

# Corporate Governance Report

The Board of Directors (“Board”) and the management of the Company are committed to establishment and maintaining of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management and enhancing shareholders’ value. The corporate governance principles of the Company emphasise a quality Board, sound internal controls, and accountability and transparency to all shareholders.

The Company has complied with all the code provisions and to certain extent of the recommended best practices set out in Appendix 14 Code on Corporate Governance Practices (the “CG Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the accounting year ended 31 December 2006, except code provision on A.2.1 on the separate roles of the chairman and CEO as described below.

## BOARD COMPOSITION AND BOARD PRACTICES

The Board of the Company is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

During the year, the Board of the Company consists of eight directors, comprising four executive directors, one non-executive director and three independent non-executive directors. One of the three independent non-executive directors has appropriate professional qualifications, or accounting or related financial management expertise. The names of directors and their positions are as follows:

<b>Name of Director</b>	<b>Position</b>
<i>Executive directors:</i>	
Mr. Lam Foo Wah	Chairman and Managing Director
Mr. Hui Yip Wing	Executive Director
Mr. Wong Shing Loong, Raymond	Executive Director
Ms. So Siu Hang, Patricia	Executive Director
<i>Non-executive directors:</i>	
Mr. Chan Wah Tip, Michael	Non-Executive Director
Mr. Woo King Wai	Independent Non-Executive Director
Mr. Wong Shiu Hoi, Peter	Independent Non-Executive Director
Mr. Leung Hok Lim	Independent Non-Executive Director

One-third member in the Board is Independent Non-executive Directors and each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent.

All directors (including non-executive directors) are subject to retirement by rotation once every three years in accordance with the Company’s Bye-laws and the CG Code. In accordance with the Company’s Bye-Laws, newly appointed Director(s) is/are required to offer themselves for re-election at the first general meeting following their appointment.

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### **BOARD COMPOSITION AND BOARD PRACTICES** *(Cont'd)*

The Board meets regularly, and held meetings four times during the year for facilitating the function of the Board. In any event all directors were available for consultation by management from time to time during the year. The meeting record of attendance is set out on page 27 of this report.

Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The directors' biographical information is set out on pages 11 to 14.

The positions of the Chairman of the Board ("Chairman") and the Managing Director are held and performed by Mr. Lam Foo Wah, the same individual. Although it deviates from the code provision A.2.1 of the CG Code, the Board considers that the function of the Chairman and the Managing Director in the Company's strategic planning and development process are overlapping and it may not be for the benefit of the Company to have separate individuals occupying these two offices in the conditions of the Group and its stage of development.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies and policies; evaluating the performance of the Group; and oversight of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary.

Management is responsible for the day-to-day operations of the Group under the leadership of the Chairman who is also the Managing Director. The Managing Director, working with the other executive directors and the executive management team of each business division, is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group. All directors have made full and active contribution to the affairs of the Board and the Board always acts in the best interests of the Group.

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. Apart from the regular Board meetings, the Chairman may hold meetings with the Non-Executive Directors (including Independent Non-Executive Directors) without the presence of Executive Directors.

In order to ensure that the Board is able to fulfill its responsibilities, the Board has established and delegated specific responsibilities to the Audit Committee and Remuneration Committee. The details of the committees are stipulated on pages 25 to 26 of this report.

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## **BOARD COMPOSITION AND BOARD PRACTICES** *(Cont'd)*

At least 14 days formal notice of every regular board meeting is given to all directors to give them the opportunity to attend. Board papers are circulated not less than three days before the Board meetings to enable the directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and the Qualified Accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors shall have full access to information on the Group and are able to seek independent professional advice whenever deemed necessary by the directors. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

The Company Secretary is responsible to the Board for ensuring that board procedures are followed and for ensuring that the Board is fully briefed on all legislative, regulatory and corporate governance developments and that it has regard to them when making decisions. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the directors and officers of the Group from their risk exposure arising from the businesses of the Group.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions.

