

# Corporate Governance Report

This corporate governance report ("CG Report") presents the corporate governance matters during the period covering the financial period ended 31 December 2006 and up to the date of the Annual Report to which this CG Report is inscribed ("CG Period") required to be disclosed under the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

## ADOPTION OF CORPORATE GOVERNANCE PRINCIPLES

The Board adopted a set of corporate governance principles ("Principles") which aligns with or is more restrictive than all requirements set out in the Code on Corporate Governance Practices ("CG Code") and the Model Code for Securities Transactions by Directors of Listed Issuers ("Securities Code") contained in the Listing Rules. The Board had also in writing made specific enquiry to each executive Director ("ED(s)") and independent non-executive Director ("INED(s)") in respect of the due compliance of the rules and principles relevant to the Securities Code. During the CG Period, the Principles had been duly complied with except for the deviations summarised as follows:

CG Code	Deviation and reason
A.2.1 The roles of Chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual	The defined roles and responsibilities of the CEO shall be placed with a CEO other than the Chairman or if no CEO is appointed, shall be shared and jointly saddled by all EDs. During the CG Period, the Company has not maintained a CEO as the roles and responsibilities of the CEO was shared and jointly saddled by all EDs.

Save for the above, the Company has been in compliance with the CG Code and the Securities Code throughout the CG Period.

## BOARD OF DIRECTORS

During the CG Period, the Board had held the following number of physical meetings of the Directors:

- 8 meetings of the full Board
- 7 meetings of the EDs

Out of the 8 full Board meetings, 5 of them were held to discuss and/or approve the annual/quarterly financial performance/results of the Group while 3 meetings to discuss and approve connected transactions of the Company which arose during the CG Period. The ED meetings were held to report, discuss and/or resolve for the ordinary business and operation matters, and the corporate movements and decisions.

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During the CG Period, the composition of the Board, and the respective attendances of the Directors at the above Directors' meetings are presented as follows:

Director	Board capacity	Appointment/ Resignation during the CG Period	Attendance	
			Full Board meetings	ED meetings
Mr Kwan Pak Hoo Bankee	ED & Chairman		7/8	7/7
Mr Law Ping Wah Bernard	ED & CFO		8/8	7/7
Mr Wong Kin Yick Kenneth	ED & Deputy CEO		8/8	7/7
Mr Lin Che Chu George	ED	was appointed on 1 December 2006	2/5	3/3
Mr Li Yuen Cheuk Thomas	ED	resigned on 1 December 2006	3/3	2/4
Ms Kwok Oi Kuen Joan Elmond	ED	resigned on 13 April 2006	0/0	1/1
Mr Leung Ka Kui Johnny	INED		8/8	N/A
Mr Wong Chuk Yan	INED		8/8	N/A
Dr Chan Hak Sin	INED		7/8	N/A

During the CG Period, none of the Directors above has or maintained any financial, business, family or other material/ relevant relationship with any of the other Directors.

The terms of the appointments of the EDs and the INEDs were governed by the respective employment or service contracts while the appointments of the directorship were subject to, as to EDs, retirement, rotation and re-election at least once every 3 financial years and, as to INEDs, retirement and re-election every year, all at annual general meetings of the Company.

## REMUNERATION COMMITTEE

Throughout the CG Period, the Company had maintained a Remuneration Committee. The role and function of the Remuneration Committee includes:

- recommendation to the Board on the remuneration policy for the Directors;
- review of, approval of and recommendation for (if any) the remuneration package of each Director including benefits in kind, pension right, bonus payment and compensation payable;

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- review and approval of performance-based remuneration of each Director (if any) by reference to achievement goals and objectives set by the Board;
- review and approval of the compensation payment to any Director upon his/her cessation of directorship in or employment with the Company; and
- engagement of external professional advisors to assist and/or advise the Remuneration Committee on its duties when necessary and reasonable.

Terms of reference of the Remuneration Committee had been compiled since the establishment of the Remuneration Committee and were endorsed and adopted by the Remuneration Committee. The most updated version of the terms of reference of the Remuneration Committee has been posted onto the corporate website of the Company.

During the CG Period, the Remuneration Committee had held 2 physical meeting for the purpose of considering the remuneration of the Directors.

The composition of the Remuneration Committee, and the respective attendances of the committee members are presented as follows:

Member	Board capacity	Attendance
Mr Leung Ka Kui Johnny	INED	2/2
Mr Wong Chuk Yan	INED	2/2
Mr Kwan Pak Hoo Bankee	Chairman of the Board	2/2

The chairman of the Remuneration Committee since its establishment has been Mr Leung Ka Kui Johnny.

The summary of the work performed by the Remuneration Committee for the financial period under review included:

- endorsement to the remuneration policy for the Directors;
- review and approval of the remuneration package of each Director including benefits in kind, pension right, bonus payment and compensation payable.

