

## CORPORATE GOVERNANCE REPORT

### INTRODUCTION

The Company is committed to ensuring high standards of corporate governance. Throughout the year of 2006, the Company has substantially complied with the provisions on the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

### DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have fully complied with the required standard set out in the Model Code throughout the year of 2006.

### BOARD OF DIRECTORS

The Board currently comprises three executive directors and three independent non-executive directors. For a Director to be considered independent, the Board follows the requirements set out in the Listing Rules and must determine that the director does not have any direct or indirect material relationship with the Group. Under the Company's Articles of Association, every director is subject to retirement by rotation at least once every three years and their re-election is subject to a vote by the shareholders. All independent non-executive directors are appointed for a specific terms.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the executive directors. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic and financial policies including dividend policy, material contracts and major investments. All Board members have separate and independent access to the Group's senior management to fulfill their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group's expense upon their request.

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The Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. Nine Board meetings were held in 2006. Individual attendance of each director at the Board meetings, the Audit Committee meetings, the Nomination Committee meetings and the Remuneration Committee meetings during 2006 is set out below:

Director	Attendance/Number of Meetings			
	Board	Audit Committee	Nomination Committee	Remuneration Committee
<b>Executive Director</b>				
Mr. Hui Kee Fung ( <i>Chairman</i> )	8/8	N/A	1/1	1/1
Mr. Hui Ki Yau ( <i>Chief Executive Officer</i> )	8/8	N/A	N/A	N/A
Madam Hui Hung Tan, Teresa	8/8	N/A	N/A	N/A
<b>Independent Non-Executive Director</b>				
Mr. Peng Guanghui	8/8	3/3	1/1	1/1
Mr. Kung King Ching, Conrad	8/8	3/3	1/1	1/1
Mr. Tang Rongzu (appointed on 23 May 2006)	7/7	2/2	1/1	1/1
Dr. Lin Ai Yue (resigned on 23 May 2006)	1/1	1/1	0/0	0/0

To implement the strategies and plans adopted by the Board effectively, executive directors and senior management meets regularly to review the performance of the businesses of the Group and make financial and operational decisions.

Biographical details of the directors, together with information about the relationship among them, can be found under the Profile of Directors and Senior Management section on page 11.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group has appointed Mr. Hui Kee Fung as the Chairman and Mr. Hui Ki Yau as the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. The relationship between the Chairman and the Chief Executive Officer can be found in the Profile of Directors and Senior Management section on page 11.

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### REMUNERATION COMMITTEE

The Remuneration Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management, considering factors such as salaries paid by comparable companies, time commitment and responsibilities of individuals. The terms of reference of the Remuneration Committee can be obtained from the Company upon request.

During the year, the Remuneration Committee reviewed the remuneration policies and approved the salary of directors and senior management. The remuneration of each director is determined by the committee with reference to his/her duties and responsibilities with the Company. No executive director has taken part in any discussion about his own remuneration. One meeting was held by the Remuneration Committee in 2006. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Tang Rongzu – *Chairman*  
Mr. Peng Guanghui  
Mr. Kung King Ching, Conrad  
Mr. Hui Kee Fung

Directors' remunerations for the year are disclosed in note 15 to the financial statements.

### NOMINATION COMMITTEE

The Nomination Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee can be obtained from the Company upon request.

One meeting was held by the Nomination Committee in 2006. Three out of four of the committee members are independent non-executive directors of the Company. Its current members include:

Mr. Kung King Ching, Conrad – *Chairman*  
Mr. Peng Guanghui  
Mr. Tang Rongzu  
Mr. Hui Kee Fung

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### AUDIT COMMITTEE

The Audit Committee has clear terms of reference and is accountable to the Board. The committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The terms of reference of the Audit Committee can be obtained from the Company upon request. Three meetings were held by the Audit Committee in 2006. All committee members are independent non-executive directors. Its current members include:

Mr. Peng Guanghui – *Chairman*  
 Mr. Kung King Ching, Conrad  
 Mr. Tang Rongzu

The Committee members possess diversified industry experience and the Chairman of the Committee has appropriate professional qualifications and experience in accounting matters. During the year, the Committee considered the external auditors' re-appointment and their projected audit fees, reviewed the interim and annual financial statements and reviewed the Group's internal control system.

### INTERNAL CONTROLS

The Group's internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss rather than the elimination of risks associated with its business activities.

The Board is responsible for maintaining an adequate system of internal control for the Group and the directors has conducted a review of its effectiveness during the year.

### AUDITORS' REMUNERATION

During the year, the Group has incurred auditors' remuneration of HK\$777,000, out of which HK\$760,000 was payable to the Company's auditors, Messrs Grant Thornton. In addition, professional fee of HK\$58,000 was payable by the Group for the taxation services rendered by Grant Thornton.

### FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the Group's financial statements which give a true and fair view and are in accordance with generally accepted accounting standards published by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies are being selected and applied consistently.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditors' Report on page 25.