

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Company is committed to maintaining a high standard of corporate governance and has applied the principles of the Code Provisions as set out in the Code on Corporate Governance Practices (the “CG Code”) in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) which became effective 1 January 2005.

Throughout the year ended 31 December 2006 (the “year under review”), the Company has complied with the Code Provisions set out in the CG Code, except for the deviation from provision A.4.2 in respect of the rotation of directors. Explanations for such non-compliance are provided in this report.

BOARD OF DIRECTORS

The Board’s primary responsibilities are to formulate the Company’s long-term corporate strategy, to oversee the management of the Group, to evaluate the performance of the Group and to assess the achievement of targets periodically set by the Board.

In addition, the Board has also established Board Committees and has delegated to these Board Committees various responsibilities set out in their terms of reference respectively.

The Board comprises twelve Directors, whose biographical details are set out in the “Directors’ and Senior Management’s Biographies” section in the Report of the Directors. Eight of the Directors are executive, three are independent non-executive and one is non-executive.

The members of the Board for the year under review are:

Executive

Dr. Charles Yeung, SBS, JP (*Chairman*)

Mr. Yeung Chun Fan (*Vice-chairman*)

Mr. Yeung Chun Ho

Mr. Pau Sze Kee, Jackson

Mr. Hui Chung Shing, Herman, JP

Ms. Cheung Wai Yee

Mr. Chan Wing Kan, Archie

Mr. Teo Heng Kee, Peter

Independent non-executive

Mr. Wong Man Kong, Peter, BBS, JP
Mr. Lau Hon Chuen, Ambrose, GBS, JP
Mr. Chung Shui Ming, Timpson, GBS, JP

Non-executive

Dr. Lam Lee G.

The relationship among the members of the Board is disclosed under the “Directors’ and Senior Management’s Biographies” section in the Report of the Directors.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The roles of Chairman and Chief Executive Officer are separate and are performed by Dr. Charles Yeung, SBS, JP and the General Manager of the Group, Mr. Yeung Chun Fan, respectively. Their respective responsibilities are clearly defined and are set out in writing. Mr. Yeung Chun Fan is also the Vice-chairman of the Board.

The Chairman takes the lead in formulating and setting Group strategies and policies in conjunction with the Board; oversees the function of the Board and encourages and facilitates constructive relations between executive and non-executive Directors.

The General Manager, supported by other Board members and the senior management, is responsible for overseeing the Group’s business operation, implementing the strategies laid down by the Board and managing day-to-day operation.

INDEPENDENCE

Each independent non-executive Director has given the Company an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers such Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company has not established a nomination committee pursuant to the Recommended Best Practices of the CG Code. The Board is responsible for reviewing its own structure, size and composition regularly to ensure that it has a balance of expertise, skills, knowledge and experience appropriate to the needs of the business of the Company. The Board will take into consideration criteria such as expertise, experience, integrity and commitment when considering any appointment of its own members.

During the year under review, no new member has been appointed to the Board.

The Board recommended the appointment of the Directors standing for re-election at the forthcoming annual general meeting of the Company which is to be held on 22 June 2007.

All the non-executive Director and independent non-executive Directors are appointed for a specific term of two years and are required to retire and eligible for re-election at the annual general meeting of the Company in the year of expiry of the term.

Under the provision A.4.2 of the CG Code, every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. However, in accordance with the Bye-laws of the Company, Dr. Charles Yeung, SBS, JP, the Chairman of the Board, shall not be subject to retirement by rotation. The Board considers that due to the fact that Dr. Charles Yeung, SBS, JP is the founder of the Group, he is eligible for being the Chairman of the Board during his lifetime and he need not be subject to retirement by rotation.

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MEETINGS AND ATTENDANCE

The Board met on five occasions during the year under review. The attendance of individual Directors at the Board meetings and the two Board Committees (the Audit Committee and the Remuneration Committee) meetings is set out in the table below:

Directors	Meetings Attended/Held		
	Board	Audit Committee	Remuneration Committee
<i>Executive</i>			
Dr. Charles Yeung, SBS, JP	4/5*		
Mr. Yeung Chun Fan	4/5*		
Mr. Yeung Chun Ho	4/5*		
Mr. Pau Sze Kee, Jackson	5/5		
Mr. Hui Chung Shing, Herman, JP	5/5		
Ms. Cheung Wai Yee	4/5*		
Mr. Chan Wing Kan, Archie	5/5		
Mr. Teo Heng Kee, Peter	5/5		
<i>Independent non-executive</i>			
Mr. Wong Man Kong, Peter, BBS, JP	4/5	2/2	1/1
Mr. Lau Hon Chuen, Ambrose, GBS, JP	4/5	2/2	
Mr. Chung Shui Ming, Timpson, GBS, JP	4/5	2/2	1/1
<i>Non-executive</i>			
Dr. Lam Lee G.	5/5	2/2	

* these Directors were absent from a Board meeting at which a connected transaction was discussed. The Directors absent were defined as connected persons under the Listing Rules in respect of the connected transaction.

