

# Corporate Governance Report

The Company is committed to maintaining good corporate governance practices and procedures. Review of existing policies and practices in respect of the management and corporate matters of the Group has been conducted by the Company. As enhancement to the current standards and for complying with new requirements, revision of existing policies and practices and introduction of appropriate new measures have been implemented. Constant review of the system and controls within the Group will be carried out by the Company to comply with the prevailing standards and requirements of good corporate governance.

The Company has complied with the Code Provisions in the Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the year ended 31st December, 2006, except that:

- (1) The roles of the Chairman and Chief Executive Officer are not separated and performed by two different individuals due to practical necessity on account of the Group's corporate operating structure.
- (2) The Non-Executive Director (who has resigned after the year end on 11th January, 2007) and the Independent Non-Executive Directors of the Company were not appointed for specific terms, but arrangements have been put in place such that the Independent Non-Executive Directors would retire, and are subject to re-election, either by rotation in accordance with the provisions of the Bye-laws of the Company or on a voluntary basis, at least once every three years.

Further details relating to the compliance of the CG Code by the Company are set out in the report below.

## (I) CORPORATE GOVERNANCE PRACTICES

A report on the extent of compliance by the Company of and any deviation from the provisions of the CG Code (as summarised below) during the year ended 31st December, 2006 is as follows:

### A. DIRECTORS

#### A.1 The Board

*Code A.1.1 The board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.*

*Deviation from Code A.1.1*

No Four Board Meetings have been held at regular intervals during the year ended 31st December, 2006.

*Code A.1.2 Arrangements should be in place to ensure that all directors are given an opportunity to include matters in the agenda for regular board meetings.*

*Deviation from Code A.1.2*

No Directors may include matters in the agenda for regular Board Meetings as other business of the meeting any time after receiving the notice of meeting or at the meeting after all businesses in the agenda have been transacted.

*Code A.1.3 Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given.*

*Deviation from Code A.1.3*

No At least 14 days' notice is given to the Directors for regular Board Meetings and reasonable notice is given for other ad hoc Board Meetings, in accordance with relevant provisions of the Bye-laws of the Company. Arrangements will be made for any Director who cannot present in person to participate in and discuss with the other Directors at the meeting through appropriate means of communication.

*Code A.1.4 All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.*

*Deviation from Code A.1.4*

No The Executive Director who is in charge of the company secretarial function of the Group is in close liaison with the Company Secretary of the Company to ensure that board procedures, and all applicable rules and regulations, are followed. All other Directors may make enquiry to the Company Secretary any time they consider necessary or appropriate for such purposes.

*Code A.1.5 Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and such minutes should be open for inspection at any reasonable time on reasonable notice by any director.*

*Deviation from Code A.1.5*

No Minutes of Board Meetings and Meetings of Board Committees are kept by the Company Secretary of the Company and the appointed secretary of the Board Committees and such minutes are open for inspection at any reasonable time on reasonable notice by any Director.

*Code A.1.6 Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered by the board and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes of board meetings should be sent to all directors for their comment and records respectively, in both cases within a reasonable time after the board meeting is held.*

*Deviation from Code A.1.6*

No Minutes of Board Meetings and Meetings of Board Committees have recorded relevant details of the transactions or matters considered by the Directors at the meetings, rationales for making the decisions and the resolutions resolved at the meetings. Board Resolutions are circulated to the Directors for review and signing within a reasonable time.

*Code A.1.7 There should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer's expense. The board should resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/their duties to the issuer.*

*Deviation from Code A.1.7*

No In the event that independent professional advice is required or considered necessary for the Directors to make decisions on any transactions or matters concerning the Group, any Director may after consulting the Chairman of the Board, or the Directors may resolve at the Board Meeting held for considering the relevant transaction or matter to, seek independent professional advice at the expense of the Company.

*Code A.1.8 If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should not be dealt with by way of circulation or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a board meeting) but a board meeting should be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.*

*Deviation from Code A.1.8*

No An ad hoc full Board Meeting will be convened for considering and approving any matter which the Board has determined to be material and in which any substantial shareholder or Director of the Company has a conflict of interest. The Board Meeting will be scheduled for an appropriate time that the disinterested Independent Non-Executive Directors shall be able to attend. Any substantial shareholder or Director who has a conflict of interest and any of his/her associates will abstain from voting at the Meeting and not be counted as quorum of the Meeting in accordance with the Bye-laws of the Company.

