

# Corporate Governance Report

In April 2005, the Company adopted its own code on corporate governance practices which incorporates all the code provisions and a majority of the recommended best practices in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Throughout the period, the Company complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14.

The Board and senior management are committed to maintain a high standard of corporate governance which provides a framework and solid foundation for achieving a high standard of accountability and transparency.

Throughout the year ended 31 December 2006, the Company has complied with the board's practices and procedures as set out in the Listing Rules.

The Board had put in place a proper corporate governance structure in the Company. It is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. Under the Board, there are currently 2 subcommittees, namely Audit Committee and remuneration Committee. All these committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management.

During the year, the Board complies at all times with the requirements of the Listing Rules relating to the appointment of at least 3 Independent Non-executive Directors and all of them have appropriate professional qualifications or accounting or related financial management expertise. Two regular board meetings at approximately half yearly intervals were held during the year. Attendance was 67% in the first meeting and 50% in the second meeting.

## Board Practices

As at 31 December 2006, the Board comprises 12 directors of the Company (the "Directors") including the executive directors of the Company, the independent non-executive directors and non-executive of the Company. There is no financial, business, family or other material/relevant relationship amongst the Directors.

The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

Board papers are circulated and the Company Secretary attends all regular board meetings to advice on corporate governance and statutory compliance when necessary. In addition, the Company has maintained a procedure for Directors to seek independent professional advice in appropriate circumstances.

The Board acknowledges their responsibilities for the preparation of the financial statements of the Company and ensures that they are prepared in accordance with statutory requirements and applicable accounting standards. The directors also ensure the timely publication of such financial statements.

## Non-Executive Directors

None of the non-executive directors has a service contract with the Company. The non-executive directors are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws.

## Remuneration Committee

According to the Code, the Company has set up a remuneration committee with a majority of the members thereof being independent non-executive directors. The remuneration committee comprises of a majority of Independent Non-executive Directors of the Company, which schedules to meet at least once a year. It is chaired by Mr. E. Hock Yap and comprises two other members, namely Mr. Yeung Kwok Wing and Mr. Cheung Wing Yui. All remuneration committee members, with the exception of Mr. Cheung Wing Yui, are Independent Non-executive Directors. The quorum necessary for the transaction of business is two.

The principal functions of the remuneration committee include to review and determine specific remuneration packages for each Executive Director and senior management by reference to corporate goals and objectives resolved by the Board from time to time; and to review the share option scheme of the Company.

Attendance for the meeting was 67%.

## Audit Committee

The Company established an audit committee on 12 November, 2001. The major duties of the Audit Committee include:

- to consider and recommend the appointment, re-appointment and removal of external auditor;
- to approve the remuneration and terms of engagement of external auditor, any questions of resignation or dismissal of that auditor;
- to review and monitor external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services and to make recommendation of any measures for improvements to be taken;
- to review the interim and annual financial statements and the quarterly, interim and annual reports before submission to the Board;
- to review the Group's financial controls, internal control and risk management systems and ensure that the management has discharged its duty to have an effective internal control system;
- to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and to review and monitor the effectiveness of the internal audit function;
- to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response and to ensure that the Board will provide a timely response to the issues raised; and
- to review the Group's financial and accounting policies and practices.

The audit committee has explicit authority to investigate into any matter under the scope of its duties and the authority to obtain independent professional advice. It is given full access to and assistance from the management and reasonable resources to discharge its duties properly. At least once annually, the audit committee will meet the external auditors without the presence of the management.

The audit committee had met two times to review the interim and annual results of the Group during the year ended 31 December 2006.

The audit committee currently comprises the five Independent Non-executive Directors and two Non-executive Directors of the Company.

## Internal Control and Risk Management

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives. The Board has conducted a review of the system of internal control of the Group during the year ended 31 December 2006.

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## Auditors' Remuneration

During the year, the auditors of the Company, PricewaterhouseCoopers, charged HK\$2,966,000 for audit services and HK\$2,500,000 for reporting accountants services.

## 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. Having made specific enquiry, all directors have complied with the required standard set out in the Model Code throughout the year of 2006.

## Investor relations and Shareholders' Right

The Company uses a number of formal communications channels to account to shareholders and investors for the performance of the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) updated and key information of the Group available on the website of the Company; (iv) the Company's website offering communication channel between the Company and its shareholders and investors; and (v) the Company's share registrars in Hong Kong serve the shareholders respecting all share registration matters.

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear, detailed, timely manner and on a regular basis information of the Group to shareholders through the publication of interim and annual reports and/or dispatching circular, notices, and other announcements.