

## Corporate Governance Report

The Board regularly reviews and adopts corporate governance guidelines and developments. Throughout the year under review, the Group has complied with the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) except the CG Code A.4.2, that requires every director, including those appointed for a specific term, to be subject to retirement by rotation at least once every three years. Steps are being taken to amend the bye-laws of the Company with a view to ensuring full compliance with the requirements of this CG Code. One of the major steps required is to amend or repeal The Kader Holdings Company Limited Company Act 1990 of Bermuda, which is a private Act pursuant to which the Company was incorporated. The Company has retained a firm of legal advisers in Bermuda to advise on and undertake this exercise. The required documents are ready and scheduled for submission to the Legislature in Bermuda in early May 2007.

The corporate governance practices adopted by the Group are as follows:–

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the “Model Code”) set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the directors’ securities transactions. All of the Directors have confirmed, following specific enquiry by the Company, that they were in compliance with the Model Code throughout the year under review.

### BOARD OF DIRECTORS

The Board comprises two executive directors (one of whom is the Managing Director), two non-executive directors (one of whom is the Chairman of the Board) and three independent non-executive directors (“INEDs”). The biographical details of all directors of the Company, including the relationship amongst them, are set out on pages 21 to 23 of the annual report.

All non-executive directors are engaged on a term of service of two years renewable for another two years upon expiry. The Board believes the non-executive directors are well qualified and competent in advising the Group on the business strategy, finance and management issues.

The INEDs are explicitly identified in all corporate communications, and one of them has significant financial and accounting expertise. Moreover, the Board also reviews the independence of INEDs on an annual basis and each INED has confirmed their independence as at the end of 2006.

As mentioned above, the Company has taken steps to amend the bye-laws of the Company with a view to ensuring full compliance with the requirements of CG Code A.4.2. Upon the completion of the amendment of the bye-laws, all directors are subject to re-election by shareholders at the annual general meeting following their appointment and at least every three years on a rotational basis. Where vacancies exist at the Board, candidates are proposed and put forward to the Board for consideration and approval. Upon their appointment, the new directors receive a package of orientation materials and attend extensive presentations given by senior executives to review the Group’s businesses. Training and information are provided to directors regularly to help and ensure that the directors are aware of the latest changes in the commercial and regulatory environment in which the Group carries out its businesses.

## Corporate Governance Report *(Continued)*

As from January 2006, an insurance policy on directors' and officers' liability was in force to ensure our directors and senior management are protected from any liability arising from the performance of their duties.

### THE BOARD AND THE MANAGEMENT

The functions normally reserved to the Board are steering the Group on strategic directions; setting up any Board committee for issues the Board deem appropriate; overseeing the effectiveness of the internal control system; evaluating major corporate, strategic and operational issues that have significant impact on the Group; and evaluating major investment opportunities which management has not already identified and/or, if the investment is so major, requires the Board to make a decision.

The management, led by the Managing Director, is responsible for the management and day-to-day operation of the Group.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group. The directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and all applicable disclosure provisions of the Listing Rules. The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group has a clear division of responsibilities for its top management and adopts a dual leadership structure where the role of Chairman, Dr. Dennis Ting Hok-shou is separate from that of Chief Executive Officer and Managing Director, Mr. Kenneth Ting Woo-shou. The Chairman is responsible for managing the operations of the Board and to provide leadership for the Board, ensuring that good corporate governance practices and procedures are established and that the Board acts in the best interests of the Company. The Chief Executive Officer is responsible for the running of the Group's business. Dr. Dennis Ting Hok-shou and Mr. Kenneth Ting Woo-shou are brothers.

## Corporate Governance Report *(Continued)*

### COMMUNICATION BETWEEN THE BOARD AND THE MANAGEMENT

The Board meets regularly, and at least four times a year. Between scheduled meetings, senior management of the Group provide to the directors information on a timely basis on the activities and development in the businesses of the Group and when required, additional Board meetings are held. In addition, directors have full access to information on the Group and independent professional advice whenever deemed necessary by the directors. The Company Secretary is responsible for communications with Board members.

### MEETINGS AND ATTENDANCES

The Board held four meetings in 2006 with an average attendance rate of approximately 71%. Those absent directors were out of town or engaged in other meetings, thus they were not available to attend the respective board of directors meetings. In the meantime, they had rendered their views and comments to the Chairman and management prior to the meetings being held.

