

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the importance of good corporate governance practices that they will enable the Company to better manage its business risks and ensure the Company is run in the best interests of its shareholders. It thus aims at complying with, where appropriate, all Code Provisions set out in Appendix 14 Code of Corporate Governance Practices (“Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The Company has complied with the Code Provisions throughout the accounting year ended 31 December 2006.

## BOARD OF DIRECTORS

The Board comprises of three Executive Directors in 2006, being Dr. Wong Shu Wing (Chairman), Mr. Choi Tat Kai and Mr. Lau Kit Hung; and three Independent Non-executive Directors, being Mr. Chang Kin Man, Mr. Yeung Ming Tai, and Ms. Wong Lai Ying Cecilia. Executive Director of Mr. Kwan Kim Fai Stanley and Independent Non-executive Director of Mr. Lau Chung Kwan resigned due to his personal reasons on 28 February 2006. Independent Non-executive Director of Mr. Chang Kin Man resigned due to his personal reasons on 18 April 2007. New Independent Non-executive Directors namely, Ms. Wong Lai Ying Cecilia has joined in the Company effective from 1 March 2006 and Prof. Sun Hanxu has joined in the Company effective from 18 April 2007. Biographical details of the Board are provided in the “Profile of Directors and Senior Management” section of the Annual Report 2006.

The independent non-executive directors have entered into service agreements with the Company for an initial term of one year and would continue thereafter from year to year until terminated by either party with one month’s notice in writing served on the other side. They are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with Article 87 of the Company’s Articles of Association.

The role of the Board is to provide high-level guidance and oversight. Apart from exercising all the powers and authorities and discharging its duties under the law, the Board is responsible for formulating the overall corporate strategic direction, monitoring and controlling the performance of the Group. It also reviews and approves annual financial budgets and major transactions. The Board delegates its power to the management team consisting of Chief Executive Officer (“CEO”), Chief Operation Officer, Chief Financial Officer, Chief Technical Officer, Chief Legal Officer etc. headed by CEO to manage the day-to-day operation of the Group.

All Directors have access to the advice and service of the Company Secretary in a view to ensuring that the board meeting procedures and all applicable rules and regulations are followed. Draft and final versions of minutes of board meetings are sent to all Directors for comment and records respectively. The Directors can obtain independent professional advice at the Company’s expenses. Directors or any of their associates having a material interest in a matter to be considered will not be counted in the quorum of the meeting and will abstain from voting on the relevant resolution. The proceedings of the Board follow all the relevant Code Provisions.

The Board meets regularly throughout the year and at least four times a year. In 2006 there were 8 meetings held. The attendance of Directors at the Board meetings held during the period is as follows:

Name of Directors	Attendance/Number of Board Meetings held
<i>Executive Directors</i>	
Wong Shu Wing	7/8
Choi Tat Kai	8/8
Lau Kit Hung	8/8
Kwan Kim Fai (resigned on 28 February 2006)	Not Applicable
<i>Independent Non-executive Directors</i>	
Yeung Ming Tai	8/8
Chang Kin Man (resigned on 18 April 2007)	5/8
Wong Lai Ying Cecilia (appointed on 1 March 2006)	6/7
Lau Chung Kwan (resigned on 28 February 2006)	Not Applicable
Sun Hanxu (appointed on 18 April 2007)	Not Applicable

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Group is Dr. Wong Shu Wing and the Chief Executive Officer is Mr. Chan Ka Tak. The roles of the Chairman and the CEO are segregated. This segregation ensures a clear distinction between the Chairman's responsibility to manage the Board and the CEO's responsibility to manage the Group's operation. There is no financial, business, family or other material/relevant relationship between the Chairman and the CEO.

## AUDIT COMMITTEE

The Company has established the Audit Committee since 2003. The role of the Audit Committee is to assist the Board in considering how it will apply the financial reporting and internal control principles and to cooperate with the Company's external auditors.

