

# Corporate Governance Report

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasises accountability and transparency and are adopted in the best interests of the Company and its shareholders.

## Code on Corporate Governance Practices

The Company has complied with the Code on Corporate Governance Practices (the “CG Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31 December 2006 with the exception that Non-executive Directors are not appointed for a specific term and the Articles of Association of the Company does not provide that (a) every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years; and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. In view of good corporate governance practices, all Non-executive Directors have agreed to comply with the Listing Rules and that their term of appointment will be limited accordingly. Furthermore, every director of the Company, including those appointed for a specific term, voluntarily retires from office by rotation at least once every three years notwithstanding that the director is not required to do so by the Articles of Association of the Company. Amendments to the Articles of Association of the Company have been proposed at the forthcoming Annual General Meeting in order to bring the Articles of Association of the Company in line with the changes brought about by the amendments to Listing Rules as well as the provisions of the CG Code.

## Board Composition and Board Practices

The board of directors of the Company (the “Board”) is composed of 9 Directors, including the Chairman who is an Executive Director, 2 Vice-chairmen who are Executive Directors, a Managing Director who is an Executive Director, 2 additional Executive Directors and 3 Independent Non-executive Directors. One-third of the Board is Independent Non-executive Directors and a majority of them have appropriate professional qualifications, or accounting or related financial management expertise. Their biographies and relevant relationships amongst them are set out in the Biographical Details of Directors and the Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures on pages 6 to 7 and pages 10 to 12 of this Annual Report respectively.

Review will be made regularly on the Board composition to ensure that it has a balance of skills and experience appropriate for the requirement of the business of the Group. Also, a balanced composition of Executive Directors and Non-executive Directors is maintained to ensure independence and effective management. The Company has satisfied the relevant provision of the Listing Rules in having one of the Independent Non-executive Directors with appropriate accounting qualifications and expertise as one of the members of the Audit Committee.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors 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.

Formal written procedure and policy have been adopted by the Board for the appointment of new directors. When selecting potential candidates for directors, their skills, experience, expertise, devotion of time and conflicts of interests are the key factors for consideration. No Nomination Committee has been set up, and hence, the nomination and selection process are performed by the Board. The Board meets at least once a year in discussing whether the composition, size, structure of the Board is adequate. The Board met once in 2006 with a majority of Directors present. According to the Articles of Association of the Company, one-third of the Directors are subject to re-election. Non-executive Directors are not appointed for a specific term. These deviate from the CG Code in which it states that all Non-executive Directors must be appointed for a specific term and all Directors must rotate at least once every three years.

The Board is jointly responsible for the formulation of the Group’s strategy, overseeing the management of the business and affairs of the Group.

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The roles of the Chairman and the Chief Executive Officer are exercised by separate individuals with a view to reinforce their independence and accountability. Key and important decisions shall be fully discussed at the board meetings. All Directors have been fully 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 Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and receive adequate and reliable information in a timely manner.

Daily operation and management of the business of the Group, inter alia, the implementation of strategies are delegated to the Executive Committee, comprising all Executive Directors. They report periodically to the Board their work and business decisions.

The Board meets regularly. Four board meetings were held in 2006:

	<b>Attendance</b>
<i>Executive Directors</i>	
Ng Hung Sang (Chairman)	2/4
Richard Howard Gorges (Vice-chairman)	4/4
Cheung Choi Ngor (Vice-chairman)	4/4
Chan Hing Wah (Former Executive Director and Managing Director resigned on 19 December 2006)	3/3
Ng Chun Sang	0/4
Ng Yuk Yeung, Paul	3/4
<i>Independent Non-executive Directors</i>	
Wong Siu Yin, Elizabeth	4/4
Raymond Arthur William Sears	3/4
Tung Woon Cheung, Eric	4/4

Notice of at least fourteen days is given to the Directors for regular meetings, while Board papers are sent to the Directors not less than three days before the intended date of a board or board committee meeting. The Directors can attend meetings in person or through other means of electronic communication in accordance with the Articles of Association of the Company. The Company Secretary ensures that the procedures and all applicable rules and regulations are strictly and fully complied with. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and are available for inspection at any reasonable time on reasonable notice by any Directors.

Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors.

## **Model Code for Securities Transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules for Directors. In addition, the Board has established similar guidelines for relevant employees who are likely in possession of unpublished price sensitive information in relation to the Group or its securities.

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors throughout the year ended 31 December 2006.

## Internal Control

Recognising that a well-designed and effective system of internal control is crucial to safeguard the assets of the Company and the shareholders' investment and to ensure the reliability of financial reporting as well as compliance with the relevant requirement of the Listing Rules, the Directors also acknowledge that they have overall responsibility for the Company's internal control, financial control and risk management and shall monitor its effectiveness from time to time. Therefore, a team, comprising qualified accountants, has been organised to carry out the internal audit function of the Company ("IA Team").

Based on the assessment of risk exposure, the IA Team formulates audit plans quarterly and ensures the audit programs cover key internal control areas of key operating subsidiaries on a rotational basis for the review by the Audit Committee on a regular interval. The scopes and timing of audit review is usually determined according to risk assessment. Special reviews may also be performed on areas of concern identified by management or the Audit Committee from time to time. Communication channel has been established between the IA Team and the Audit Committee members.

IA Team monitors the internal control procedures and systems of the Group and reports its findings and recommendations, if any, to Audit Committee on a regular interval. During the year, the business segment - securities brokerage of the Group was reviewed, recommended remedial actions, distinguishing specific incidents from control weakness that require procedural changes or enhancements to prevent recurrence were proposed and addressed in the internal control report for review by the Audit Committee and the Board.

## Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out on page 19 of the Independent Auditors' Report .

## Auditors' Remuneration

For the year ended 31 December 2006, the Auditors of the Company received approximately HK\$1,000,000 for audit service. No non-audit service was provided by the Auditors in 2006.

## Remuneration Committee

The Remuneration Committee was set up on 10 March 2005 and comprises all the Independent Non-executive Directors. The Remuneration Committee members are Mr. Tung Woon Cheung, Eric (Chairman of the Committee ), Ms. Wong Siu Yin, Elizabeth and Hon. Raymond Arthur William Sears, Q.C.. The policies for the remuneration of Executive Directors were reviewed by the Remuneration Committee. Remuneration, including basic salaries, discretionary performance bonus and other emolument of the Executive Directors is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice. Granting share options is considered as one of the means for giving long term motivation and incentive to and for retaining staff.

The Remuneration Committee Members meet regularly. Two meetings of the Remuneration Committee were held in 2006:

	<b>Attendance</b>
Tung Woon Cheung, Eric	2/2
Raymond Arthur William Sears	2/2
Wong Siu Yin, Elizabeth	2/2

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Remuneration, comprising directors' fees, of Independent Non-executive Directors is subject to annual assessment for shareholders' approval at the annual general meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at board meetings and committee meetings.

### Audit Committee

The Audit Committee comprises all Independent Non-executive Directors, Ms. Wong Siu Yin, Elizabeth (Chairman of the Committee), Hon. Raymond Arthur William Sears, Q.C., and Mr. Tung Woon Cheung, Eric. The principal duties of the Audit Committee include the review of the Group's audit plan and process with the Auditors, review of the independence of Auditors, the Group's financial statements and system of internal control in accordance with its terms of reference, which is substantially the same as the CG Code.

The Audit Committee Members meet regularly. Three meetings of the Audit Committee were held in 2006:

	<b>Attendance</b>
Wong Siu Yin, Elizabeth	3/3
Raymond Arthur William Sears	3/3
Tung Woon Cheung, Eric	3/3

The Audit Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended to the Board the re-appointment of the Auditors in 2007 at the forthcoming annual general meeting.

The Group's annual results for the year ended 31 December 2006 were reviewed by the Audit Committee.