

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices and procedures. The Company has adopted its code on corporate governance based on the principles set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

None of the directors of the Company is aware of any information that would reasonably indicate that the Company did not meet the applicable code provisions set out in the CG Code for any part of the period from 1 January 2006 to 31 December 2006.

## MODEL CODE FOR SECURITIES TRANSACTIONS

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 as its code of conduct of dealings in securities of the Company by the directors. The Model Code also applies to "relevant employees" as defined in code provision A.5.4 of the CG Code. Based on specific enquiry of the Company's directors, the directors confirmed that they have complied with the required standard set out in the Model Code throughout the accounting period covered by the annual report.

## BOARD OF DIRECTORS

As at 31 December 2006, the Board was comprised of nine directors, including three non-executive directors, being Mr. Hung Hak Hip, Peter (Chairman), Ms. Hung Chiu Yee and Mr. Lee Pak Wing; four independent non-executive directors, being Dr. Wong Yu Hong, Philip, Mr. Sze Tsai To, Robert, Mr. Cheung Wing Yui, Edward and Mr. Seto Gin Chung, John and two executive directors, being Mr. Wong Kwok Ying and Ms. Lam Fung Ming, Tammy. On 1 January 2007, Mr. Shek Lai Him, Abraham was appointed an independent non-executive director of the Company. Biographical details which include relationships among members of the Board are set out under "Directors' and Senior Executives' Biographies" on pages 13 to 15.

The Board accepts that it is ultimately accountable and responsible for the performance and affairs of the Company. Although the Board bears overall responsibility for the Company, the management of the Company (including the executive directors) is the custodian and administrator of the day-to-day performance of the Company.

The Company has received a written confirmation of independence from each of the independent non-executive directors who consider themselves to be independent.

The Board meets at least four times a year and on other occasions when a Board decision is required on major issues. Directors may participate in meeting via telephone or video-conferencing link. Board consents are given by vote at the Board meetings and supplemented via circulation of written resolutions between Board meetings.

During the year, there were four full board meetings (including those with voting by communication) and four full board circulations. Individual attendance records at full board meetings are set out on page 11 of this report.

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## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code requires that the roles of the Chairman and Chief Executive Officer be separated and not performed by the same individual.

The Chairman's principal responsibility is to ensure effective running of the Board, enabling the Board as a whole to play a full and constructive part in the development and determination of the Group's strategy and overall commercial objectives. The Chief Executive Officer is responsible for day-to-day management of the Group's business and achieving the strategic and commercial objectives agreed by the Board. In the year under review, the Chairman of the Company was Mr. Hung Hak Hip, Peter. The role of the Chief Executive Officer was shared by Mr. Wong Kwok Ying (Chief Financial Officer) and Ms. Lam Fung Ming, Tammy (Chief Operating Officer).

## NON-EXECUTIVE DIRECTORS' TERM OF OFFICE

The non-executive directors of the Company are appointed for specific terms, subject to retirement and re-election in accordance with the provisions of the bye-laws of the Company.

## REMUNERATION OF DIRECTORS

The Remuneration Committee was established with a particular responsibility to review the Company's remuneration policy for directors and members of the senior management. As at 31 December 2006, the Remuneration Committee was comprised of Mr. Hung Hak Hip, Peter (chairman of the Committee), the non-executive Chairman of the Company, and Dr. Wong Yu Hong, Philip, Mr. Sze Tsai To, Robert and Mr. Cheung Wing Yui, Edward, three independent non-executive directors of the Company. On 1 January 2007, Dr. Wong Yu Hong, Philip resigned from the Remuneration Committee and Mr. Shek Lai Him, Abraham, an independent non-executive director of the Company, was appointed a member of the Remuneration Committee. Accordingly, as at the date of this report, the Remuneration Committee was comprised of Mr. Hung Hak Hip, Peter, Mr. Sze Tsai To, Robert, Mr. Cheung Wing Yui, Edward and Mr. Shek Lai Him, Abraham.

The terms of reference of the Remuneration Committee revised to align with the provisions of the CG Code are available to the public on request and are posted on the Company's website.

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Remuneration Committee with reference to directors' duties, responsibilities and performance and the results of the Group.

The Remuneration Committee held two meetings in 2006. During the meetings, the Remuneration Committee reviewed the remuneration packages of all directors and senior management. Meeting attendance records of the Remuneration Committee are set out on page 11.

Information relating to the remuneration of each director for 2006 is set out in note 8 to the financial statements.