**A.2 Chairman and Chief Executive Officer**

*Code A.2.1 The roles of chairman and chief executive officer should be separate and should not be performed by the same individual.*

*Deviation from Code A.2.1*

Yes Due to practical necessity on account of the Group's corporate operating structure, the roles of the Chairman and Chief Executive Officer are both performed by Mr. Lo Yuk Sui who is the controlling shareholder and the Chairman and Chief Executive Officer of the Company overseeing the overall policy and decision making of the Group. A Chief Operating Officer has been appointed in January 2007 to take up responsibility for overseeing the business operations of the Group.

*Code A.2.2 The chairman should ensure that all directors are properly briefed on issues arising at board meetings.*

*Deviation from Code A.2.2*

No The Chairman takes the role of briefing the Directors issues arising at the Board Meetings or, in appropriate circumstance, delegates this role to Executive Directors who are primarily involved in and in possession of comprehensive details about the relevant issue.

*Code A.2.3 The chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.*

*Deviation from Code A.2.3*

No The Chairman takes active efforts to ensure that the Executive Directors or executives who are primarily involved in the relevant transaction or matter will provide to Directors adequate information, which is complete and reliable, in a timely manner.

### A.3 Board composition

*Code A.3.1 The independent non-executive directors should be expressly identified as such in all corporate communications that disclose the names of directors of the issuer.*

*Deviation from Code A.3.1*

No Identification of the Independent Non-Executive Directors has been shown on announcements and other corporate communications of the Company to its shareholders.

### A.4 Appointments, re-election and removal

*Code A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election.*

*Deviation from Code A.4.1*

Yes The Non-Executive Director (who has resigned after the year end on 11th January, 2007) and the Independent Non-Executive Directors of the Company were not appointed for specific terms. However, arrangements have been put in place such that the Independent Non-Executive Directors would retire, and are subject to re-election, either by rotation in accordance with the provisions of the Bye-laws of the Company or on a voluntary basis, at least once every three years.

*Code A.4.2 All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.*

*Deviation from Code A.4.2*

No Pursuant to relevant provisions of the Bye-laws of the Company, any Director appointed to fill a casual vacancy shall hold office until the next annual general meeting of the Company and is therefore subject to re-election by the shareholders at that annual general meeting after his/her appointment. In compliance with the requirements under this Code, all Directors would retire at annual general meetings at least once every three years either by rotation pursuant to the retirement provisions of the Bye-laws or on a voluntary basis. At the annual general meeting of the Company held on 16th June, 2006, all those Directors who had been in office for three years or more retired and were re-elected at that meeting.

## A.5 Responsibilities of directors

*Code A.5.1 Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer.*

*Deviation from Code A.5.1*

No The Chairman or an Executive Director so delegated is responsible for providing every newly appointed Director with an induction on the first occasion of his/her appointment to ensure that he/she has a proper understanding of the operations and business of the Group. With respect to compliance matters, the Company Secretary is responsible for providing any new Director with information and materials relating to his/her responsibilities under applicable statutory and regulatory requirements. Subsequent updating about the latest changes and development of such requirements will be sent to the Directors by the Company Secretary.

*Code A.5.2 The functions of non-executive directors should include but should not be limited to the following:*

- (a) participating in board meetings of the issuer to bring an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;*
- (b) taking the lead where potential conflicts of interests arise;*
- (c) serving on the audit, remuneration, nomination and other governance committees, if invited; and*
- (d) scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.*

*Deviation from Code A.5.2*

No The Non-Executive Director and the Independent Non-Executive Directors perform the functions as set out in this Code.

*Code A.5.3 Every director should ensure that he can give sufficient time and attention to the affairs of the issuer and should not accept the appointment if he cannot do so.*

*Deviation from Code A.5.3*

No Every Director contributes sufficient time and attention to the affairs of the Company and the Group as appropriate for the roles undertaken.

*Code A.5.4 Directors must comply with their obligations under the Code of Conduct for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 of the Listing Rules and, in addition, the board should establish written guidelines on no less exacting terms than the Model Code for relevant employees (as defined in this Code) in respect of their dealings in the securities of the issuer.*

*Deviation from Code A.5.4*

No The Directors have confirmed that they have complied with the required standard under the Model Code and the "Code for Securities Transactions by Directors of Paliburg Holdings Limited" (the "Paliburg Code") adopted by the Company, on terms no less exacting than the required standard set out in the Model Code, as the code of conduct governing the securities transactions by the Directors during the year ended 31st December, 2006.

