

# Corporate Governance Report

## INTRODUCTION

The Company has all along committed to fulfill its responsibilities to its shareholders by ensuring that the proper processes for supervision and management of the Group's businesses are duly operated and reviewed and that good corporate governance practices and procedures, including but not limited to the Code on Corporate Governance Practices ("CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), are established throughout the year ended 31 December 2006.

Throughout the year ended 31 December 2006, the Company meets all the code provisions as set out in the CG Code, except for the only deviation from code provision A.2.1 of the CG Code for the period from 1 January 2006 to 25 October 2006 and the considered reasons are detailed in the Company's interim results 2006.

Save as disclosed in this report, the Company has complied with all the code provisions on CG Code.

## BOARD OF DIRECTORS (THE "BOARD") AND BOARD MEETING

### Board Composition

The Board currently comprises five executive directors ("ED"), namely Ms. Tin Yuen Sin Carol (Chairperson), Mr. Choi Chiu Fai Stanley (Chief Executive Officer), Mr. Chan Hon Ming Alan, Mr. Tse Pui To Dickson and Mr. Lam Yat Ming, and three independent non-executive directors, namely Mr. Ng Ka Chung Simon, Mr. Chan Wai Yip Freeman and Ms. Leung Po Ying Iris.

There is no service contract between the Company and each of the directors. Pursuant to the Bye-laws of the Company, each of the directors will hold office and will be subject to retirement by rotation and re-election at the annual general meeting.

The Company complies with Rule 3.10 of the Listing Rules that there is sufficient number of independent non-executive directors and each of them have appropriate professional qualifications. The Company has received from each of the independent non-executive directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent of the Company.

There is no financial, business, family or other material relationship between the Board members of the Company.

# Corporate Governance Report

## Change of Board

There were the change of the Board composition in late October 2006 to November 2006 caused by the the mandatory conditional cash offer for all the issued shares of the Company and the mandatory conditional cash offer for all outstanding convertibles of the Company (the “Offers”) as follows:

On 11 August 2006 (as amended on 25 August 2006), Celestial Investment Group Limited entered into an agreement with Fit Top Investments Limited (“Fit Top”) a company wholly and beneficially owned by Ms. Tin Yuen Sin Carol, to conditionally dispose of (the “Disposal”) 294,965,087 shares of the Company to Fit Top at the consideration of HK\$106,187,431.32. Immediately prior to the said agreement, Ms. Tin Yuen Sin Carol was beneficially interested in 86,000,000 shares of the Company, representing approximately 7.87% of the total issued shares of the Company. As all the conditions for completion of the Disposal has been fulfilled and the completion of such Disposal took place on 19 October 2006, Fit Top and the parties acting in concert with it owned 380,965,087 shares, representing approximately 34.87% of the total issued shares of the Company at the date of the completion. Under the Hong Kong Code on Takeovers and Mergers, Fit Top is required to make the Offers. The Offers became unconditional on 16 November 2006 and were closed on 30 November 2006. Reference is made to the announcements dated 28 August 2006, 26 October 2006, 16 November 2006 and 30 November 2006 and the above composite offer and response document dated 26 October 2006.

## Rectification of deviation from the CG Code

On 26 October 2006, the Board appointed Mr. Choi Chiu Fai Stanley as the chief executive officer of the Company, since then, the positions of the chairperson and chief executive officer are held separately by two executive directors to ensure their respective independence, accountability and responsibility. Ms. Tin Yuen Sin Carol and Mr. Choi Chiu Fai Stanley are the chairperson and chief executive officer of the Company respectively and each plays a distinctive role but complementing each other. This rectifies the previous deviation from the code provision A.2.1 of the CG Code.

## Operation of the Board

The Board is responsible for directing the Group's objectives and strategies, monitoring the implementation and managing risks of the Group. Material matters are reserved for the Board's considerations. The Board has delegated the daily operational responsibilities to the management of the Company.