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## NOMINATION OF DIRECTORS

Currently, the Company does not have a Nomination Committee and it is the Board's responsibility to identify individuals suitably qualified for becoming board members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account his experience, qualification and other relevant factors. All candidates must also meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

## AUDITORS' REMUNERATION

During 2006, the fees payable to Ernst & Young, the Company's external auditors, for audit services totalled to HK\$1,198,000 (2005: HK\$1,147,000). Ernst & Young has also provided the Group with non-audit services, including the review of interim financial report, at fees totalled to HK\$398,000 (2005: HK\$398,000).

## AUDIT COMMITTEE

The Company has an Audit Committee with terms of reference revised to align with the provisions of the CG Code for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The terms of reference of the Audit Committee are available to the public on request and are posted on the Company's website.

As at 31 December 2006, the Audit Committee was comprised of Mr. Sze Tsai To, Robert (chairman of the Committee) and Mr. Cheung Wing Yui, Edward, both of them are independent non-executive directors, and Mr. Hung Hak Hip, Peter, the non-executive Chairman of the Company. The chairman of the Audit Committee has the required appropriate professional financial qualifications and experience. On 1 January 2007, Mr. Seto Gin Chung, John, an independent non-executive director of the Company, was appointed a member of the Audit Committee. Accordingly, as at the date of this report, the Audit Committee was comprised of Mr. Sze Tsai To, Robert, Mr. Cheung Wing Yui, Edward, Mr. Hung Hak Hip, Peter and Mr. Seto Gin Chung, John.

In 2006, the Audit Committee reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of audited accounts for the year ended 31 December 2005 and the interim financial report for the six months ended 30 June 2006. The Group's annual results for the year ended 31 December 2006 have also been reviewed by the Audit Committee of the Company.

The Audit Committee held two meetings in 2006. Meeting attendance records of the Audit Committee are set out on page 11.

## FINANCIAL REPORTING

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.

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## FINANCIAL REPORTING (Continued)

As at 31 December 2006, the directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditors' Report attached to the Company's 2006 Annual Report.

## INTERNAL CONTROL

The Board is responsible for the Group's system of internal control that is designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. In devising internal controls, the Group has regard to the nature and extent of the risk, the likelihood of it crystallizing, and the cost of controls. A system of internal control is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute, assurance against the risk of material misstatement, fraud or losses.

The Board, with the assistance of its Audit Committee, assesses the effectiveness of internal control of the Group by considering reviews performed by the management, the independent auditors and the internal assessment report outsourced and performed by a firm of qualified accountants. Such reviews during the financial year ended 31 December 2006 did not reveal any significant defects.

The aforesaid is an ongoing process for identifying, evaluating and managing of significant business, financial, compliance and operational risks specific to the Group. Relevant recommendations made by the independent auditors, the Audit Committee and the external accountants who performed the reviews at least annually would be implemented, if appropriate, as soon as possible, by the Group to further enhance its internal control policies, procedures and practices.

## COMMUNICATION WITH SHAREHOLDERS

The Board makes its endeavour to maintain an ongoing and transparent communication with all shareholders and, in particular, use general meetings to communicate with shareholders and encourage their participation. The Company also uses various other means of communication with its shareholders, such as publication of annual and interim reports, press announcements, circulars and additional information on the Group's business activities and development on the Company's website: <http://www.hophing.com>. Details of poll vote procedures, which comply with the Listing Rules and the bye-laws of the Company, have been included in the Company's circulars sent to shareholders of the Company and in the proceedings of the Company's general meetings.

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## DIRECTORS'/COMMITTEE MEMBERS' ATTENDANCE IN 2006

Name of director	Meetings attended/Eligible to attend		
	Full Board	Audit Committee	Remuneration Committee
<i>Non-executive directors</i>			
Hung Hak Hip, Peter (Chairman of the Board and the Remuneration Committee)	3/4	2/2	2/2
Hung Chiu Yee	3/4	N/A	N/A
Lee Pak Wing	3/4	N/A	N/A
<i>Independent non-executive directors</i>			
Wong Yu Hong, Philip (note 1)	2/4	N/A	1/2
Sze Tsai To, Robert (Chairman of the Audit Committee)	4/4	2/2	2/2
Cheung Wing Yui, Edward	4/4	2/2	1/2
Seto Gin Chung, John (note 2)	3/3	N/A	N/A
<i>Executive directors</i>			
Wong Kwok Ying	4/4	N/A	N/A
Lam Fung Ming, Tammy	3/4	N/A	N/A

### Notes:

1. Wong Yu Hong, Philip resigned from the Audit Committee on 15 March 2006.
2. Seto Gin Chung, John was appointed an independent non-executive director of the Company on 25 April 2006.