent Non-executive Directors, namely, Mr. Cheng Hoi Chuen, Vincent (who is the chairman of the Audit Committee), Professor Wong Yue Chim, Richard and Mrs. Lee Pui Ling, Angelina. None of the three members of Audit Committee has been former partner of the Company's external auditor.

During the financial year ended 31 December 2006, two meetings of the Audit Committee were held on 20 April 2006 and 20 September 2006 for discussion of the 2005 annual results and 2006 interim results respectively. The chairman of the Audit Committee and the other two members had attended the two meetings.

The financial statements of the Company for the year ended 31 December 2006 have been reviewed by the Audit Committee.

# CORPORATE GOVERNANCE REPORT

## INTERNAL CONTROLS

The Board is entrusted with the overall responsibility for maintaining sound and effective internal controls to safeguard the Group's assets, and has established the following in this respect:

- (a) Well defined organizational structure and limit of authority;
- (b) Reliable management reporting system;
- (c) Clear and written company policies and procedures;
- (d) Risk Control Self-Assessment conducted on major business entities of the Group.

Through the Audit Committee and the Group's Internal Audit Department, the Board has conducted an annual review on the effectiveness of the internal control systems for the year ended 31 December 2006.

The Internal Audit Department reviews all major operations of the Group on a cyclical basis. The audit reviews cover all material financial, operational and compliance controls and risk management functions. The annual audit plan and the long-term strategy plan of the Internal Audit Department are approved by the Audit Committee. The Head of Internal Audit Department reports directly to the Managing Director and the Audit Committee. Results of the audit reviews in the form of audit reports are submitted to the members of the Audit Committee and discussed at the Audit Committee meetings. The internal audit reports are also followed up by the Internal Audit Department to ensure that findings previously identified have been properly resolved.

Based on the Audit Committee's assessment on results of the internal audit reviews for the year ended 31 December 2006, no significant irregularity or deficiency in internal controls has come to the Audit Committee's attention. The Audit Committee therefore concludes that the internal control systems of the Group are adequate and effective.

The Board, based on the review of the Audit Committee, is satisfied that the Group has maintained sound and effective internal control systems for the year ended 31 December 2006.