# Corporate Governance Report

The Board held 26 meetings during the year ended 31 December 2006, of which 6 were full Board meetings and 20 were ED meetings, and the respective attendance of each director at the board meetings are set out as follows:

	<b>Meetings before the change of Board</b>	<b>Meetings after the change of Board</b>	
	<b>Attendance</b>	<b>Attendance</b>	
	<b>No. of full Board meetings: 6</b>	<b>No. of ED meetings: 16</b>	
		<b>No. of ED meetings: 4 (Note 6)</b>	
<b>Executive Directors:</b>			
Ms. Tin Yuen Sin Carol	3/6	5/16	3/4
Mr. Choi Chiu Fai Stanley (Note 1)	N/A	N/A	4/4
Mr. Chan Hon Ming Alan (Note 1)	N/A	N/A	4/4
Mr. Tse Pui To Dickson (Note 1)	N/A	N/A	3/4
Mr. Lam Yat Ming (Note 1)	N/A	N/A	4/4
Mr. Kwan Pak Hoo Bankee (Note 2)	6/6	7/16	N/A
Mr. Law Ping Wah Bernard (Note 2)	6/6	16/16	N/A
Ms. Kwok Lai Ling Elaine (Note 3)	3/3	1/3	N/A
Mr. Leung Siu Pong James (Note 2)	5/6	9/16	N/A
Mr. Li Yuen Cheuk Thomas (Note 2)	5/6	12/16	N/A

## Independent Non-executive Directors:

Mr. Ng Ka Chung Simon (Note 4)	3/5	N/A	N/A
Mr. Chan Wai Yip Freeman (Note 1)	N/A	N/A	N/A
Ms. Leung Po Ying Iris (Note 1)	N/A	N/A	N/A
Mr. Lo Ming Chi Charles (Note 2)	6/6	N/A	N/A
Mr. Leung Ka Kui Johnny (Note 2)	6/6	N/A	N/A
Dr. Hui Ka Wah Ronnie (Note 5)	1/1	N/A	N/A

Notes:

- (1) Appointed on 26 October 2006
- (2) Resigned on 16 November 2006
- (3) Resigned on 20 April 2006
- (4) Appointed on 28 February 2006
- (5) Resigned on 28 February 2006
- (6) For the year ended 31 December 2006, there was no full board meetings held after the change of Board.

# Corporate Governance Report

## AUDIT COMMITTEE

The audit committee of Company was established on 9 November 1999. The audit committee is chaired by Mr. Chan Wai Yip Freeman and its members are Mr. Ng Ka Chung Simon and Ms. Leung Po Ying Iris, who are all independent non-executive directors of the Company. The terms of reference of the audit committee had been complied since the establishment of the audit committee and the primary role and function of the audit committee are (i) reviewing and supervising the financial reporting system and internal control mechanism of the Company; (ii) monitoring the integrity of the financial statements of the Group; (iii) reviewing the compliance issues with the Listing Rules and other compliance requirements; and (iv) reviewing and consider the appointment of auditors and audit fee.

In 2006, the audit committee held 3 meetings and details of the attendance of each member of the committee are set out as follows:

<b>Members:</b>	<b>No. of meetings before the change of Board: 3</b>	<b>No. of meetings after the change of Board: 0</b>
	<b>Attendance</b>	<b>Attendance</b>
Mr. Ng Ka Chung Simon (Note 1)	1/3	0/0
Mr. Chan Wai Yip Freeman (Note 2)	N/A	0/0
Ms. Leung Po Ying Iris (Note 2)	N/A	0/0
Mr. Lo Ming Chi Charles (Note 3)	3/3	N/A
Mr. Leung Ka Kui Johnny (Note 3)	3/3	N/A
Dr. Hui Ka Wah Ronnie (Note 4)	0/3	N/A

Notes:

- (1) Appointed on 28 February 2006
- (2) Appointed on 26 October 2006
- (3) Resigned on 16 November 2006
- (4) Resigned on 28 February 2006

During the year, the audit committee has reviewed and commented on each of the interim and annual financial reports of the Group, reviewed the Company's internal control, reviewed and approved the terms of engagement and remuneration of the external auditors, discussed with external auditors on the financial matters of the Group that arose during the course of the audit and made relevant recommendations to the management of the Company.

