

# Corporate Governance Report

The board of directors of the Company (the "Board") is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2006.

## CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Company has always recognised the importance of high standards of corporate governance to sustain healthy growth and has taken a proactive approach in strengthening corporate governance practices in accordance with the needs of its business. The Company is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company's corporate governance principles emphasis a quality Board, effective internal control and accountability to shareholders.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

The Company has complied with the code provisions set out in the CG Code save for (i) the Code Provision A.2.1 which requires that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual; and (ii) the Code Provision E.1.2 which stipulates that the Chairman of the Board should attend the annual general meeting. The details of such deviations will be explained below.

The Company reviews its corporate governance practices regularly to ensure its continuous compliance with the CG Code. The key corporate governance principles and practices of the Company are summarized as follows:

### A. THE BOARD

#### (1) RESPONSIBILITIES

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors take decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the Executive Committee, the Chief Executive Officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

Every director carries out his/her duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

## Corporate Governance Report

### (2) BOARD COMPOSITION

The Board comprises the following 10 members:

Executive directors:-

Mr. Hsu Chen Shen, *Chairman of the Board and the Executive Committee and member of the Remuneration Committee*

Mr. Hsu Shui Sheng, *Vice-Chairman and member of the Executive Committee*

Mrs. Hsu Wei Jui Yun, *member of the Executive Committee*

Mr. Pak Ping Chun, *member of the Executive Committee*

Mr. Yang Hsien Lin, *member of the Executive Committee*

Mr. Hsu Chin Liang, *member of the Executive Committee*

Mr. Hsu Chiang Lung, *member of the Executive Committee*

Independent non-executive directors:-

Mr. Leung Hok Lim, *Chairman of the Audit Committee*

Mr. Chan Nien Po, *member of the Audit Committee and the Remuneration Committee*

Dr. Hsiao Horng Ching, *Chairman of the Remuneration Committee and member of the Audit Committee*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under "Directors and Senior Management Profile" on pages 14 to 16.

The composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business of the Company and for the exercise of independent judgement.

During the year ended 31 December 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with one independent non-executive director, being Mr. Leung Hok Lim, possessing appropriate professional qualifications and accounting and related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, the independent non-executive directors make various contributions to the effective direction of the Company.

### **(3) CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Hsu Chen Shen currently holds the offices of Chairman and Chief Executive Officer of the Company. Mr. Hsu Chen Shen is the founder of the Group and has extensive experiences in the industry. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in Mr. Hsu Chen Shen provides the Company with strong and consistent leadership and allows for more effective and efficient business planning and implementation of business decisions and strategies. As such, it is beneficial to the business prospects of the Group.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

### **(4) APPOINTMENT AND RE-ELECTION OF DIRECTORS**

Each of the executive directors of the Company is engaged on a service contract with the Company which will continue unless and until terminated by either party by not less than 3 months' written notice. Each of the independent non-executive directors of the Company is appointed for a specific term up to the date of holding of the Company's 2008 annual general meeting.

In accordance with the Company's Bye-laws which were amended by a special resolution at the annual general meeting held on 25 May 2006 for the purpose of compliance with the CG Code, one-third of the directors for the time being (including those who have been appointed for a specified term or holding office as the Chairman of the Board or the managing director of the Company), or, if their number is not a multiple of three, the number nearest to but not less than one-third, are subject to retirement by rotation at least once every three years. In addition, any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself / herself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Bye-laws. Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Company has adopted Directors Nomination Procedures as written guidelines in providing formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

## Corporate Governance Report

During the year ended 31 December 2006, the Board met once, with the presence of Mr. Hsu Chen Shen, Mr. Hsu Shui Sheng, Mr. Pak Ping Chun, Mr. Yang Hsien Lin, Mr. Hsu Chin Liang, Mr. Hsu Chiang Lung, Mr. Leung Hok Lim, for reviewing the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Company.

In accordance with the Company's Bye-laws, Mr. Pak Ping Chun, Mr. Yang Hsien Lin, Mr. Hsu Chin Liang and Dr. Hsiao Horng Ching shall retire from office and, being eligible, will offer themselves for re-election at the Company's forthcoming 2007 annual general meeting. The Board recommended the re-appointment of these directors standing for re-election at the said annual general meeting of the Company. The Company's circular, sent together with this annual report, contains detailed information of such directors standing for re-election.

### (5) TRAINING AND CONTINUING DEVELOPMENT FOR DIRECTORS

There was no director newly appointed during the year ended 31 December 2006. In the case there is any newly appointed director, he/she will receive comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The existing directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors will be arranged whenever necessary.

### (6) BOARD MEETING

#### (I) *Board Practices and Conduct of Meetings*

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep all directors/committee members apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

The Chief Financial Officer, Qualified Accountant and Company Secretary normally attend regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

The Company's Bye-laws contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

## **(II) Directors' Attendance Records**

During the year ended 31 December 2006, 8 board meetings were held, out of which 5 were regular meetings held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at the Board meetings during the year ended 31 December 2006 are set out below:

<b>Name of Directors</b>	<b>Attendance/Number of Meetings</b>
<i>Executive directors</i>	
Mr. Hsu Chen Shen	6/8
Mr. Hsu Shui Sheng	8/8
Mrs. Hsu Wei Jui Yun	3/8
Mr. Pak Ping Chun	8/8
Mr. Yang Hsien Lin	6/8
Mr. Hsu Chin Liang	5/8
Mr. Hsu Chiang Lung	5/8
<i>Independent non-executive directors</i>	
Mr. Leung Hok Lim	4/8
Mr. Chan Nien Po	4/8
Dr. Hsiao Horng Ching	4/8

## Corporate Governance Report

### **(7) MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2006.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

No incident of non-compliance of the Employees Written Guidelines by any of the employees of the Company was noted by the Company.