The Audit Committee has specific written Terms of Reference which deal clearly with its authority and duties. The Terms of Reference of the Audit Committee has been prepared in late December 2004 to include the duties set out in Code Provision C.3.3(a) to (n), with modifications where necessary. They have been posted to the Company's website at [www.sunlink.biz](http://www.sunlink.biz) and are also available in writing upon request to the Company Secretary. The Audit Committee shall have power to hire independent legal, financial or other advisors, as it may deem necessary, with prior approval from the Board.

The members of the Audit Committee are Independent Non-executive Directors. The Audit Committee was chaired by Mr. Chang Kin Man and its other members were Mr. Yeung Ming Tai and Ms. Wong Lai Ying Cecilia in 2006. Mr. Lau Chung Kwan resigned on 28 February 2006 and Ms. Wong Lai Ying Cecilia was appointed to replace him with effect from 1 March 2006.

Mr. Chang King Man was resigned on 18 April 2007 and Prof. Sun Hanxu was appointed to replace him with effect from 18 April 2007. The Audit Committee is chaired by Mr. Yeung Ming Tai with effect from 18 April 2007.

The work performed by the Audit Committee during the year of 2006 included:

- Review on the audited accounts and annual results announcement for the year of 2005;
- Review the interim report and interim results announcement for the six months ended 30 June 2006;
- Meeting with the external auditors and management of the Company to discuss issues arising from the audit of annual accounts and interim accounts;
- Considering and recommending adoption of new accounting policies and standards;
- Review on and approving the remuneration in respect of audit and non-audit services provided by the external auditors;
- Review on the Terms of Reference of the Audit Committee;
- Review on internal checking.

The Audit Committee meets regularly throughout the year and at least twice a year. In 2006 there were 4 meetings held. The attendance of members of the Audit Committee meetings held during the period is as follows:

<b>Name of Directors</b>	<b>Attendance/Number of Audit Committee Meetings held</b>
<i>Independent Non-executive Directors</i>	
Yeung Ming Tai	4/4
Chang Kin Man (resigned on 18 April 2007)	2/4
Wong Lai Ying Cecilia (appointed on 1 March 2006)	4/4
Lau Chung Kwan (resigned on 28 February 2006)	Not Applicable
Sun Hanxu (appointed on 18 April 2007)	Not Applicable

## REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with specific Terms of Reference which deal clearly with its authority and duties since 1 January 2005. The role of the Remuneration Committee is to formulate and review the remuneration policy of the Directors and Senior Management and monitor the implementation of such policy.

The written Terms of Reference of the Remuneration Committee have included the specific duties set out in Code Provision B.1.3(a) to (f) of the Code, with appropriate modifications where necessary. They have been posted to the Company's website at [www.sunlink.biz](http://www.sunlink.biz) and are also available in writing upon request to the Company Secretary. The Remuneration Committee shall have power to hire independent legal, financial or other advisors, as it may deem necessary, with prior approval from the Board.

The members of the Remuneration Committee are Independent Non-executive Directors. The Remuneration Committee was chaired by Mr. Chang Kin Man and its other members were Mr. Yeung Ming Tai and Ms. Wong Lai Ying Cecilia in 2006. Since Mr. Lau Chung Kwan resigned on 28 February 2006 and Ms. Wong Lai Ying Cecilia was appointed to replace him with effect from 1 March 2006. Mr. Chang Kin Man was resigned on 18 April 2007 and Prof. Sun Hanxu was appointed to replace him with effect from 18 April 2007. The remuneration committee is chaired by Mr. Yeung Ming Tai with effect from 18 April 2007.

The work performed by the Remuneration Committee during the year of 2006 included:

- Review on the remuneration policy of the Company;
- Review on the remuneration policy and package for Executive Directors and Senior Management;
- Assessing performance of Executive Directors and Senior Management;
- Review on the terms of Executive Directors' service agreements;
- Review on the Terms of Reference of the Remuneration Committee.

The remuneration package of the Executive Directors and Senior Management is determined by the Remuneration Committee in consultation with the Chairman of the Board according to the remuneration policy. The key principles that underpin the remuneration policy are:

- (a) remuneration must reflect the market in which the Group operates;
- (b) key performance indicators will apply to deliver results to the Group;
- (c) remuneration is to be linked to the creation of value to shareholders; and
- (d) remuneration is to reward both financial and non-financial performances.

