

# CORPORATE GOVERNANCE REPORT

The Board considers that good corporate governance of the Company is crucial to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance and will continuously review and improve the corporate governance practice and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner. During the year, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Throughout the year ended 31 December 2006, the Company has complied with code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules.

Included in this report is the information relating to corporate governance practices of the Company during the year ended 31 December 2006 and significant events after that date and up to the date of this report.

## **1. THE BOARD**

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in the annual and interim reports, and of other price-sensitive announcements and other financial disclosures as required under the Listing Rules, and reports to regulators any information required to be disclosed pursuant to statutory requirement.

The Board has fiduciary duty and statutory responsibility towards the Company and the Group. Other responsibilities include formulation of the Group's overall strategy and policies, setting of corporate and management targets and key operational initiatives, monitoring and control of operational and financial performance, and approval of budgets and major capital expenditures, major investments, material acquisitions and disposals of assets, corporate or financial restructuring, significant operational, financial and management matters.

The Board delegates day-to-day management of the business of the Group to the management of the relevant principal subsidiaries and certain specific responsibilities to audit committee and remuneration committee. The composition and functions of each committee are described below. These committees have specific functions and authority to examine issues and report to the Board with their recommendations, (if appropriate). The final decision rests with the Board, unless otherwise provided for in the term of reference of the relevant committee.

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## 1. THE BOARD *(CONTINUED)*

The company secretary of the Company ("Company Secretary") provides the Directors with updates on developments regarding the Listing Rules and other applicable regulatory requirements. Any director may request the Company Secretary to organise independent professional advice at the expense of the Company to assist the Directors to effectively discharge their duties to the Company.

The independent non-executive directors of the Company ("INEDs") serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Each of the INEDs provides an annual confirmation of his independence to the Company. The Board considers that each of the INEDs is independent in character and judgment and that they all meet the specific independence guidelines as set out in rule 3.13 of the Listing Rules.

All Directors have access to the advice and services of the Company Secretary in respect of compliance with board procedures, and all applicable rules and regulations. All Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent advice where necessary at the expense of the Company in discharging of their duties to the Company.

The Board meets at least four times each year to review the overall strategy and to monitor the operation as well as the financial performance of the Group. Additional meetings may be convened as and when necessary. Notice of at least fourteen days is served for regular board meetings. Reasonable notice would be given for all other special board meetings which are not held regularly. The Chairman is primarily responsible for drawing up and approving the agenda for each board meetings in consultation with all Directors and ensure that all Directors are properly briefed on issues arising at board meetings. Agenda and accompanying board papers in respect of board meetings are sent out in full to all Directors within a reasonable time before the date of every board meetings to allow them to review these documents in advance. Minutes of all board meetings, and meetings of the remuneration committee and the audit committee are kept by the Company Secretary and the Directors may inspect these minutes at any time during office hours upon giving reasonable notice. Minutes of all board meetings, and meetings of the remuneration committee and the audit committee, have recorded in sufficient detail the matters considered by the Board and the board committees, including any concerns raised by Directors or dissenting view expresses. Draft and final versions of these are sent to all Directors for their comment and records respectively, normally within 5 days after the relevant meeting was held.

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## 1. THE BOARD (CONTINUED)

The following is an attendance record of the board meetings held by the Board during the year:

<b>Name of board member</b>	<b>Number of meetings attended</b>	<b>Attendance Rate</b>
Dr. Yang Ding-Yuan	6/6	100%
Ms. Meng Tung-Mei, Grace	6/6	100%
Professor Edward S. Yang	4/6	67%
Mr. Lo I-Wang	3/6	50%
Ms. Chang Jing-Yue	3/6	50%

During the year, Mr. Chan Ting-Fung Tim was resigned on 21 February 2006.

Save as Ms. Catherine Chen was appointed on 2 January 2007, Mr. Zhang Xi, Ms. Zhang Huafang, Mr. Cai Duanhong, Mr. Hong Po Kui, Martin, Mr. Yam Tak Fai, Ronald and Mr. Wong Man Hin, Raymond were appointed on 11 December, 2006, and all such newly appointed Directors were not eligible to attend any of the said six full board meetings.

The Directors acknowledge that they are responsible for preparing accounts for each financial period on a going concern basis, with supporting assumptions or qualification as necessary.

## 2. CHAIRMAN AND MANAGING DIRECTOR

Mr. Zhang Xi is the Chairman of the Company ("Chairman"). Ms. Catherine Chen is the managing director of the Company ("Managing Director"). The roles of the Chairman and the Managing Director are segregated. The Managing Director is responsible for managing and smoothing the business operations of the Company. The Chairman is responsible for leading the Board in the overall strategic development of the Group. The Chairman and the Managing Director are two separate individuals and have no relationship with each other. The Board believes that there is an effective segregation of duties between the Chairman and the Managing Director.