<b>Name of Directors</b>	<b>Title</b>	<b>Attendance</b>
Dennis Ting Hok-shou	Non-executive Chairman	2/4
Kenneth Ting Woo-shou	Managing Director	4/4
Ivan Ting Tien-li	Executive Director	4/4
Moses Cheng Mo-chi	Non-executive Director	1/4
Liu Chee-ming	Independent Non-executive Director	3/4
Floyd Chan Tsoi-yin	Independent Non-executive Director	4/4
Andrew Yao Cho-fai	Independent Non-executive Director	2/4

### REMUNERATION COMMITTEE

The Remuneration Committee was established in 2005 with written Terms of Reference posted on the Company's website. The role and function of the Committee is to make recommendations to the Board on the Company's policy and structure for the remuneration of all directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

Currently, the Remuneration Committee is chaired by Mr. Kenneth Ting Woo-shou. Other members of the Committee are Messrs Floyd Chan Tsoi-yin and Andrew Yao Cho-fai.

The Remuneration Committee met once in 2006 to review and approve directors' remuneration. A full attendance was recorded for the meeting held.

## Corporate Governance Report *(Continued)*

The directors' fees paid to the non-executive directors and the independent non-executive directors are subject to annual review and approval by the Remuneration Committee. Before proposing remuneration packages, the Remuneration Committee is responsible for reviewing all relevant remuneration data and market conditions in addition to considering the performance and responsibility of individual directors as well as the profitability of the Group. The primary objective is to retain and motivate directors by linking their compensation with performance and measure it against corporate goals. However, no director can approve his or her own remuneration.

The emoluments of each of the directors of the Company for 2006 are set out in note 7 to the financial statements.

### NOMINATION OF DIRECTORS

Since the composition of board of directors of the Company is not complicated, during the Board Meeting held on 12th April 2005, the Board resolved that "the setting up of a Nomination Committee be postponed and considered by the Board in due course". Currently, there is no Nomination Committee being formed.

Where vacancies exist at the Board or additional director is deemed necessary, the Managing Director is invited to make recommendations to the Board based on criteria endorsed by the Board. The criteria include relevant professional knowledge, proven financial and commercial experience, and personal ethics, of which the Board should consider the appropriateness. Candidates so proposed are then put forward to the Board for consideration and approval.

During the year under review, Mr. Patrick Leung Shing-cheung resigned as Executive Director of the Company, effective 4th April 2006. With the recommendation made by the Managing Director, an INED, Mr. Liu Chee-ming, nominated Mr. Ivan Ting Tien-li to join the Board as Executive Director and accordingly, Mr. Ivan Ting Tien-li was appointed as Executive Director of the Company, effective 4th April 2006. Mr. Ivan Ting Tien-li is the son of Mr. Kenneth Ting Woo-shou and the nephew of Dr. Dennis Ting Hok-shou.

### AUDITORS' REMUNERATION

Each year, the auditors are appointed in the Annual General Meeting ("AGM") and in the AGM held on 6th June 2006, directors were authorised to fix the auditors' remunerations for the auditing services rendered.

The fees for audit and audit related services provided by the Group's auditors, KPMG, for the year ended 31st December 2006 amounted to HK\$1,626,000. In addition, certain subsidiaries were audited by other auditors for the year ended 31st December 2006 and the fees amounted to HK\$403,000.

Save as disclosed above, the auditors have not so far performed any significant non-auditing service. Should any non-auditing service be considered to be conducted by our auditors, the Audit Committee would consider that based on the policy developed by them in this regard and would then make recommendations to the Board.

## Corporate Governance Report *(Continued)*

### AUDIT COMMITTEE

The Audit Committee was established in 1999. The respective written Terms of Reference are posted on the Company's website.

The Audit Committee comprises three INEDs and one non-executive director. All committee members have appropriate industry and/or financial experience to perform their role in the business of the Audit Committee. Currently, the Committee is chaired by Mr. Liu Chee-ming and the other members of the Committee are Messrs Moses Cheng Mo-chi, Floyd Chan Tsoi-yin and Andrew Yao Cho-fai.

Under its Terms of Reference, the duties of the Audit Committee, amongst other things, shall be to oversee the relationship with the external auditors, to be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, to consider any questions of resignation or dismissal of that auditor, and to review with senior management and external auditors on the accounting principles and practices adopted, listing rules and statutory compliances, internal control, related party transactions, risk management and financial reporting matters, including interim and annual financial statements and provide recommendations to the Board.

