

# Corporate Governance Report

The Company has always recognised the importance of the shareholders' transparency and accountability. It is the belief of the board that shareholders can maximise their benefits from good corporate governance.

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2006.

## BOARD OF DIRECTORS

The board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. Daily operations and execution are delegated to management. All directors give sufficient time and attention to the Group's affairs. The board believes that the balance between executive and non-executive directors is reasonable and adequate to provide checks and balances that safeguard the interests of shareholders and the Group.

At 31 December 2006, the board of the Company comprised four executive directors, namely, Mr. Lo Peter, Mr. Sun David Lee, Mr. Li Wentao and Mr. Fu Hui; one non-executive director, namely, Mr. Yeung Ting-Lap Derek Emory; and three independent non-executive directors, namely, Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Zuchowski Sam.

The non-executive director provides the Group with a wide range of expertise and experience. His participation in board meetings brings independent judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process, to ensure that the interests of all shareholders are taken into account.

The independent non-executive directors ensure the board accounts for the interests of all shareholders and that all issues are considered in an objective manner. The Company has received annual confirmation of independence from the three independent non-executive directors and as at the date of this report still considers them to be independent.

The board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the board and has met the recommended practice under the Code for the board to have at least one-third in number of its members comprising independent non-executive directors.

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## BOARD MEETINGS

For the year ended 31 December 2006, there were six full board meetings held by the Company to discuss the Group's development strategies, investment projects and the operational and financial performance of the Group. The attendance of the directors at the board meeting is as follows:

		Number of attendance
<i>Executive directors</i>		
Mr. Lo Peter		4/6
Mr. Sun David Lee		4/6
Mr. Li Wentao	(re-designated as executive director from non-executive director on 26 May 2006)	0/6
Mr. Fu Hui	(appointed on 18 July 2006)	0/1
Mr. Au Peter Jeva	(resigned on 1 January 2006)	0/0
<i>Non-executive directors</i>		
Mr. Yeung Ting-Lap Derek Emory		1/6
Mr. Greer Thomas	(resigned on 1 January 2006)	0/0
Mr. Chau Wai-Kau	(retired on 26 May 2006)	0/3
<i>Independent non-executive directors</i>		
Dr. Loke Yu		2/6
Dr. Leung Kwan-Kwok		5/6
Mr. Zuchowski Sam		5/6

The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are followed. She also keeps detailed minutes of each meeting, which are available to all directors. A draft of the minutes is circulated to all directors for comment and approval as soon as practicable after the meeting.

All directors have access to relevant and timely information, and they can ask for further information or retain independent professional advisors if necessary. They also have unrestricted access to the advice and service of the Company Secretary, who is responsible for providing directors with board papers and related materials and ensuring that board procedures are followed.

Should a potential conflict of interest involving a substantial shareholder or director arise, the matter is discussed in an actual meeting, as opposed to being dealt with by written resolution. Independent non-executive directors with no conflict of interest are present at meetings dealing with conflict issues. Board committees, including the Audit, Remuneration and Nomination Committees, all follow the applicable practices and procedures used in board meetings for committee meetings.

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## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman and the Chief Executive Officer are held by separate individuals so as to maintain an effective segregation of duties. Mr. Lo Peter is the Chairman of the Company and provides leadership to the board to ensure that the board works effectively and all important issues are discussed in a timely manner. Mr. Sun David Lee is the Chief Executive Officer of the Company and is responsible for supervising the implementation of the Group's strategic plans.

## DIRECTORS' TERMS OF APPOINTMENTS AND RE-ELECTION

In accordance with article 116 of the Company's articles of association, one-third of the directors, including the non-executive directors, but excluding the Managing Director, shall retire from office by rotation at each annual general meeting.

Article 99 of the Company's articles of association provides that directors appointed to fill a casual vacancy shall hold office only until the first annual general meeting after their appointment, and shall be subject to re-election by the shareholders.

## DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code on ethics and securities transactions, which incorporates a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules. Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to the compliance with the code. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the code on ethics and securities transactions throughout the year.

## DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The board is responsible for presenting a clear, balanced assessment of the Group's performance and prospects. It is also responsible for preparing accounts that give a true and fair view of the Group's financial position on a going-concern basis and other price-sensitive announcements and financial disclosures. Management provides the board with the relevant information it needs to discharge these responsibilities.

