

CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensuring high standards of corporate governance practices. The Board of Directors (the "Board") believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices from time to time to ensure they meet public and shareholders' expectation, comply with legal and professional standards and reflect the latest local and international developments. The Board will continue to commit itself to achieving a high quality of corporate governance.

In 2006, the Company continued to take measures to closely monitor and enhance its corporate governance practices so as to comply with the requirements of the code provisions in the Code on Corporate Governance Practices (the "Code") contained 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").

To the best knowledge and belief of the Directors, the Directors consider that the Company has complied with the code provisions of the Code for the year ended 31st December, 2006, except for the following deviations from code provisions A.4.2 and D.1.2:

- (i) Prior to the amendment of the Company's Articles of Association in the Company's last annual general meeting held on 9th June, 2006, any director appointed to fill a casual vacancy should hold office only until the next following annual general meeting of the Company and should then be eligible for re-election at that meeting.
- (ii) Prior to 21st April, 2006, the Company had not written out a formalised list of functions reserved to the Board although it had been the long standing practice all these years that all important matters, in particular, those affecting the Group's overall strategic policies, dividend policy, significant changes in accounting policies, material contracts and major investments, would go through the Board for prior approval.

The Company's Articles of Association have been amended on 9th June, 2006 to provide, inter alia, that any directors appointed to fill a casual vacancy shall hold office only until the next following general meeting after their appointment. The Company formalised the functions reserved to the Board on 21st April, 2006 and will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules as the code for securities transactions by Directors. Having made specific enquiry of all Directors, all Directors have fully complied with the required standard set out in the Model Code throughout the year of 2006.

To enhance the corporate governance, the Company has also established a written guideline on no less exacting terms than the Model Code for the employees of the Group.

BOARD OF DIRECTORS

The Board currently comprises seven members (the composition of the Board is shown on page 21), including three executive Directors and four non-executive Directors of whom three are independent as defined under the Listing Rules (brief biographical details of the Directors are set out on pages 22 and 23). Due to personal reason, Mr. David T. Yeh resigned as an executive Director of the Company on 1st June, 2006. Save as disclosed herein, to the best knowledge of the Directors, the Board members have no financial, business, family or other material/relevant relationships with each other.

The Company has three independent non-executive Directors, representing more than one-third of the Board. At least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. All the independent non-executive Directors have signed the annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules to confirm their independence.

Under the Company's Articles of Association, one-third of the Directors must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders. In addition, every Director is subject to retirement by rotation at least once every three years notwithstanding that the total number of Directors to retire at the relevant annual general meeting would as a result exceed one-third of the Directors.

The Board oversees the Group's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls the operating and financial performance in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the management of the Company under the supervision of the executive Directors. The functions and powers that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic policies, dividend policy, significant changes in accounting policies, material contracts and major investments. The Board members have access to appropriate business documents and information about the Group on a timely basis. All Directors and Board committees have recourse to external legal counsel and other professionals for independent advice at the Group's expense upon their request.

Three Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, have been established to oversee particular aspects of the Group's affairs.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

The Board meets regularly to review the financial and operating performance of the Group and other business units, and formulate future strategy. Six Board meetings were held in 2006. Individual attendance of each Director at the Board meetings and each committee member at meetings of the Audit Committee, the Remuneration Committee and the Nomination Committee during 2006 are set out below:

Directors	Attendance/Number of Meetings			
	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
Executive Directors				
Mr. Stephen Riady (<i>Chairman</i>)	6/6	N/A	0/2	0/2
Mr. John Luen Wai Lee (<i>Managing Director and Chief Executive Officer</i>)	6/6	N/A	N/A	N/A
Mr. Jark Pui Lee	6/6	N/A	N/A	N/A
Mr. David T. Yeh (resigned on 1st June, 2006)	1/2 *	N/A	N/A	N/A
Non-executive Director				
Mr. Leon Nim Leung Chan (<i>Chairman of the Remuneration Committee and Nomination Committee</i>)	6/6	4/4	2/2	2/2
Independent Non-executive Directors				
Mr. Victor Ha Kuk Yung (<i>Chairman of the Audit Committee</i>)	6/6	4/4	2/2	2/2
Mr. Edwin Neo	3/6	3/4	2/2	2/2
Mr. King Fai Tsui	3/6	3/4	1/2	1/2

* number of meetings held from the beginning of 2006 to the date of resignation of Mr. David T. Yeh.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer of the Company are segregated. Mr. Stephen Riady is the Chairman of the Board. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. Mr. John Luen Wai Lee is the Chief Executive Officer of the Company. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. Their respective roles and responsibilities are set out in writing which have been approved by the Board.

