

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

Following the issue of the Code on Corporate Governance Practices (the “Code”), as set out in Appendix 14 of the Listing Rules, the Company has carefully reviewed and considered its provisions, and carried out a detailed analysis on the corporate governance practices of the Company against the requirements of the Code. Throughout the financial year ended 31 December 2006, except for the requirement that (i) the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and (ii) the non-executive directors should be appointed for specific terms, the Company has complied with all code provisions on the Code. The Company continues to improve its corporate governance and believes that good corporate governance will bring long-term benefits to our shareholders.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2006.

## BOARD OF DIRECTORS

### Composition and role

The board of directors (the “Board”) of the Company comprises:

Executive Directors:

Ng Hon Cheung, Sannio, *Chairman*  
Wan Ho Yan, Letty

Independent Non-executive Directors:

Lo Wah Wai  
Yan Mou Keung, Ronald  
Cheng Wing Keung, Raymond

There is no relationship between members of the Board.

The Board sets the Group’s overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Company. It also decides on matters such as annual and interim results, major transactions, Director appointments or re-appointments, and dividend and accounting policies.

The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group’s businesses to the executive Directors.

The key responsibilities of the Board include the formulation of the Group’s overall strategies, setting performance targets, regulate and maintain internal controls, monitoring financial reporting process and manage day-to-day business operations. The Board is responsible to promote the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to all shareholders for the manner which the affairs of the Company are managed, controlled and operated.

**BOARD OF DIRECTORS** (continued)**Composition and role** (continued)

The Board comprises of two executive Directors and three independent non-executive Directors. The biographical details of all Directors are presented on page 6 of this annual report. Two Directors are subject to retirement by rotation and re-election at the forthcoming AGM to be held on 20 June 2007.

Out of three independent non-executive Directors, Mr. Lo Wah Wai possesses appropriate professional accounting qualifications and financial management expertise, which satisfies Rule 3.10(2) of the Listing Rules. Through positive contributions to the Board and committee works, the independent non-executive Directors provide independent directives and views on important decisions in respect of strategic developments, corporate governance practices, financial reporting framework, internal controls and risk management.

The Board currently has two principal board committees, namely the Audit Committee and the Remuneration Committee. The independent non-executive Directors bring independent judgement on issues of strategic direction, development, performance and risk management through their contribution at board meetings and committee work. Pursuant to Rule 3.13 of the Listing Rules, the Company has received from each of the independent non-executive Director an annual confirmation of independence and the Company considers that all of the independent non-executive Directors are independent.

The full Board meets regularly and on other occasions when a Board decision is required on major issues. Details of Directors' attendance at the AGM, board meeting and committee meetings held in 2006 are set out in the following table:

Directors	Board	Meetings Attended/Held		AGM held on 19 June 2006
		Audit Committee	Remuneration Committee	
<i>Executive Directors</i>				
Ng Hon Cheung, Sannio	40/40	–	2/2	1
Wan Ho Yan, Letty	40/40	–	2/2	1
<i>Independent Non-executive Directors</i>				
Lo Wah Wai	2/40	4/5	2/2	1
Yan Mou Keung, Ronald	3/40	5/5	2/2	1
Cheng Wing Keung, Raymond	3/40	5/5	2/2	1

**Chairman and Chief Executive Officer**

Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The Company does not have any officer with the title of "CEO" at present. Mr. Ng Hon Cheung, Sannio is the chairman of the Company and has also carried out the responsibilities of CEO. The Directors believe that this board structure can ensure effective flow of information and the business strategies can be fully implemented. The Directors also believe that the chairman can discharge his responsibilities more efficiently.

# CORPORATE GOVERNANCE REPORT

## **BOARD OF DIRECTORS** *(continued)*

### **Re-election of Directors**

Under the Code Provision A.4.1, non-executive Directors should be appointed for specific terms, subject to re-election at the general meeting of the Company. Currently, all independent non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the AGM in accordance with the Articles. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than in the Code.

### **Audit Committee**

The Company established the Audit Committee on 3 December 2001, which is currently comprised solely of independent non-executive Directors, namely, Mr. Lo Wah Wai (Chairman), Mr. Yan Mou Keung, Ronald and Mr. Cheng Wing Keung, Raymond. All members of the Audit Committee have many years of accounting, finance and commercial management experience and expertise. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules.

The Audit Committee meets regularly to review the financial reporting process and internal controls of the Group. The Audit Committee has reviewed the accounting policies and practices adopted by the Group and discussed internal controls and financial reporting matters with management including a review of the consolidated financial statements for the year ended 31 December 2006.

In August 2006, BDO McCabe Lo Limited (the "BDO") ceased to be the auditors of the Company. The change was attributable to the fact that BDO and the Company could not reach a consensus on the audit fees. HLM & Co. Certified Public Accountants (the "Auditors") were appointed as new auditors of the Company until conclusion of the AGM. During the year, the Auditors rendered no non-audit services to the Group and the Group also did not incur any non-audit service fees.

The Group's 2006 audited financial statements had been duly reviewed by the Audit Committee with the Auditors. The members of the Audit Committee unanimously recommended for approval by the Board. The Audit Committee has concluded that is satisfied with the professional performance of the Auditors and therefore recommends the Board that Auditors be re-appointed as our auditors in the AGM.

With the consent of the Audit Committee, the Board hereby confirms that, in the preparation of the 2006 consolidated financial statements of the Company, the Directors, both collectively and individually applied such degree of skill, care and diligence as may reasonably be expected of under the Rule 3.08 of the Listing Rules.

## **BOARD OF DIRECTORS** *(continued)*

### **Remuneration Committee**

The Company established the Remuneration Committee on 28 July 2005, which is comprised solely of independent non-executive Directors, namely, Mr. Lo Wah Wai, Mr. Yan Mou Keung, Ronald and Mr. Cheng Wing Keung, Raymond. Mr. Cheng Wing Keung, Raymond is the chairman of the Remuneration Committee.

The Remuneration Committee is responsible for formulating the remuneration policy, reviewing and recommending to the Board the annual remuneration policy, and determination of the remuneration of the executive Director. Remuneration and the employment contracts of new appointing Directors have to be reviewed and approved by the Remuneration Committee. Compensation of removal or dismissal of Directors has to be reviewed and approved by the Remuneration Committee in accordance with relevant contractual terms and any compensation payment is otherwise reasonable and appropriate.

### **INTERNAL CONTROLS**

The Board has the responsibility to maintain an effective internal control system in order to safeguard the Group's assets and protect the shareholders' interests. The Board assesses the effectiveness of the internal control system and procedures derived from discussions with the Directors and reviews conducted by the Audit committee. The Board believes that the existing internal control system is adequate and effective.

### **DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors acknowledge their responsibility for preparing the Group's financial statements in accordance with statutory requirements and applicable accounting standards. The responsibilities of the Directors are to prepare the financial accounts for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Directors also acknowledge that the publication of the financial statements should be distributed to the Shareholders of the Company in a timely manner. In preparing the accounts for the year ended 31 December 2006, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent, fair and reasonable and prepared accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

### **COMMUNICATION WITH SHAREHOLDERS**

The Company has announced its annual results and interim results in a timely manner during the year. The general meeting serves as a communication channel between Directors and shareholders. During general meeting, chairman of the Board and its committees will present to answer any queries that our shareholders may have, and separate resolutions are proposed on each substantially separate issue, including the re-election of individual directors.

The notice of AGM shall be sent to all shareholders at least 21 days prior to the date of meeting. Details of each proposed resolution, voting procedures and other relevant information are set out in the notice of AGM and the circular contain such detail information will be issued to the Shareholders in due course.