During the year under review, the Audit Committee has met with the management to review the interim and annual financial statements and to consider key accounting policies, and discussed with management the Group's internal controls, auditing and financial reporting matters.

There were two Audit Committee meetings held in 2006, with an average attendance rate of approximately 75%. The absent director was out of town and was not available to attend the meetings. In the meantime, he had rendered his views and comments to the chairman of the Committee prior to the meetings being held.

<b>Name of Audit Committee Members</b>	<b>Title</b>	<b>Attendance</b>
Liu Chee-ming	Chairman	2/2
Moses Cheng Mo-chi	Committee Member	0/2
Floyd Chan Tsoi-yin	Committee Member	2/2
Andrew Yao Cho-fai	Committee Member	2/2

In discharging their responsibilities in their review of the Group's financial results, and their other duties, the audit committee members would monitor the integrity of management in preparing the financial statements, and review significant financial reporting judgments contained in the financial statements. In this regard, in reviewing the financial statements in the annual report and the interim report, before submission to the Board, the Audit Committee always focus particularly on:

1. Any changes in accounting policies and practices;
2. Major judgmental areas;

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3. Significant adjustments resulting from audit;
4. The going concern assumptions and any qualifications;
5. Compliance with accounting standards;
6. Compliance with the Listing Rules and other legal requirements in relation to financial reporting; and
7. Any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by senior management.

The Audit Committee would also discuss problems and reservations arising from the audit work performed, and any matters the auditors may wish to discuss (in the absence of management where necessary).

In discharging their responsibilities on internal control procedures, the Audit Committee has asked for formal internal control system on Compliance, Operational Control, Financial Control, and Risk Management be set up in writing and, at the appropriate time, would:–

1. Review the financial controls, internal control and risk management systems;
2. Discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
3. Consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
4. Review the draft representation letter prior to approval by the Board;
5. Review the external auditor's management letter and management's response, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
6. Ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; and
7. Report to the Board on these matters as deemed appropriate.

### INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and for the assessment and management of risk.

## Corporate Governance Report *(Continued)*

In meeting its responsibility the Board seeks to increase risk awareness across the Group's business operations and has put in place policies and procedures, including the parameters of delegated authority, which provide a framework for the identification and management of risk.

The Company has not appointed an internal auditor. Meanwhile, clear policies and procedures are well defined in written internal control manuals on compliance, operational control, financial control and risk management. The written internal control manuals had been tabled before and acknowledged by the Board. The policies and processes adopted for the implementation of risk management are monitored and reviewed regularly by appropriate senior management so as to ensure that the above-mentioned categories of risks are effectively managed.

The executive management team of each core business division is accountable for the conduct and performance of each business in the division within the agreed strategies. Business plans and budgets are prepared annually by management of individual businesses and subject to review and approval by the executive directors. The Executive Director and senior management are responsible for monitoring activities include the review and approval of business strategies, budgets, and plans, and the setting of key business performance targets. When setting budgets and forecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks. These are regularly reported to the Board at its regular meetings. The Board has, in compliance with the guidelines of the Code on Corporate Governance, commenced a comprehensive review on the effectiveness of the system of internal control, and the Operational and Internal Control Manuals of the Company, and is in the course of engaging professionals from a consulting firm to assist the Audit Committee in undertaking such review. The Board is not aware of any deficiency or major issue of concern in the internal control system of the Company.

Periodical management and operational meetings were held with executive management teams and senior management of business operations to review business performance against budgets and forecasts.

Currently, appropriate insurance coverage has been arranged to minimise the financial impact of risks that may be encountered.

### INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

To promote investor relations and communications, regular meetings are held when the interim and annual financial results are announced. Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. The Chairman and directors are available to answer questions on the Group's businesses at the meeting. All shareholders have statutory rights to call for extraordinary general meetings and put forward agenda items for consideration by shareholders. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded.

## Corporate Governance Report *(Continued)*

The Board is committed to providing clear and full performance information of the Group to shareholders through the publication of interim and annual reports. In addition to dispatching circulars, notices, financial reports to shareholders, additional information is also available to shareholders from the Group's website at [www.kaderholdings.com](http://www.kaderholdings.com).

As at 31st December 2006, the Company had 665,411,594 shares in issue, with par value of HK\$0.10 each. Share interests of directors and the chief executives of the Company are disclosed on the Report of the Directors set out on pages 18 to 27 of the annual report.