NON-EXECUTIVE DIRECTORS

There are currently four non-executive Directors of whom three are independent. Under the Company's Articles of Association, every Director, including the non-executive Directors, shall be subject to retirement by rotation at least once every three years. This means that the specific term of appointment of a Director cannot exceed three years.

All the non-executive Directors have a fixed term of contract of two years with the Company.

REMUNERATION OF DIRECTORS

A Remuneration Committee was established by the Board in June 2005. It has clear terms of reference and is accountable to the Board. Its terms of reference can be found in the Company's website (www.lippold.com.hk). The principal role of the Committee is to exercise the powers of the Board to determine and review the remuneration package of individual Directors and key executives, including salaries, bonuses and benefits in kind. Factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and key executives, employment conditions elsewhere in the Group and desirability of performance-based remuneration have been considered in determining the remuneration packages so as to align management incentives with shareholders' interests. During the year, the Remuneration Committee reviewed and approved, inter alia, (i) the remuneration package of the Directors and the Chairman and Committee members of the Company's Board committees; and (ii) service contracts of certain Directors.

Majority of the Committee members are non-executive Directors and three of them are independent. The Remuneration Committee currently comprises five members including one executive Director, namely, Mr. Stephen Riady, one non-executive Director, namely, Mr. Leon Nim Leung Chan (being the Chairman of the Remuneration Committee) and three independent non-executive Directors, namely, Messrs. Edwin Neo, Victor Ha Kuk Yung and King Fai Tsui. Two meetings were held in 2006 and the individual attendance of each member is set out above.

Details of Directors' emoluments and retirement benefits are disclosed in Notes 8 and 10 to the financial statements, respectively.

NOMINATION OF DIRECTORS

The Board has the power to appoint Director(s) pursuant to the Company's Articles of Association. No new Director was appointed during 2006.

A Nomination Committee was established by the Board in June 2005. It has clear terms of reference and is accountable to the Board. Its terms of reference can be found in the Company's website (www.lippold.com.hk). The principal role of the Committee includes, inter alia, review of the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and making recommendations to the Board regarding any proposed changes; assessment of the independence of independent non-executive Directors; and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. During the year, the Nomination Committee reviewed the eligibility of the Directors seeking for re-election at the last annual general meeting and assessed the independency of the independent non-executive Directors. The Nomination Committee also reviewed the existing size and efficiency of the Board.

Majority of the Committee members are non-executive Directors and three of them are independent. The Nomination Committee currently comprises five members including one executive Director, namely, Mr. Stephen Riady, one non-executive Director, namely, Mr. Leon Nim Leung Chan (being the Chairman of the Nomination Committee) and three independent non-executive Directors, namely, Messrs. Edwin Neo, Victor Ha Kuk Yung and King Fai Tsui. Two meetings were held in 2006 and the individual attendance of each member is set out above.

AUDITORS' REMUNERATION

Messrs. Ernst & Young has been appointed by the shareholders annually as the Company's auditors. During the year, the fees charged to the accounts of the Group for the statutory audit and non-statutory audit services provided by Messrs. Ernst and Young (which for the purpose includes any entity under common control, ownership or management with the auditors or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the auditors nationally and internationally) amounted to approximately HK\$3.5 million (2005 – HK\$4.3 million) and approximately HK\$1.3 million (2005 – HK\$2.8 million), respectively. The non-statutory audit services provided in 2006 mainly consist of financial due diligence and internal control review of the bank subsidiary of the Group.