Confirmation has been sought from all directors and they have complied with the required standard set out in the Model Code for the year ended 31 December 2006.

The Company has established the written guidelines on no less exacting terms than the Model Code relating to securities transactions for the relevant employees.

## **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The directors acknowledge their responsibility for preparing the financial statements of the Group.

With the assistance of the finance department which is under the supervision of the Qualified Accountant of the Company, the directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The directors also ensure the publication of the financial statements of the Group is in a timely manner.

The report of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 30.

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### AUDITORS' REMUNERATION

The Group's external auditors are Deloitte Touche Tohmatsu. For the year ended 31 December 2006, the Auditors of the Company received approximately HK\$3.8 million for audit service and HK\$2,056,000 for tax and consultancy services.

### AUDIT COMMITTEE

During the financial year, the audit committee of the Company (the "Audit Committee") comprises one non-executive director namely, Mr. Chan Wah Tip, Michael and three independent non-executive directors, namely, Mr. Leung Hok Lim (the Chairman of the Audit Committee), Mr. Woo King Wai and Mr. Wong Shiu Hoi, Peter. On 1 March 2007, Professor Yeung Kwok Wing was appointed as a Non-Executive Director, a member of Audit and Remuneration Committees of the Company. Accordingly, Professor Yeung attended Audit Committee meeting held in April 2007.

In April 2007, the Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2006.

The Company has complied with the requirement of the Listing Rules in establishing an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Audit Committee adopted the terms of reference with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and in accordance with the requirements of the CG Code. The terms of reference of the Audit Committee are posted on the Company's website.

The main duties of the Audit Committee are set out below:

- (i) to recommend to the Board on the appointment, reappointment and removal of the external auditors, and any questions of resignation or dismissal of the auditors;
- (ii) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- (iii) to develop and implement policy on the engagement of external auditors to supply non-audit services;
- (iv) to monitor integrity of financial statements of the Company and the Company's annual and interim reports and accounts, and to review significant financial reporting judgments contained in such reports;
- (v) to review the Company's financial controls, internal control and risk management systems; and
- (vi) to review the Group's financial and accounting policies and practices.

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## **AUDIT COMMITTEE** *(Cont'd)*

The Audit Committee held two regular meetings during the year to review and provide supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the Auditors of the Company. The meetings record of attendance is listed out on page 27.

Minutes drafted by the secretary of Audit Committee are circulated to members of the Audit Committee within a reasonable time after each meeting.

No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he/she ceases to be a partner of the auditing firm.

## **REMUNERATION COMMITTEE**

According to the requirement of the CG Code, the Company set up the remuneration committee of the Company ("Remuneration Committee") on 22 August 2005. The Remuneration Committee comprises Mr. Wong Shiu Hoi, Peter (Chairman of the Remuneration Committee), Mr. Chan Wah Tip, Michael, Mr. Woo King Wai and Mr. Leung Hok Lim during the year. A regular meeting of Remuneration Committee has been convened in April 2006 and the meeting record of attendance is listed out on page 27.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and reviewing the specific remuneration packages of all Executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. Terms of reference of the Remuneration Committee which have been adopted by the Board are posted on the Company's website.

The Remuneration Committee shall consult the Chairman about their proposals relating to remuneration package and other human resources issues of the directors and senior management of the Company. The emoluments of directors and senior management are based on the skill, knowledge and involvement in the Company's affairs of each director and senior management and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. In addition, details of the Company's share option granted to Directors and senior management are set out in note 32 to the financial statements.

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## NOMINATION OF DIRECTORS

The Company has not established any nomination committee and would not consider establishing a nomination committee owing to the small size of the Board. The Chairman of the Board is responsible for making recommendations to the Board on the appointment of directors, evaluation of board composition and the management of board succession. The Board carries out the process of selecting and recommending candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary.