# Corporate Governance Report

## REMUNERATION COMMITTEE

The Company has maintained a remuneration committee throughout the year. The remuneration committee is chaired by Mr. Chan Wai Yip Freeman and its members are Mr. Ng Ka Chung Simon and Ms. Leung Po Ying Iris, all of the remuneration committee members are independent non-executive directors of the Company. The role and function of the remuneration committee are (i) making recommendations to the Board on the policies and structure for the remuneration of directors; (ii) reviewing and approving the remuneration package of each director; (iii) reviewing and approving the performance-based remuneration; and (iv) engaging external professional advisors to assist and/or advise the remuneration committee on its duties when necessary and reasonable.

In 2006, 2 meetings of the remuneration committee were held and details of the attendance of each member of the committee are set out as follows:

<b>Members:</b>	<b>No. of meetings before the change of Board: 1</b>	<b>No. of meetings after the change of Board: 1</b>
	<b>Attendance</b>	<b>Attendance</b>
Mr. Ng Ka Chung Simon (Note 1)	1/1	1/1
Mr. Chan Wai Yip Freeman (Note 2)	N/A	1/1
Ms. Leung Po Ying Iris (Note 2)	N/A	1/1
Mr. Lo Ming Chi Charles (Note 3)	1/1	N/A
Dr. Hui Ka Wah Ronnie (Note 4)	0/0	N/A
Mr. Kwan Pak Hoo Bankee (Note 3)	1/1	N/A

Notes:

- (1) Appointed on 28 February 2006
- (2) Appointed on 26 October 2006
- (3) Resigned on 16 November 2006
- (4) Resigned on 28 February 2006

During the year, the remuneration committee has reviewed the policy for the remuneration of directors and reviewed and approved the remuneration package of each director, including benefits in kind, pension right, bonus payment and compensation payment.

# Corporate Governance Report

## **NOMINATION OF DIRECTORS**

No nomination committee was established by the Company, however, the Company has adopted a nomination policy for the criteria, procedures and process of appointment and removal of directors. Criteria for the selection of director include qualification, working experience and relevant provisions in the Listing Rules. Each of the directors shall possess high and professional standard of a set of core criteria of competence.

At the meeting held by the Board, with the presence of Mr. Choi Chiu Fai Stanley, Mr. Chan Hon Ming Alan, Mr. Tse Pui To Dickson, Mr. Lam Yat Ming, Mr. Chan Wai Yip Freeman and Ms. Leung Po Ying Iris, it was resolved that all the existing directors shall be recommended to be retained by the Company. Moreover, with reference to the Bye-laws of the Company, Mr. Choi Chiu Fai Stanley, Mr. Chan Hon Ming Alan, Mr. Tse Pui To Dickson, Mr. Lam Yat Ming, Mr. Ng Ka Chung Simon, Mr. Chan Wai Yip Freeman and Ms. Leung Po Ying Iris shall retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

## **AUDITORS' REMUNERATION**

Fee for audit services were HK\$850,000 for the year ended 31 December 2006, which were charged to the Group's income statement. There was no non-audit services during the year.

## **INTERNAL CONTROL**

The Board has conducted a review over the effectiveness of the Group's internal control system, which covered the major aspects of financial, operational, compliance and risk management to ensure that appropriate levels of protection are in place. No significant areas of concern were identified. The Board was satisfied with the effectiveness of the Group's internal control procedures.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding securities transactions of the directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listing Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company have made specific enquiry of all directors and all directors have confirmed, that they have complied with the required standard as set out in the Model Code regarding the directors' securities transactions adopted by the Company during the year ended 31 December 2006.

## **FINANCIAL STATEMENTS**

The directors acknowledge their responsibilities of the directors for preparing the accounts. The auditors' reporting responsibilities on the financial statements and other further details are set out in the auditors' report contained in this annual report.