### **B. DELEGATION BY THE BOARD**

The Board reserves for its decisions all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Every director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

The Board has delegated a schedule of responsibilities to the senior management of the Company. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the production and operating plans and budgets, and supervising and monitoring the control systems.

The Board has the full support of the senior management to discharge its responsibilities.

The Board has established 2 committees, namely, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are available to shareholders upon request.

## **C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT**

The Company has established a formal and transparent procedure for formulating policies on remuneration of directors and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2006 are set out on pages 63 to 64 in note 9 to the financial statements.

### **REMUNERATION COMMITTEE**

The Remuneration Committee comprises 3 members, namely Mr. Hsu Chen Shen, Mr. Chan Nien Po and Dr. Hsiao Horng Ching (chairman), the majority of them are independent non-executive directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman/Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee met once during the year ended 31 December 2006, with the attendance of all the Remuneration Committee members, and reviewed/discussed the remuneration policy and structure of the Company, and the remuneration packages of the executive directors and the senior management for the year under review.

## **D. ACCOUNTABILITY AND AUDIT**

### **DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS**

The directors have acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management has provided such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

## Corporate Governance Report

### **E. INTERNAL CONTROLS**

During the year under review, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Company.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

### **F. AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive directors, namely Mr. Leung Hok Lim (chairman), Mr. Chan Nien Po and Dr. Hsiao Horng Ching, with one independent non-executive director (Mr. Leung Hok Lim) possessing the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the Qualified Accountant, compliance officer (if any), internal auditor (if any) or external auditors before submission to the Board.
- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee provides supervision on the internal control system of the Group and reports to the Board on any material issues and makes recommendations to the Board.

During the year under review, the Audit Committee has reviewed the Group's interim results and interim report for the six months ended 30 June 2006, annual results and annual report for the year ended 31 December 2006, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.



In November 2006, Ernst & Young resigned as auditors of the Group since the Company and Ernst & Young could not reach a consensus on the audit fee for the financial year ended 31 December 2006. The management recommended the appointment of Grant Thornton as auditors of the Group to fill the said vacancy. The Audit Committee, after reviewing the terms of engagement of Grant Thornton, considered that Grant Thornton offered a competitive audit fee with similar scope of services and would therefore bring to the Group a saving of cost. Accordingly, the Audit Committee recommended to the Board the appointment of Grant Thornton as the new auditors of the Group. The Board has not taken a different view from that of the Audit Committee regarding such appointment of auditors.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Audit Committee held 3 meetings during the year ended 31 December 2006 and the attendance records are set out below:

<b>Name of Audit Committee members</b>	<b>Attendance/Number of Meetings</b>
Mr. Leung Hok Lim	3/3
Mr. Chan Nien Po	3/3
Dr. Hsiao Horng Ching	3/3

Among the above meetings, the Audit Committee had been provided opportunities to discuss with the external auditors on issues arising from the audit and financial reporting matters, without the presence of executive directors.

## **G. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION**

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 35 to 36.

The remuneration of the external auditors of the Company in respect of the audit services for the year ended 31 December 2006 amounted to HK\$1,100,000. There are no non-audit services provided by the Company's external auditors for the year ended 31 December 2006.

## **H. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS**

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

## Corporate Governance Report

To promote effective communication, the Company maintains a website at [www.big1163.com](http://www.big1163.com), where information and updates on the Company's business developments and operations and other information are available for public access. Investors may write directly to the Company's principal place of business at Room 09, 19th Floor, Block B, Ming Pao Industrial Centre, 18 Ka Yip Street, Chai Wan, Hong Kong for any inquiries.

The general meetings of the Company also provide a forum for communication between the Board and the shareholders. Code provision E.1.2 of the CG Code stipulates that the Chairman of a listed issuer should attend the issuer's annual general meeting. Mr. Hsu Chen Shen, the Chairman of the Board, was unable to attend the Company's 2006 annual general meeting held on 25 May 2006 as he had another important business engagement. Despite his absence, he had arranged for Mr. Pak Ping Chun, an executive director of the Company, taking the chair of the meeting and answering shareholders' questions. Mr. Hsu had also arranged for the Chairman of the Audit Committee and a member of the Remuneration Committee be available to answer questions at the said annual general meeting. No questions were raised by the shareholders at the meeting. Mr. Hsu Chen Shen shall use his endeavours to attend future shareholders' meetings of the Company.

### **I. SHAREHOLDER RIGHTS**

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the relevant meeting.

Results on any voting conducted by poll will be, before the Stock Exchange's abolition of the requirement to publish paid announcements in newspaper, published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Company and of the Stock Exchange.