The responsibilities of the auditors to the shareholders are set out in the Independent Auditor's Report on pages 18 and 19.

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## REMUNERATION COMMITTEE

The Remuneration Committee was established on 15 September 2005 with written terms of reference in compliance with the Code. It is responsible for formulating and recommending remuneration policy to the board and determining the remuneration of executive directors and members of senior management. Meetings of the Remuneration Committee shall be held at least once a year. At 31 December 2006, the Remuneration Committee comprised one executive director, Mr. Lo Peter, and two independent non-executive directors, Mr. Zuchowski Sam and Dr. Loke Yu. Mr. Zuchowski Sam is the chairman of the committee. For the year ended 31 December 2006, one meeting was held by Remuneration Committee. The attendance is as follows:

	Number of attendance
Mr. Zuchowski Sam	1/1
Dr. Loke Yu	0/1
Mr. Lo Peter	1/1

## NOMINATION COMMITTEE

The Nomination Committee was established on 15 September 2005 with written terms of reference in compliance with the Code. It is responsible for making recommendations to the board on nominations, appointment of directors and board succession. Meetings of the Nomination Committee are held as and when required. At 31 December 2006, the Nomination Committee comprised one executive director, Mr. Lo Peter, and two independent non-executive directors, Mr. Zuchowski Sam and Dr. Loke Yu. Mr. Zuchowski Sam is the chairman of the committee. For the year ended 31 December 2006, two meetings were held by Nomination Committee. The attendance is as follows:

	Number of attendance
Mr. Zuchowski Sam	2/2
Dr. Loke Yu	1/2
Mr. Lo Peter	2/2

## AUDIT COMMITTEE

The Company has had an Audit Committee since 2001. The Audit Committee is responsible for reviewing the Group's financial reporting, internal controls and making recommendations to the board. At 31 December 2006, the Audit Committee comprised three independent non-executive directors, Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Zuchowski Sam. Dr. Loke Yu is the chairman of the committee.

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For the year ended 31 December 2006, there were three meetings held by the Audit Committee to (i) review with external auditors the external audit findings, the accounting principles and practices adopted by the Group, and Listing Rules and statutory compliance, (ii) discuss auditing and financial reporting matters for the annual report for 2005 and interim report for 2006 before recommending them to the board for approval, and (iii) review the Group's internal control system. The attendance is as follows:

	Number of attendance
Dr. Loke Yu	3/3
Dr. Leung Kwan-Kwok	3/3
Mr. Zuchowski Sam	3/3

## AUDITORS' REMUNERATION

During the year, the remuneration paid/payable to the Company's auditors, RSM Nelson Wheeler, amounted to HK\$818,000 for audit services and HK\$50,000 for tax services.

## INTERNAL CONTROL

The board has overall responsibility for maintaining sound and effective internal controls to safeguard the Group's assets and shareholders' interests. The board conducts regular reviews of the Group's internal control system. The board assesses the effectiveness of internal controls by considering reviews performed by the Audit Committee, executive management and both internal and external auditors. The board believes that the present internal control system is adequate and effective.

The internal audit department follows a risk-and-control based approach. The department performs regular financial and operational reviews of the Group and its subsidiaries, as well as other reviews as required. Summaries of major audit findings and control weaknesses, if any, are reviewed by the Audit Committee. The internal audit department monitors the follow-up actions agreed upon in response to its recommendations.

## COMMUNICATION WITH SHAREHOLDERS

The Group follows a policy of disclosing relevant information to shareholders in a timely manner. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual general meeting ("AGM") provides a forum for shareholders to exchange views directly with the board. The Company regards the AGM as an important event and all directors, senior management and external auditors make an effort to attend the AGM of the Company to address shareholders' queries. All the shareholders of the Company are given a minimum of 21 days' notice of the date and venue of the AGM of the Company. The Company supports the Code's principle to encourage shareholders' participation. The Company has also complied with the requirements concerning voting by poll under the Listing Rules. Details of the poll voting procedures and the rights of shareholders to demand a poll included in circulars to shareholders despatched by the Company where applicable.