The Board has also adopted the "Guidelines for Securities Transactions by Relevant Employees Directors of Paliburg Holdings Limited" (the "Paliburg Guidelines"), on terms no less exacting than the required standard set out in the Model Code, in respect of their dealings in the securities of the Company.

The Paliburg Code and the Paliburg Guidelines are available on the website of the Company.

### **A.6 Supply of and access to information**

*Code A.6.1 In respect of regular board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of a board or board committee meeting (or such other period as agreed).*

*Deviation from Code A.6.1*

No Agenda and relevant board papers for Board Meetings and Board Committee Meetings have been timely sent to all Directors at least 3 days before the intended date of the Meetings (or such other period as agreed).

*Code A.6.2 Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. The information supplied must be complete and reliable.*

*Deviation from Code A.6.2*

No Any Director may require information in addition to those provided by management and make further enquiries where necessary. Each Director has separate and independent access to the Company's senior management.

*Code A.6.3 All directors are entitled to have access to board papers and related materials. Such papers and related materials should be prepared in such form and quality as will enable the board to make an informed decision on matters placed before it. Where queries are raised by directors, steps must be taken to respond as promptly and fully as possible.*

*Deviation from Code A.6.3*

No All relevant board papers and related materials are sent to all Directors ahead of time for the Meetings, with an aim to enabling the Board to make informed decisions on matters placed before it. In the event of queries raised by Directors, the Executive Directors and management are obligated to ensure that the requisite information or materials will be provided to the Directors soonest possible.

## **B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT**

### **B.1 The level and make-up of remuneration and disclosure**

*Code B.1.1 Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.*

*Deviation from Code B.1.1*

No The Company has established a Remuneration Committee comprising Mr. LO Yuk Sui, the Chairman and Chief Executive Officer of the Company, as Chairman of the Committee, and Mr. NG Siu Chan and Mr. WONG Chi Keung, both Independent Non-Executive Directors, as members, with written terms of reference which deal clearly with the authority and duties of the Committee.

*Code B.1.2 The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.*

*Deviation from Code B.1.2*

No The proposals relating to the remuneration of other Executive Directors are formulated by consultation amongst the members of the Remuneration Committee which is presided by the Chairman and Chief Executive Officer of the Company. Professional advice in such respect is sought if considered necessary.

*Code B.1.3 The terms of reference of the remuneration committee should include, as a minimum, the specific duties as set out in this Code.*

*Deviation from Code B.1.3*

No The terms of reference of the Remuneration Committee are set up with reference to the requirements under this Code.

*Code B.1.4 The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.*

*Deviation from Code B.1.4*

No The terms of reference of the Remuneration Committee are available on the website of the Company.

*Code B.1.5 The remuneration committee should be provided with sufficient resources to discharge its duties.*

*Deviation from Code B.1.5*

No The Remuneration Committee has been and will be provided with sufficient resources to discharge its duties.

### **C. ACCOUNTABILITY AND AUDIT**

#### **C.1 Financial reporting**

*Code C.1.1 Management should provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.*

*Deviation from Code C.1.1*

No Executive Directors and other executives of the Group who are in charge of the financial reporting function have provided detailed explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

*Code C.1.2 The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts, and there should be a statement by the auditors about their reporting responsibilities in the Independent Auditors' Report on the financial statements.*

*Deviation from Code C.1.2.*

No Relevant acknowledgement by the Directors of their responsibility in preparing financial statements of the Group is stated in this Corporate Governance Report.

In the Independent Auditors' Report contained in this Annual Report, the Auditors state their reporting responsibilities on the financial statements of the Group.

*Code C.1.3 The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.*

*Deviation from Code C.1.3*

No The Board uses all reasonable endeavours to ensure that a balanced, clear and understandable assessment is presented in all reports, announcements or other disclosures as required to be made by the Company under the Listing Rules and other applicable statutes and regulations.