The remuneration package consists of basic salary, fringe benefits, and short-term performance incentive. In addition, the Company has adopted the Share Option Scheme which is a kind of long-term incentives to the key employees since 2003. After giving due consideration to market trend, responsibilities and performance of each individual, the remuneration packages to the Executive Directors and Senior Management are viewed as sufficient to attract, motivate and retain high performing individuals in the Group.

The Remuneration Committee meets regularly throughout the year and at least twice a year. In 2006 there were 3 meetings held. The attendance of members of Remuneration Committee meetings held during the period is as follows:

<b>Name of Directors</b>	<b>Attendance/Number of Remuneration Committee Meetings held</b>
<i>Independent Non-executive Directors</i>	
Yeung Ming Tai	3/3
Chang Kin Man (resigned on 18 April 2007)	2/3
Wong Lai Ying Cecilia (appointed on 1 March 2006)	3/3
Lau Chung Kwan (resigned on 28 February 2006)	Not Applicable
Sun Hanxu (appointed on 18 April 2007)	Not Applicable

## NOMINATION OF DIRECTORS

According to the Article 86 of the Company's Articles of Association, the Board has the power from time to time and at any time to appoint any person as a director either to fill a causal vacancy or as an addition to the Board. The nomination should be taken into consideration of the nominee's qualification, ability and potential contributions to the Company.

The Company has not established a nomination committee. The Board considered that the nomination of directors should be determined by the Board itself and thus does not delegate this power to any committee. In 2006, Executive Director Mr. Kwan Kim Fai Stanley was resigned on 28 February. In year 2007, one Independent Non-executive Director resigned on 18 April. After consideration, the Board appointed Professor Sun Hanxu to replace Mr. Chang Kin Man as an Independent Non-executive Director.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year of 2006 and they have all confirmed that they had fully complied with the required standard set out in the Model Code.

## DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2006, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### AUDITORS' REMUNERATION

In respect of the financial year 2006, the following remuneration was paid or is payable to the Company's auditors:

Fee for audit services:	HK\$1,250,000
Fee for non-audit services:	<u>HK\$550,000</u>
	<u>HK\$1,800,000</u>

### INTERNAL CONTROLS

The Board has the overall responsibilities of maintaining an effective internal control system for the Group safeguarding the shareholders' investment and the Company's assets at all time. The Company has adopted the total quality management corporate strategy. It has been accredited with ISO 9001:2000 for the operation of and internal control over the Group since 2004. The Company has maintained the up-to-date operation manuals and relevant documentation and would put forward to the Board for review in due course.

In order to ensuring ISO 9001:2000 to be operated effectively, the Company has set up an internal audit team whose leader is an executive director representing the Board. The internal audit team has conducted reviews and checks on the effectiveness of core operation of Group covering financial, operational and compliance controls and risk management functions in the year of 2006 and reported to the Audit Committee and the Board directly.

## INVESTOR RELATIONS

### 1. Communication Channels

The Company encourages two way communications with its investors. On one hand, extensive information about the Company's activities is laid down in its Annual Report and Interim Report, which are sent to shareholders of the Company. The Company uses its website at [www.sunlink.biz](http://www.sunlink.biz) to disseminate financial and other information relating to the Group and its business to the public in order to enable the Company's shareholders and the investors to have timely access to updated information about the Group. On the other hand, shareholders can raise any comments on the performance and future directions of the Company with the Directors at the annual general meeting.

### 2. General meetings

- (a) The general meeting provides a forum for the Board to communicate with its shareholders. Shareholders holding not less than one-tenth of the paid-up capital of the Company may deposit a requisition to convene an extraordinary general meeting and state the purpose therefor at the Company's principal place of business in Hong Kong at Room 1905-07, Tower III, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon.
- (b) To facilitate enforcement of shareholders' rights, substantially separate issues at general meetings are dealt with under separate resolutions.