Records of attendance for Board and respective Board Committees Meetings held during the year:

Name of Directors	Attendance / Number of Meetings held		
	Board	Audit Committee	Remuneration Committee
<i>Executive directors:</i>			
Mr. Lam Foo Wah	4/4	N/A	1/1
Mr. Hui Yip Wing	4/4	N/A	N/A
Mr. Wong Shing Loong, Raymond	3/4	N/A	N/A
Ms. So Siu Hang, Patricia	2/4	N/A	N/A
<i>Non-executive director:</i>			
Mr. Chan Wah Tip, Michael	4/4	1/2	1/1
<i>Independent non-executive directors:</i>			
Mr. Woo King Wai	3/4	2/2	1/1
Mr. Wong Shiu Hoi, Peter	4/4	2/2	1/1
Mr. Leung Hok Lim	3/4	2/2	1/1

## INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board conducts reviews of the effectiveness of the internal control system for the year ended 31 December 2006 covering all material controls, including financial, operational and compliance controls and risk management functions by considering reviews performed by the Audit Committee, executive management and both internal audit department and external auditors. The Group's system of internal control comprises a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations.

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

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## **INTERNAL CONTROL** *(Cont'd)*

The criteria for the Board to assess the effectiveness of the system of internal control are listed below:

**(i) Organisational Structure**

An organisational structure with operating policies and procedures, lines of responsibility and delegated authority has been already established.

**(ii) Authority and Control**

The relevant executive directors and senior management are delegated with respective levels of authorities with regard to key corporate strategy and policy and contractual commitments. The Board shall be responsible for handling and dissemination of price sensitive information through discussion and delegation of authority to the Company Secretary.

**(iii) Budgetary Control and Financial Reporting**

Budgets are prepared annually by the senior management and are subject to review and approval of the executive directors prior to being adopted. There are procedures for the appraisal, review and approval of major capital and recurrent expenditure. Results of operations against budgets are reported regularly to the executive directors. Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations.

**(iv) Systems and procedures**

Systems and procedures are set to identify, measure, manage and control risks including business, compliance, operational, financial and information services risks that may have an impact on the Group and each principal division. Exposure to these risks is monitored by the Executive Directors and the management of the respective principal divisions.

**(v) Internal Audit**

The Internal Audit Department performs independent reviews of the controls and risks identified to provide reasonable assurance to management of the Company and principal divisions and the Audit Committee that controls have been set in place and adequately addressed.

The Internal Audit Department monitors compliance with policies and procedures as well as the effectiveness of internal control structures across the Company and the Group. To preserve the independence of the Internal Audit Department, the internal audit reports functionally to the Audit Committee. The Internal Audit Department plans its internal audit schedules annually in consultation with, but independent of, management of the Group and the principal divisions. In addition to its agreed annual schedule of work, the Internal Audit Department conducts other special reviews as required. A summary of major audit findings is reported semi-annually and reviewed by the Audit Committee. As a key criterion of assessing the effectiveness of the internal control system, the Board and the Committee actively monitor the number and seriousness of findings raised by the Internal Audit Department and also the corrective actions taken by relevant departments.

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### **INTERNAL CONTROL** *(Cont'd)*

According to the 2006 Internal Audit report, the Group's internal control system is functioning effectively and there was no significant weakness found in the course of the audits carried out during the year. The Board, through the Audit Committee and the internal audit function, has reviewed the effectiveness of the Group's internal control systems and is of the view that there are no suspected frauds, irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations that cause the Board to believe that the systems of internal control are ineffective or inadequate. The Board is satisfied that the Company and the Group have fully complied with the code provisions on internal control as set forth in the CG Code for the year ended 31 December 2006.

### **COMMUNICATION WITH SHAREHOLDERS**

At 2006 Annual General Meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including the re-election of Directors and the Chairman of the Board as well as the chairman of the Audit and Remuneration Committees attended to answer questions of shareholders.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the bye-laws of the Company. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

The Company establishes different communication channels with shareholders and investors: (i) shareholders can receive printed copies of corporate information, (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) the Company's website offers communication channel between the Company and its shareholders and investors; and (iv) the Company's Sub-Registrar and Transfer Agent in Hong Kong serve the shareholders respecting all share registration matters.