## **C.2 Internal controls**

*Code C.2.1 The directors should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries and report to shareholders that they have done so in their Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.*

*Deviation from Code C.2.1*

No To comply with this Code which has been implemented for accounting periods commencing after 1st July, 2005, the Directors have conducted an annual review of the effectiveness of the system of internal control of the Group covering all material controls, including financial, operational and compliance controls and risk management functions. Proposals on further enhancement of the system of internal control of the Group, if required or necessary, are being implemented from time to time.

### C.3 Audit Committee

*Code C.3.1 Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting (who should normally be the company secretary). Draft and final versions of minutes of the audit committee meetings should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.*

*Deviation from Code C.3.1*

No Minutes of the Audit Committee Meetings of the Company are kept by the Company Secretary who is the appointed secretary of the Audit Committee, after finalisation with the members of the Audit Committee within a reasonable time after the Meetings.

*Code C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit committee for a period of 1 year commencing on the date of his ceasing:*

(a) to be a partner of the firm; or

(b) to have any financial interest in the firm, whichever is the later.

*Deviation from Code C.3.2*

No None of the members of the Audit Committee is a former partner of the Company's existing Auditors.

*Code C.3.3 The terms of reference of the audit committee should include at least the duties as specified in the CG Code.*

*Deviation from Code C.3.3*

No The Audit Committee is established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants, with terms of reference, explaining its role and the authority delegated to it by the Board.

*Code C.3.4 The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.*

*Deviation from Code C.3.4*

No The terms of reference of the Audit Committee explaining its role and the authority delegated to it by the Board are available on the website of the Company.

Code C.3.5 *Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the board has taken a different view.*

*Deviation from Code C.3.5*

No There has not been any disagreement between the Audit Committee and the Board on the selection and appointment of the external Auditors of the Company.

Code C.3.6 *The audit committee should be provided with sufficient resources to discharge its duties.*

*Deviation from Code C.3.6*

No The Company ensures that sufficient resources will be provided to the Audit Committee for discharging its duties.

## **D. DELEGATION BY THE BOARD**

### **D.1 Management functions**

Code D.1.1 *When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the issuer.*

*Deviation from Code D.1.1*

No All material policies and decisions remain within the authority of the Board as a whole. The Board will only delegate authorities to management, to an extent that would not significantly hinder or reduce the ability of the Board to discharge its proper functions as a whole.

Code D.1.2 *An issuer should formalise the functions reserved to the board and those delegated to management. It should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the issuer.*

*Deviation from Code D.1.2*

No The functions of the Board and those delegated to management of the Company are properly distinguished and clarified. Review of the formalised arrangements will be carried out on a periodic basis to ensure that they remain appropriate to the needs of the Company.

### **D.2 Board Committees**

*Code D.2.1 Where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.*

*Deviation from Code D.2.1*

No The Audit Committee and the Remuneration Committee are established with sufficiently clear terms of reference to enable such committees to discharge their functions properly.

*Code D.2.2 The terms of reference of board committees should require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).*

*Deviation from Code D.2.2*

No The respective terms of reference of Audit Committee and the Remuneration Committee require such committees to report back to the Board on their decisions or recommendations.

## **E. COMMUNICATION WITH SHAREHOLDERS**

### **E.1 Effective communication**

*Code E.1.1 In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.*

*Deviation from Code E.1.1*

No Separate Resolution on each substantially separate issue was proposed by the Chairman of Meeting at the Annual General Meeting of the Company held in 2006. Proposed election of Directors of the Company were put to vote by a separate Resolution for each nominated Director.

*Code E.1.2 The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.*

*Deviation from Code E.1.2*

No The Chairman of the Board and the Chairman and a Member of the Audit Committee had attended the Annual General Meeting of the Company held in 2006. Questions had been put by the shareholders at the Meeting to the Chairman of the Board for his reply about the Group's affairs.

At any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, the chairman of the independent board committee (if any) would be available to answer questions at that meeting.

## **E.2 Voting by Poll**

*Code E.2.1 The chairman of a meeting should ensure disclosure in the issuer's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll in compliance with the requirements about voting by poll contained in Rule 13.39(4) of the Listing Rules. In particular, pursuant to Rule 13.39(3), the chairman of a meeting and/or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting should disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.*

*Deviation from Code E.2.1*

No Relevant details of the provisions of the Bye-laws relating to the procedures for and the rights of shareholders to demand a poll have been set out in each circular of the Company containing the notice convening the Annual General Meeting of the Company held in 2006.

