

## Corporate Governance Report

The Group is dedicated to maintaining a good credible framework of corporate governance with a view to being transparent, open and accountable to our shareholders.

The Company adopted all the code provisions in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Listing Rules as its own code on corporate governance practices.

The Company has complied with code provisions as set out in the Code with the exception of code provision A.2.1 that an individual chief executive officer is not appointed during the year ended 31 December 2006. Though the Company does not appoint an individual chief executive officer, the role of chairman and chief executive officer is separated and not performed by the same individual. Besides, the Company is being managed by its investment manager, Sinox Fund Management Limited, pursuant to the terms of the written management agreement. The Company considers that based on the existing size and structure of the Company, the appointment of an individual chief executive officer of the Company is not necessary.

### THE BOARD

#### Composition

The Board consists of three Executive Directors and three Independent Non-executive Directors (“INED(s)”), one of whom namely Mr. Chan Siu Wing, Raymond has the appropriate professional accounting experience and expertise. The names and biographical details of each Director are disclosed on pages 7 to 8 of this Annual Report.

Each INED has, pursuant to the rule 3.13 of the Listing Rules, confirmed he is independent of the Company and the Company also considers that they are independent. The term of office of each INED is for a period of three years until 30 December 2007 subject to the requirement that one-third of all the Directors shall retire from office by rotation at each annual general meeting pursuant to the Bye-Laws of the Company. There is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

#### Function

The Board is responsible both for how the Company is managed and the Company’s direction. Approval of the Board is required for the strategy of the Group, major acquisition and disposal, major capital investment, dividend policy, appointment and retirement of Directors, remuneration policy and other major operational and financial matters. Day-to-day operations of the Group are taken up by the Company’s management and the Company’s investment manager.

The Board has established schedule of matters specifically reserved to the Board for its decision and those reserved for the management. The Board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Company.

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The Board held four regular Board meetings at approximately quarterly interval during the year 2006. Additional board meetings were held when necessary. Due notice and board papers were given to all directors prior to the meeting in accordance with the Listing Rules and the Code. Details of individual attendance of Directors are set out in the table below:

### Attendance of individual Directors at Board meetings in 2006

<b>Number of meetings</b>	11
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#### Executive Director

Lam Wo ( <i>former Chairman of the Board</i> ) ( <i>resigned on 1 February 2006</i> )	0/0
Cheuk Yuk Lung ( <i>existing Chairman of the Board</i> )	11/11
Wong Kwok Bui, George ( <i>former Chairman of the Board</i> ) ( <i>resigned on 1 July 2006</i> )	6/7
Tsui Yee Ni ( <i>appointed on 21 June 2006</i> )	5/5
Lam Kwing Wai, Alvin ( <i>appointed on 16 October 2006</i> )	2/2

#### INEDs

Yan Mou Keung, Ronald	6/11
Chan Fai Yue, Leo	5/11
Chan Siu Wing, Raymond	6/11

The Board has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense.

### BOARD COMMITTEES

To strengthen the functions of the Board and to enhance its expertise, there are two Board committees namely, the Audit Committee and Remuneration Committee formed under the Board, with each performing different functions.

#### AUDIT COMMITTEE

The Audit Committee comprises three INEDs.

The role and function of the Audit Committee include:

- to serve as a focal point for communication between other Directors and the auditors in respect of the duties relating to financial and other reporting, internal controls, audits, and such other matters as the Board may determine from time to time.

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- to assist the Board in fulfilling its responsibility by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group and the adequacy of the audits.
- to review the appointment of auditors on an annual basis including the review of the audit scope and approval of the audit fees.
- to review the annual and interim financial statements prior to their approval by the Board, and recommend application of accounting policies and changes to the financial reporting requirements.
- to ensure continuing auditor objectivity and to safeguard independence of the Company's auditors.

Set out below is the summary of work done in year 2006:

- to review of the financial statements for the year ended 31 December 2005 and for the six months ended 30 June 2006;
- to review of the effectiveness of the internal control system;
- to review of the auditors' statutory audit plan and the letters of representation; and
- to consider and approve the 2006 audit fees and audit work.