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## 3. BOARD COMPOSITION

The Board currently comprises of the following four executive Directors and three independent non-executive Directors:

### **Executive Directors**

Mr. Zhang Xi (Chairman)

Ms. Zhang Huafang

Mr. Cai Duanhong

Ms. Catherine Chen (Managing Director)

### **Independent non-executive Directors**

Mr. Hong Po Kui, Martin

Mr. Yam Tak Fai, Ronald

Mr. Wong Man Hin, Raymond

Mr. Chan Ting-Fung Tim was resigned on 21 February 2006. Dr. Yang Ding-Yuan, Ms. Meng Tung-Mei, Professor Edward S. Yang, Mr. Lo I-Wang and Ms. Chang Jing-Yue was resigned on 2 January 2007.

All INEDs are expressly identified as such in all of the Company's corporate communications that disclose the names of Directors.

## 4. APPOINTMENT AND RE-ELECTION OF DIRECTORS

Non-executive directors are appointed for a specific term of three years. All Directors retire from office by rotation and are subject to re-election at an annual general meeting at least once every three years.

At every annual general meeting, one-third of the Directors for the time being shall retire from office and be eligible for re-election.

## 5. NOMINATION OF DIRECTORS

The Company does not have a nomination committee.

The Board regularly reviews its structure, size and composition. The Company follows a formal, considered and transparent procedure for the appointment of new Directors to the Board. The appointment of a new Director is a collective decision of the Board, taking into consideration the expertise, experience, integrity and commitment of that appointee to the Company and the Group.

# CORPORATE GOVERNANCE REPORT

## 6. BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established the following committees which are all chaired by INEDs with defined terms of reference.

### 6.1 Audit Committee

The Audit Committee ("AC") is established in 1998 and its current members are three INEDs who have extensive experience in business and financial matters. The current members of the AC are as follows:

Mr. Yam Tak Fai, Ronald (*Chairman*)

Mr. Wong Man Hin, Raymond

Mr. Hong Po Kui, Martin

The Board considers that each AC member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the AC. The written terms of reference which describe the authority and duties of the AC were prepared and adopted in 1998 with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The written terms of reference have included the duties as set out in Code Provisions C.3.3(a) to (e).

The AC meets twice during the year to review the reporting of financial and other information to shareholders, the systems of internal control, risk management and the effectiveness and objectivity of the audit process. The AC also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps the independence and objectivity of the auditors under review.

The following is an attendance record of the audit committee meeting for the year ended 31 December 2006:–

<b>Name of AC Member</b>	<b>Number of meetings attended</b>	<b>Attendance Rate</b>
Professor Edward S. Yang ( <i>Chairman</i> )	2/2	100%
Mr. Lo I-Wang	2/2	100%
Ms. Chang Jing-Yue	2/2	100%

The abovenamed directors were resigned on 2 January 2007. During the year, all existing members of the AC were not eligible to attend any of the said two meetings.

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## 6. BOARD COMMITTEES *(CONTINUED)*

### 6.1 Audit Committee *(continued)*

The AC oversees the financial reporting process. In this process, management is responsible for the preparation of Group's financial statements including the selection of suitable accounting policies. External auditors are responsible for auditing the Group's financial statements. The members of the AC assist the Board in fulfilling its responsibilities by providing an independent review of the financial statements, supervising the system of financial reporting and satisfying themselves as to the effectiveness of the Group's internal controls. AC presents a report to the Board on its findings after each AC meeting.

The AC reviewed and discussed with the management and external auditors the 2006 consolidated financial statements included in the 2006 Annual Report. In this regard, the AC held discussions with management with regard to new or changes in accounting policies that had been applied, and significant judgments of the management which affected the Group's financial statements. The AC received reports and met with the external auditors to discuss the general scope of their audit work, including the impact of new or changes in accounting policies that had been applied and their assessment of the Group's internal controls. Based on these review and discussions, and the report of the external auditors, the AC recommended to the Board to approve the consolidated financial statements for the year ended 31 December 2006 and the Auditors' Report.

The AC reviewed the unaudited financial statements for the six months ended 30 June 2006, prior to public announcement and filing, and recommended that they be approved by the Board.

The new members of the AC considered the appointment of external auditors, their audit fees and recommended to the Board to seek shareholders' approval for the re-appointment of Deloitte Touche Tohmatsu ("Deloitte") as the Group's external auditors for 2006.

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## 6. BOARD COMMITTEES (CONTINUED)

### 6.2 Remuneration Committee

The Remuneration Committee ("RC") is established in early 2005 and its current members are Mr. Hong Po Kui, Martin (Chairman), Mr. Yam Tak Fai, Ronald and Mr. Wong Man Hin, Raymond and Mr. Zhang Xi.