AUDIT COMMITTEE

The Board established an Audit Committee in December 1998. The Audit Committee has clear terms of reference and is accountable to the Board. Its terms of reference can be found in the Company's website (www.lippold.com.hk). It assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. All Committee members are non-executive Directors and three of them including the Chairman are independent. The Audit Committee comprises four members including one non-executive Director, namely, Mr. Leon Nim Leung Chan, and three independent non-executive Directors, namely, Messrs. Victor Ha Kuk Yung (being the Chairman of the Audit Committee), Edwin Neo and King Fai Tsui. Four meetings were held in 2006 and the individual attendance of each member is set out above.

The Committee members possess diversified industry experience and the Chairman of the Audit Committee has appropriate professional qualifications and experience in accounting matters. Under its current terms of reference, the Committee will meet at least two times each year. Senior management and auditors shall normally attend the meetings.

During the year, the Audit Committee discharged its duties by reviewing the financial and audit matters of the Group, including management accounts, financial statements, and interim and annual reports as well as internal control and risk management matters of the Group, discussing with executive Directors, management, auditors and external independent professional accounting firms regarding the financial matters of the Group and/or internal audit matters of the Group, and making recommendations to the Board on financial-related matters.

INTERNAL CONTROLS

The Board recognises its responsibility for maintaining an adequate system of internal control and prompt and transparent reporting of the Company's activities to the shareholders and to the public.

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations.

During the year, a review of the effectiveness of the Group's internal control system covering all material controls and risk management functions has been conducted. The review will be conducted annually in accordance with the requirements of the Code.

INTERNAL AUDIT

During the year, the Board has engaged Messrs. Moores Rowland Mazars (the "Internal Auditors"), an independent professional accounting firm, to perform internal audit and to review the internal control system of the Group.

The principal roles of the internal audit are to ensure the effectiveness of internal control procedures and strict compliance with different standards and policies across different businesses and operations of the Group. The Internal Auditors audit and evaluate the Group's internal control operation and management activities so as to assess that there are no significant misrepresentations of risks and faults in the Group. The Board and the Audit Committee will actively take action based on the findings from the internal audit. The Internal Auditors are also responsible for providing improvement procedures to different operation teams and departments so as to minimize the risk exposure in the future. Ongoing enhancement and revision on the internal control system will have to be made from time to time so as to cope with the growth of the Group.

NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

During the year 2006, the Company has issued press announcements in respect of a number of “notifiable transactions” and “connected transactions” which can be viewed in the Company’s website (www.lippold.com.hk).

COMMUNICATION WITH SHAREHOLDERS

The Company’s Annual General Meeting (“AGM”) is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Company’s performance. Separate resolutions were proposed for each substantially separate issue at the AGM.

The Company’s Articles of Association contain the rights of shareholders to demand a poll and the procedures for a poll voting on resolutions at shareholders’ meetings. Details of such rights to demand a poll and the poll procedures are included in all circulars in relation to shareholders’ meetings and will be explained during the proceedings of shareholders’ meetings. In case poll voting is conducted, the poll results will be published in newspapers on the business day following the shareholders’ meeting and posted on the websites of the Stock Exchange and the Company.

FAIR DISCLOSURE AND INVESTOR RELATIONS

The Company uses its best endeavours to distribute material information about the Group to all interested parties as widely as possible. When announcements are made through the Stock Exchange, the same information will be available to the public on the Company’s website. The Company recognises its responsibility to disclose its activities to those with a legitimate interest and to respond to their questions. In all cases great care has been taken to ensure that no price sensitive information is disclosed.

FINANCIAL REPORTING

The Board recognizes its responsibility to prepare the Company’s financial statements which give a true and fair view and are in compliance with Hong Kong Financial Reporting Standards, Listing Rules and other regulatory requirements. As at 31st December, 2006, the Board is not aware of any material misstatement or uncertainties that may put doubt on the Group’s financial position or continue as a going concern. The Board has selected appropriate accounting policies and applied consistently. Judgments and estimates are reasonably and prudently made. The external auditor is responsible for audit and report, if any, material misstatement or non-compliance with Hong Kong Financial Reporting Standards or other regulations. The Board endeavour to ensure a balanced, clear and understandable assessment of the Group’s performance, position and prospects in financial reporting.

The responsibilities of the auditors with respect to financial reporting are set out in the Independent Auditors’ Report on page 34.