The Audit Committee held three meetings during the year. Details of individual attendance of its members are set out in the table below:

### Attendance of individual members at Audit Committee meetings in 2006

<b>Number of meetings</b>	4
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#### INED

Chan Fai Yue, Leo ( <i>Chairman of the Committee</i> )	4/4
Yan Mou Keung, Ronald	4/4
Chan Siu Wing, Raymond	4/4

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### Remuneration Committee

The Board has established a Remuneration Committee, comprising two INEDs and the Chairman of the Company appointed by the Board, which meets at least once a year. The role and function of the Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the Executive Directors.

Set out below is the summary of work of the Remuneration Committee done in year 2006:

- to review of the remuneration policy for 2006/2007;
- to review of the remuneration of the Executive Directors and the INEDs; and
- to review of the annual share option policy.

The Remuneration Committee held one meeting during 2006. Details of individual attendance of its members are set out in the table below:

### Attendance of individual members at Remuneration Committee meetings in 2006

<b>Number of meetings</b>	1
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#### Executive directors

Lam Wo ( <i>former Chairman of the Committee</i> ) ( <i>resigned on 1 February 2006</i> )	0/0
Wong Kwok Bui, George ( <i>former Chairman of the Committee</i> ) ( <i>resigned on 1 July 2006</i> )	0/0
Cheuk Yuk Lung ( <i>existing Chairman of the Committee</i> )	1/1

#### INEDs

Yan Mou Keung, Ronald	1/1
Chan Fai Yue, Leo	1/1

#### Other information

The Board has not established a nomination committee. Mr. Lam Wo resigned as an executive directors and chairman of the Board for personal reasons on 1 February 2006. Mr. Wong Kwok Bui, George was appointed as chairman of the Board on 1 February 2006. Mr. Wong subsequently resigned as an executive director and chairman of the Board on 1 July 2006 for personal reasons. Mr. Cheuk Yuk Lung was appointed as chairman of the Board on 1 July 2006. Miss Tsui Yee Ni and Mr. Lam Kwing Wai, Alvin, were appointed as executive directors on 21 June 2006 and 16 October 2006 respectively. The appointment of said directors were recommended by the investment manager of the Company and considered and approved at Board meetings at which all the executive directors were present. The election of Mr. Cheuk as chairman of the

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Board was approved by the Board in a Board meeting at which all the directors were present. There was no removal of director during the year.

The Company had not established its own website. Full text of the terms of reference of Audit Committee and Remuneration Committee will be supplied upon request.

### INTERNAL CONTROL

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorized use or deposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance of applicable laws, rules and regulations. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud.

Internal audit has been conducted by the investment manager, Sinox Fund Management Limited (“Sinox”) for the Company and its subsidiaries, associated companies and jointly controlled entities. Sinox is responsible for the review of the effectiveness of the Group’s material internal controls so as to provide assurance that key business and operational risks are identified and managed. The work carried out by Sinox will ensure the internal controls are carried out appropriately and functioning as intended. Sinox will report to the Board with its findings and make recommendations to improve the internal control of the Group.

The Audit Committee also receives the report from Sinox and takes such report into consideration when it makes its recommendation to the Board for approval of the half-yearly or annual results of the Group.

During the year, the Board together with Sinox reviewed the internal control procedures and risk management system of the Group and noted that there was no significant weakness.

### MODEL CODE FOR 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 as the codes of conduct regarding securities transactions by directors and by relevant employees (as defined in the Code). All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year 2006.

### AUDITORS’ REMUNERATION

During the year, the fees paid to the Company’s Auditors, H.H. Liu & Co., C.P.A. amounted to HK\$130,000 in respect of audit and taxation services. There was no non-audit service rendered during the year.

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### **DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS**

The Directors acknowledge that it is their responsibilities in preparing the Financial Statements. The Statement of the Auditors about their reporting responsibilities on the Financial Statements is set out in the Independent Auditor's Report on page 22.

### **SHAREHOLDER COMMUNICATION**

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. Procedure for voting by poll has been included in circular of the Company accompanying notice convening general meeting and has been read out by the chairman at the general meeting.

At the 2006 annual general meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including re-election Directors. The Chairman of the Board of Directors, Audit Committee and Remuneration Committee attended the 2006 Annual General Meeting to answer questions of shareholders.