The written terms of reference have included the duties as set out in Code Provisions B.1.3(a) to (f).

The principal role and function of the RC includes:

- give recommendations on the establishment of the Company's policy and structure for all remuneration of all Directors, senior management and employees;
- review and determine the remuneration packages and compensation arrangements for loss of office of all Executive Directors and senior management; and
- review of performance-based remuneration policy of the Group.

The RC meets once during the year.

The following was an attendance record of the remuneration committee meeting for the year ended 31 December 2006:–

<b>Name of RC Member</b>	<b>Number of meetings attended</b>	<b>Attendance Rate</b>
Professor Edward S. Yang ( <i>Chairman</i> )	1/1	100%
Mr. Lo I-Wang	1/1	100%
Mr. Chan Ting-Fung	1/1	100%
Dr. Yang Ding-Yuan	1/1	100%

Details of Directors (including each executive director) emoluments and options are set out in notes 11 and 27 to the financial statements respectively.

The Directors' fees are subject to shareholders' approval at general meeting. In determining the emolument payable to Directors, the RC takes into consideration factors such as their duties, responsibilities and contribution to the Company, the prevailing market conditions, time commitment and the desirability of performance-based remuneration. No director is involved in determining his/her own remuneration.

The remuneration package for each employee is structured to attract and to retain and motivate high quality staff and at the same time to reflect the importance of aligning awards with shareholder interests. The remuneration package contains a combination or modifications of some or all of the three main components: basic salary, performance bonus and share options.

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## 7. INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Group's internal control systems comprise an established organizational structure and comprehensive policies and standards. Procedures have been designed to safeguard assets against unauthorized use or disposition, to maintain proper accounting records, for the reliability of financial information used within the business or for publication, and to ensure compliance with applicable laws and regulations. The purpose of the Group's internal control is to provide reasonable, but not absolute, assurance against material statement or loss and manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Company has implemented the following procedures and internal controls for the handling and dissemination of price sensitive information:

- (1) it monitors any price sensitive information and make appropriate announcement as required by the Listing Rules;
- (2) it conduct its affairs by reference to the "Guide on disclosure of price-sensitive information" issued by the Stock Exchange; and
- (3) it has established guidelines to be following by senior management and employees in dealing with confidential information.

## 8. EXTERNAL AUDITOR

It is the external auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the shareholders of the Company, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the content of the auditors' report.

For the year ended 31 December 2006, Deloitte is appointed as the external auditor of the Group and provided interim review and annual audit services to the Group of HK\$1,865,000. Deloitte also provided the non-audit service to the Group of HK\$380,000. The Board has accepted the recommendation from the AC on re-appointing Deloitte as the external auditor of the Group.

## 9. 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.



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## **10. MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out by the Stock Exchange in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, during the review year all Directors have complied with the required standards of dealings as set out in the Model Code and the Company's own code of conduct.

## **11. INVESTOR RELATIONSHIP AND COMMUNICATION**

The Company is responsible for ensuring that shareholders' rights are protected. In order to fulfill this responsibility, the Company endeavours to maintain a high level of transparency in communicating with shareholders and the investment community at large. The Company is committed to continue to maintain an open and effective investor communication policy and to update investors with the relevant information on its business in a timely and accurate manner, subject to the relevant regulatory requirements. In order to ensure effective, clear and accurate communication with investors, all corporate communication are arranged and handled by the executive directors and designated senior executives according to established practices and procedures of the Company.

The Board uses annual general meetings and other general meetings as the principal channel to meet and communicate with the shareholders. Registered shareholders are notified by post for these general meetings, and the notice of meeting contains the agenda and the proposed resolutions. Any registered shareholder is entitled to attend the annual and extraordinary general meetings, provided that their shares have been recorded in the register of shareholders. The Board also encourages shareholders to participate in these general meetings to maintain an on-going dialogue with the shareholders.

Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and other interested parties. The Company's news releases, announcements and publications are circulated to all major news media in a timely and accurate manner.

Separate resolutions will be proposed by the chairman of the Board in respect of each substantially separate issue at the Company's forthcoming annual general meeting. The chairman of the Board, and the chairmen of the AC and RC will attend the forthcoming annual general meeting to answer questions of shareholders.

## **12 VOTING BY POLL**

Shareholders who are unable to attend a general meeting may complete and return a proxy form enclosed with the notice of meeting to the share registrar to appoint their representatives, another shareholder or Chairman of the meetings to act as proxy at the general meetings. The Chairman, except where a poll is required, will indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against each resolution, after the resolution has been dealt with on a show of hands.

Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders despatched together with this annual report.