There had not been situation at the Annual General Meeting of the Company where, on a show of hands, votes were cast in the opposite manner to that as instructed in the proxies as would require the Chairman to demand a poll.

*Code E.2.2 The issuer should count all proxy votes and, except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The issuer should ensure that votes cast are properly counted and recorded.*

*Deviation from Code E.2.2*

No At the Annual General Meeting of the Company held during the year of 2006, the Chairman of Meeting had indicated to the Meeting by display at the forum the level of proxies lodged on each Resolution put to the Meeting and the balance for and against the Resolution, after the Resolution has been dealt with on a show of hands and before he declared the results of voting.

*Code E.2.3 The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of:*

- (a) the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and*
- (b) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.*

*Deviation from Code E.2.3*

No The Chairman of the Annual General Meeting of the Company held during the year of 2006 had at the commencement of the Meeting referred the shareholders to the procedures for demanding a poll by shareholders as detailed in the related circular of the Company to its shareholders. When a poll was validly demanded and before the poll taking was to be conducted, the Chairman explained to the shareholders detailed procedures for conducting a poll and also advised that he would answer any relevant questions from shareholders.

### **(II) DIRECTORS' SECURITIES TRANSACTIONS**

As reported in the preceding section headed "Corporate Governance Practices", the Company has adopted the Paliburg Code, on terms no less exacting than the required standard set out in the Model Code, as the code of conduct governing the securities transactions by the Directors of the Company.

Following specific enquiry by the Company, the Directors have confirmed that they have complied with the required standard under the Model Code and the Paliburg Code during the year ended 31st December, 2006.

### (III) BOARD OF DIRECTORS

The Board of Directors of the Company currently comprises the following members:

*Executive Directors:*

Mr. Lo Yuk Sui (*Chairman and Chief Executive Officer*)

Mr. Donald Fan Tung (*Chief Operating Officer*)

Mr. Jimmy Lo Chun To

Miss Lo Po Man

Mr. Kenneth Ng Kwai Kai

Mr. Kenneth Wong Po Man

*Independent Non-Executive Directors:*

Mr. Ng Siu Chan

Hon Abraham Shek Lai Him, JP

Mr. Wong Chi Keung

The name, biographical details of the Directors and relationship among them are disclosed in the preceding section headed "Directors' Profiles" contained in this Annual Report.

During the year ended 31st December, 2006, the Company has fully complied with Rules 3.10(1) and (2) of the Listing Rules regarding the number of Independent Non-Executive Directors and the requirement that at least one of these Directors must have appropriate professional qualifications.

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 considers that all Independent Non-Executive Directors have met the independence guidelines of Rule 3.13 of the Listing Rules.

The Board conducts regular meetings to discuss and decide on major corporate, strategic, business and operational issues. Appropriate and sufficient information is provided to Board members in a timely manner in order to enable them to discharging their duties.

The attendance rates of individual Board members of the Company are as follows:

| Name of Directors  | Attendance |
|--|------------|
| <i>Executive Directors</i>   |            |
| Mr. Lo Yuk Sui ( <i>Chairman and Chief Executive Officer</i> )     | 4/4        |
| Mr. Donald Fan Tung ( <i>Chief Operating Officer</i> )             | 4/4        |
| Mr. Jimmy Lo Chun To   | 4/4        |
| Miss Lo Po Man ( <i>appointed on 11th January, 2007</i> )          | —          |
| Mr. Kenneth Ng Kwai Kai  | 4/4        |
| Mr. Kenneth Wong Po Man ( <i>appointed on 11th January, 2007</i> ) | —          |
| <i>Independent Non-Executive Directors</i>                         |            |
| Mr. Ng Siu Chan  | 4/4        |
| Hon Abraham Shek Lai Him, JP                                       | 2/4        |
| Mr. Wong Chi Keung   | 4/4        |

#### (IV) NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee. The Board is responsible for the procedure of selecting and appointing Directors.

Those Directors appointed by the Board during the year shall hold office until the next annual general meeting and, being eligible, may offer for re-election.

#### (V) AUDIT COMMITTEE

The Audit Committee is established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee currently comprises the following members:

*Independent Non-Executive Directors:*

Mr. Wong Chi Keung (*Chairman of the Committee*)

Mr. Ng Siu Chan (*Member*)

Hon Abraham Shek Lai Him, JP (*Member*)

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the interim and final financial statements.

