

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the “Board”) is committed to maintaining high standards of corporate governance. The principles of corporate governance adopted by the Group emphasise on an effective Board for leadership and control, sound business ethics and integrity in all business activities, and transparency and accountability to shareholders.

The Group has adopted the Code Provisions as set out in the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) except for the following deviations:–

- (i) 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. The Company does not have a separate Chairman and Chief Executive Officer as Mr. Chan Ho Sing currently holds both positions. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies.
- (ii) The Independent Non-Executive Directors (“INEDs”) of the Company are not appointed for specific terms but are subject to retirement by rotation under Bye-law 87 of the Company’s Bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the code of conduct regarding directors’ securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers to the Listing Rules (“Model Code”). Upon specific enquiry by the Company, all Directors have fully confirmed that they fully complied with the Model Code throughout the year.

BOARD OF DIRECTORS

The Board is collectively responsible for overseeing the management of the business and affairs of the Group with the objective of enhancing shareholders value.

The composition of the Board and the terms of appointment of directors are detailed in the Report of the Directors. Details of the Directors’ biographical are set out in the “Directors’ and Senior Management’s Biographies” section. The Board comprises two Executive Directors and three INEDs. Two of the INEDs possess appropriate professional qualifications as required by the Listing Rules.

Each INED has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines. Mr. Chan Ho Sing currently holds both positions of Chairman and Chief Executive Officer.

At each annual general meeting one-third of the Directors for the time being (round up if their number is not a multiple of three), shall retire from office by rotation in accordance with the Company’s Bye-laws.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's long-term and short-term investments, business strategies and annual budgets; evaluating the performance of the Group; and oversight of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed and approved by the Board before execution. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary. With the support of the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and adequate and reliable information are given to the Board in a timely manner.

The Company Secretary shall convene the Board meetings on the request of any one director of the Company and 14 days' notice of Board meetings will be given to all Directors. The Board papers are tabled not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and Qualified Accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. The Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

Five Board meetings were held in 2006. Four of which were Regular Board meetings scheduled in advance at approximately quarterly intervals and one Board meeting had been convened at the request of the Chairman. The Directors can attend meetings in person or through means of a conference telephone or other communications equipment in accordance with Bye-law 116(2) of the Company's Bye-laws.

The Directors acknowledge their responsibility for preparation of the consolidated financial statements of the Group. This responsibility has also been mentioned in the Independent Auditors' Report on page 24. The statement by the auditors of the Company about their reporting responsibility is also set out on page 24.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 22 March 2006 to determine the remuneration structure of the Executive Directors and senior management. Its current members comprise Mr. Mar, Selwyn, Mr. Chan Ho Sing and Dr. Li Sau Hung, Eddy. Mr. Mar is Chairman of Remuneration Committee.

The main responsibilities of the Remuneration Committee are as follows:-

- (a) to decide, with consultation with the Chairman of the Board, where to position the Company relative to others in terms of remuneration level and board composition;
- (b) to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments;
- (c) to make recommendations to the Board on the remuneration of non-executive directors;
- (d) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (e) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment;
- (f) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct;
- (g) to prepare appropriate disclosure concerning the Remuneration Committee to be included in the Corporate Governance Report in the Company's annual report; and
- (h) to ensure that the Committee's terms of reference are made available to shareholders and other interested parties.

During the year, the Remuneration Committee approved the grant of 5,600,000 share options to the eligible persons under the share option scheme adopted on 26 May 2006.

AUDIT COMMITTEE

The current members of the Audit Committee include Mr. Mar, Selwyn, Dr. Li Sau Hung, Eddy and Mr. Lo Kwok Kwei, David. Mr. Mar is Chairman of the Audit Committee.

All members of the Audit Committee are INEDs of the Company. Two members have appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules. None of them is employed by or otherwise affiliated with former or existing auditors of the Company.

The Audit Committee held five meetings during the year. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate.

The major duties of the Group's Audit Committee are as follows:

- (a) to consider the appointment of the external auditor, the audit fee, and any questions of resignation or dismissal;
- (b) to discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- (c) to review the half-year and annual financial statements before submission to the Board;
- (d) to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss;
- (e) to review the external auditor's management letter and management's response;
- (f) to review the company's statement on internal control systems prior to endorsement by the Board;
- (g) to consider the major findings of internal investigations and management's response; and
- (h) to consider other topics, as defined by the Board.

During this year, the Audit Committee had performed the following work:

- (a) reviewed the financial reports for the year ended 31 December 2005 and for the six months ended 30 June 2006;
- (b) reviewed the findings and recommendations of the Internal Audit on the operations and performance of the Group;
- (c) reviewed the accounting principles and practices adopted by the Group and ensured the Company to comply with the Listing Rules and other statutory requirements;
- (d) reviewed the effectiveness of internal control system;
- (e) reviewed the external auditor's management letter and management's response; and
- (f) reviewed and recommended for approval by the board the 2006 audit scope and auditors' remuneration.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee but will consider setting up one at an appropriate time. Currently all new appointments and re-appointments to the Board are subject to the concurrence of all Board members whose deliberations are based on the following criteria:

- Integrity
- Independent mindedness
- Possess core competencies that meet the current needs of the company and complement the skills and competencies of the existing Directors on the Board
- Able to commit time and effort to carry out duties and responsibilities effectively
- A good track record of experience at a senior level in corporations/organisations
- Financially literate

ATTENDANCE OF INDIVIDUAL DIRECTORS

The attendance of individual Directors at the Board, Audit Committee and Remuneration Committee meetings is set out in the table below.

Name of director	Meetings attended/held in 2006		
	Board	Audit Committee	Remuneration Committee
Mr. Chan Ho Sing	5/5	N/A	1/1
Mr. Ko Pak On	5/5	N/A	N/A
Dr. Li Sau Hung, Eddy	5/5	5/5	1/1
Mr. Lo Kwok Kwei, David	4/5	5/5	N/A
Mr. Mar, Selwyn	4/5	5/5	1/1

AUDITORS' REMUNERATION

For the year ended 31 December 2006, the remuneration paid to the Company's auditors, Messrs Ernst & Young, is set out as follows:

Services rendered	Fees paid/payable HK\$'000
Audit services	1,380
Non-audit services i.e. taxation	178
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	1,558

INTERNAL CONTROL

The Board is responsible for maintaining effective internal control systems of the Group. The Group's system of internal control includes a defined management structure with limits of authority, is designed to evaluate the Group's risk, achieve the division goals and business objectives, maintain proper accounting records for the provision of financial information for internal analysis or for publication, comply with relevant legislation and regulations.

During the year, the Directors had conducted semi-annually a review of the effectiveness of the systems of internal control in respect of the financial, operational, compliance controls and risk management function of the Group.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with shareholders and investors: (i) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (ii) updated and key information of the Group are available on the website of the Company, (iii) the Company's website offers communication channel between the Company and its shareholders and investors, and (iv) the Stock Exchange and the Companies Registry serve the shareholders respecting all filing Documents under the Listing Rules and Companies Ordinance.