BOARD COMMITTEES

The Board has established Audit Committee and Remuneration Committee in accordance with the CG Code to oversee particular aspects of the Company's affairs. All or a majority of the members of the Committees are independent non-executive Directors. The Board Committees have clear written terms of reference and have to report to the Board on their decisions and recommendations.

The Audit Committee

The Audit Committee has been established since 1998. Currently it comprises three independent non-executive Directors, namely Mr. Lau Hon Chuen, Ambrose, GBS, JP (Committee Chairman), Mr. Wong Man Kong, Peter, BBS, JP and Mr. Chung Shui Ming, Timpson, GBS, JP, and the non-executive Director, Dr. Lam Lee G. Written terms of reference of the Audit Committee were formulated and adopted in 1998 and subsequently amended in 2005 in order to comply with the Code Provisions of the CG Code.

The main responsibilities of the Audit Committee are to review the accounting principles and practices adopted by the Group and to review the effectiveness of the financial reporting process and internal control system of the Group.

The Audit Committee held two meetings during the year under review. The work of the Audit Committee in 2006 included the following:

- review of the 2005 annual results announcement and financial statements
- review of the 2006 interim results announcement
- review of the internal audit reports, risk assessment and risk management report, all prepared by the internal audit department of the Company
- review of connected transactions for the year 2005 and for the six months ended 30 June 2006
- approval of the terms of engagement and the remuneration of external auditors

During the year under review, the Audit Committee met with the external auditors once.

The Remuneration Committee

The Remuneration Committee comprises two independent non-executive Directors, namely Mr. Wong Man Kong, Peter, BBS, JP (Committee Chairman) and Mr. Chung Shui Ming, Timpson, GBS, JP. Written terms of reference of the Remuneration Committee were formulated in accordance with the Code Provision of the CG Code.

The main responsibilities of the Remuneration Committee are to review and endorse the remuneration policy of the Directors and senior management and to make recommendations to the Board for the remuneration of the Directors and senior management. The Remuneration Committee ensures that no Director is involved in deciding his/her own remuneration.

The Remuneration Committee held one meeting during the year under review. The work of the Remuneration Committee in 2006 included the following:

- review of the remuneration of the executive Directors and senior management for the years 2005 and 2006
- approval of the 2006 bonuses and the 2007 salary increases for executive Directors and senior management

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding Directors' securities transaction as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

The Board confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standards set out in the Model Code throughout the year under review.

EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted dealing rules based on the Model Code (the "Dealing Rules") governing securities transaction by the employees of the Group who are likely to be in possession of unpublished price-sensitive information in relation to the Group. These employees have been individually notified and provided with a copy of the Dealing Rules.

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ACCOUNTABILITY

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. The Board is not aware of any material uncertainties relating to the events or condition that might cast doubt upon the Company's ability to continue as a going concern. Accordingly, the Board has prepared the financial statements of the Company on a going concern basis.

The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to the regulators.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the shareholders' investment and the Group's assets.

The internal audit department plays a major role in evaluating the internal control of the Group. During the year under review, the internal audit department and the management conducted reviews of the effectiveness of the Group's system of internal control which covered all material controls including financial, operational and compliance controls and risk management function. No material control failure or significant areas of concern which might affect shareholders' interests were identified during the reviews. The Board is satisfied with the effectiveness of the Group's internal control.

AUDITORS' REMUNERATION

The fees in respect of audit and non-audit services provided to the Group by the external auditors of the Company, Messrs. Ernst & Young, for the year ended 31 December 2006 amounted to approximately HK\$4.6 million and HK\$0.15 million respectively. The non-audit services included tax matters, review and other reporting services.

COMMUNICATIONS WITH SHAREHOLDERS

The Company regards the annual general meeting as an important event as it provides an opportunity for direct communications between its shareholders and the Board. At the Company's 2006 annual general meeting, the Chairman of the Board as well as the Chairmen of the Audit Committee and the Remuneration Committee were present to answer shareholders' questions.

The Company has also maintained a website at <http://www.glorisun.com> which enables shareholders, investors and the general public to have access to the information of the Company.