## REMUNERATION POLICY FOR DIRECTORS

The Company adopted a remuneration policy providing guideline for Directors' remuneration.

Under the remuneration policy, Directors' remuneration should be based on internal equity factors and external market conditions and will be reviewed from time to time.

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The remuneration of EDs generally consists of:

- fixed monthly salary/ allowance – which is set in accordance with the Director's duties, responsibilities, skills, experiences and market influences;
- pension – which is based on the local Mandatory Provident Fund Contribution Scheme;
- short term variable incentive – which may include discretionary cash bonus depending on the achievement of short-term corporate objectives and/or personal targets;
- long term variable incentive – which may include share options designed to encourage long-term commitment.

The remuneration of non-executive Directors ("NED(s)") will be a lump sum of management fee made annually.

## DIRECTORS' REMUNERATION

The remuneration paid to and/or entitled by each of the Directors for the financial period under review is set out in note 10 to the consolidated financial statements in the Annual Report.

The share options granted to and/or entitled by the Directors during the financial period under review are inscribed in the section headed "Directors' Interests in Securities" of the Directors' Report.

## NOMINATION OF DIRECTORS

The Board shall be composed of members with mixed skills and experience with appropriate weights necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. Each member of the Board shall possess, be recognised for and be able to exhibit high and professional standard of a set of core criteria of competence.

The Company had adopted a nomination policy for the criteria, procedures, and process of the appointment and removal of Directors.

Under the nomination policy, the board of EDs has been delegated the full power to the administration of the nomination policy and the appointment and the termination of Directors, where the full Board remains to have the full and overriding power and absolute right thereover.

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During the CG Period, 2 meeting(s) was/were held by the EDs in resolving for the acceptance of the resignation of two ex-Directors and the appointment of one Director. The attendances of the EDs were as follows:

Director	Attendance
Mr Kwan Pak Hoo Bankee	1/2
Mr Law Ping Wah Bernard	2/2
Mr Wong Kin Yick Kenneth	2/2
Mr Lin Che Chu George (was appointed on 1 December 2006)	0/0
Mr Li Yuen Cheuk Thomas (resigned on 1 December 2006)	1/1
Ms Kwok Oi Kuen Joan Elmond (resigned on 13 April 2006)	0/0

## AUDIT COMMITTEE

Throughout the CG Period, the Company had maintained an Audit Committee. The major role and function of the Audit Committee include:

- monitoring the integrity of the financial statements of the Group;
- providing independent review and supervision of the effectiveness of the internal control of the Group;
- review of the adequacy of the external audits;
- review on the compliance issues with the Listing Rules and other compliance requirements;
- providing independent views on connected transactions and transactions involving materially conflicted interest;
- consideration and reviewing the appointment of the Auditors and the audit fee.

Terms of reference of the Audit Committee had been compiled since the establishment of the Audit Committee and each version was endorsed and adopted by the then Audit Committee. The most updated version of the terms of reference of the Audit Committee has been posted onto the corporate website of the Company.

During the CG Period, the Audit Committee had held 5 physical meetings for discussing and/or approving the periodic financial results of the Group.

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The composition of the Audit Committee, and the respective attendances of the committee members are presented as follows:

Member	Board capacity	Attendance
Mr Leung Ka Kui Johnny	INED	5/5
Mr Wong Chuk Yan	INED	5/5
Dr Chan Hak Sin	INED	4/5

The chairman of the Audit Committee has been Mr Leung Ka Kui Johnny during the CG Period.

The report of the work performed by the Audit Committee for the financial period under review is set out in the section headed "Audit Committee Report" of this Annual Report.

## AUDITORS' REMUNERATION

The analysis of the Auditors' remuneration for the financial period under review is presented as follows:

	Fee amount (HK\$)
Audit service	3,500,000
Non-audit services	3,079,000
Total	6,579,000

The non-audit services arose from the requirement of accounting performance required under the Listing Rules for several corporate transactions of the Group which took place during the financial period under review.

## ACKNOWLEDGEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the accounts of the Group. In preparing the accounts for the financial period under review, the Directors have:

- based on a going concern basis;
- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were prudent, fair and reasonable.

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## REVIEW OF INTERNAL CONTROL

During the financial period under review, the Directors had arranged to conduct a review over the effectiveness of the internal control system of the Group including functions of financial, operation, compliance and risk management. The Directors had found incidents of non-compliance with the disclosure requirements of the Listing Rules, details of which had already been disclosed in the announcement dated 8 February 2007, and had taken immediate steps to ensure full compliance with the requirements of the Listing Rules in the future. The Directors had also initiated necessary improvement and reinforcement to the internal control system during the period under review. The review showed a satisfactory control system. The review had been reported to the Audit Committee.

On behalf of the Board

**Bankee P Kwan**

*Chairman*

Hong Kong, 20 April 2007