In the year of 2006, the Audit Committee met twice and the meetings were attended by the external Auditors of the Company.

As both the Board and the Audit Committee recommended to re-appoint the current external Auditors, Messrs. Ernst & Young, no circumstances exist as would require an explanation from the Audit Committee as to why the Board has taken a different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of the external Auditors.

The attendance rates of individual Audit Committee members of the Company are as follows:

| <b>Name of Audit Committee members</b>                  | <b>Attendance</b> |
|---|-------------------|
| Mr. Wong Chi Keung ( <i>Chairman of the Committee</i> ) | 2/2               |
| Mr. Ng Siu Chan   | 2/2               |
| Hon Abraham Shek Lai Him, JP                            | 1/2               |

## (VI) REMUNERATION COMMITTEE

The Company has formed the Remuneration Committee with specific written terms of reference that deal with its authority and duties. The terms of reference of the Remuneration Committee are available on the Company's website. The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee currently comprises the following members:

*Executive Director:*

Mr. LO Yuk Sui (*Chairman of the Committee*)

*Independent Non-Executive Directors:*

Mr. NG Siu Chan (*Member*)

Mr. WONG Chi Keung (*Member*)

Mr. Kenneth NG Kwai Kai, an Executive Director of the Company, has been appointed to act as the Secretary of the Committee. In the year of 2006, the Remuneration Committee met once.

The attendance rates of individual Remuneration Committee members of the Company are as follows:

| <b>Name of Remuneration Committee members</b>       | <b>Attendance</b> |
|---|-------------------|
| Mr. Lo Yuk Sui ( <i>Chairman of the Committee</i> ) | 1/1               |
| Mr. Ng Siu Chan                                     | 1/1               |
| Mr. Wong Chi Keung                                  | 1/1               |

### (VII) DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors of the Company acknowledge their responsibility for preparing the financial statements of the Group, which give a true and fair view of the state of affairs of the Group, and ensure that appropriate accounting policies are selected and applied consistently and the financial statements are prepared in accordance with the relevant statutory requirements and applicable accounting standards. The Directors also ensure the financial statements are published in a timely manner.

The statement by the external Auditors, Messrs. Ernst & Young, about their reporting responsibilities is set out in the Independent Auditors' Report contained in this Annual Report.

The financial statements are prepared on a going concern basis. The Directors confirm that, to the best of their knowledge, they are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

### (VIII) INTERNAL CONTROL

The Board has conducted a review of effectiveness of the system of internal controls of the Group during the year of 2006, including financial, operational and compliance controls and risk management functions with a view to safeguarding the shareholders' investment and the Company's assets.

Management of the Company has put into effect a full set of corporate policies and procedures as well as detailed operating manuals for the hotel operations of the Regal group, with an objective to achieving a sound internal control system. Separate meetings attended by Directors, Group Financial Controller and Area Financial Controller, Hotel General Managers and Hotel Financial Controllers of the Regal group are held regularly to review the effectiveness of the internal control system, to identify any significant control failings or weaknesses, and also to review the need for any control improvements or updating to respond to changes in the business and external environment. While the regular monitoring of the internal control mechanisms is mainly conducted by delegated Directors and senior management staff members, support and advice from external consultants and professionals are sought as and when required.

The Board acknowledges that it is responsible for the Company's system of internal control and for reviewing its effectiveness. Accordingly, while periodic committee meetings are held with the delegated Directors and senior management staff members, clear instructions have been provided to management of the Company that any material issues relating to the internal control system, particularly any incidence of significant control failings or weaknesses that has had, or might have, a material impact on the business of the Group is to be reported to the Board and the Audit Committee of the Company on a timely basis.

### (IX) AUDITORS' REMUNERATION

Messrs. Ernst & Young have been re-appointed as the external auditors of the Company at the 2006 Annual General Meeting until the conclusion of the forthcoming 2007 Annual General Meeting.

The remuneration to Messrs. Ernst & Young, the auditors of the Company, in respect of the audit and non-audit services rendered for the year ended 31st December, 2006 were HK\$1.3 million (2005 - HK\$1.3 million) and HK\$0.2 million (2005 - HK\$0.3 million), respectively.