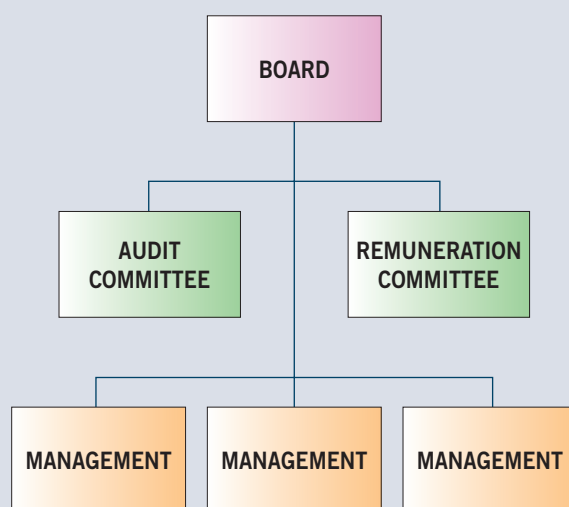


The Board is committed to maintaining a high standard of corporate governance. The Company has substantially complied throughout the year with the Code on Corporate Governance Practices (the “Code on Corporate Governance Practices”) as set out in the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

## GUIDELINES AND PROCEDURES FOR CORPORATE GOVERNANCE OF THE COMPANY.

### (A) CORPORATE GOVERNANCE CHART

The Board is committed to maintain a high standard of corporate governance for the purpose of enhancing long term shareholders value. Set out below is the corporate governance chart adopted by the Company.



### (B) DIRECTORS

#### (i) *The Board: responsibility for leadership and control of the Company*

- The Board is accountable to the shareholders for leadership and supervision of the senior management for the purpose of creating long term shareholders value by sustaining a growing and successful business.
- The principal task of the Board is to set objective, formulate strategy and to monitor the operating and financial performance.

**(ii) Chairman and Managing Director: clear division of responsibilities**

- The responsibilities and functions between Chairman and Managing Director are clearly defined.
- Liu Lit Man served as the Chairman.
- Liu Lit Mo served as the Managing Director and is supported by the Executive Directors.
- The roles of Chairman and Managing Director are split. Chairman focuses on Group's strategic development and Board issues.
- Managing Director assumes overall responsibility for Group's operation and performance by delegating duties to different executive directors and senior management to achieve targeted objectives.

**(iii) Board Composition: balance and independence**

- The Board currently comprises five Executive Directors (Chairman, Managing Director and three Executive Directors), four Non-Executive Directors and four Independent Non-Executive Directors (representing about one-third of the full Board).
- The Board considers that the four Independent Non-Executive Directors are free from any business or other relationship which might interfere with the exercise of their independent judgment.
- The presence of all Independent Non-Executive Director could ensure that the Board functions effectively and independently.
- All of the Independent Non-Executive Directors are also the Committee Members of the two corporate governance committees, namely the Audit Committee and Remuneration Committee. In short, both committees have a majority of Independent Non-Executive Directors.
- The biographies of the Directors appear on pages 46 and 50. These demonstrate diversity of experience and calibre of the Board in making management decisions.

**(iv) Appointments, Re-election and Removal:**

- The Board as a whole is responsible for the selection and approval of candidates for appointment to the Board, and does not therefore establish a Nomination Committee.
- Under the Company's articles of association, all Directors are subject to retirement by rotation.
- The four Directors who have been longest in office as at each annual general meeting will retire from office and be subjected to re-election.
- For newly appointed directors, they are required to submit themselves to shareholders for re-election to the Board at the first annual general meeting following their appointment.

**(v) Responsibilities of Directors: general duties, share dealings**

- The Directors fully appreciate their role and duties as directors with supportive commitment of creating a healthy corporate governance culture.
- On appointment, new Directors will be given an introduction to the Group's major business activities, induction into their responsibilities and duties, and other regulatory requirements.
- The Company Secretary is responsible for keeping all Directors updated on Listing Rules and other relevant regulatory requirements.
- Throughout the year, Directors complied with the required standard set out in the Model Code in Appendix 10 of the Listing Rules regarding Securities Transactions by Directors of Listed Issuers.

**(C) BOARD PROCESS**

**(i) Meetings: matters reserved for full Board decision and general proceedings**

- In order to achieve a high standard of corporate governance and in compliance with the requirement as mentioned under Appendix 14 — Code on Corporate Governance Practices, the Board has performed to hold full Board meeting at least quarterly during the year 2006.
- Matters reserved for full Board decision include material bank facilities arrangement, material acquisitions and disposals of assets, material transactions with connected parties, significant investments including large capital projects, delegation of authority, treasury and risk management policy, any matters involving a conflict of interest for a substantial shareholder or director.

- All Directors have access to the Company Secretary who is responsible for ensuring that the Board procedures are complied with and advises the Board on corporate governance and compliance matters.
- The Company Secretary is responsible for taking minutes of Board and Board Committee meetings, which should be sent to Directors within a reasonable time (generally within 21 days) after each meeting and generally be made available for inspection by Directors.
- All Directors are allowed to take independent professional advice at Company's expense.
- There is in place a directors' and officers' liabilities insurance cover.
- Details of Directors' 2006 meetings attendance are set out below:

	Number of meeting attended	Attendance Rate
<b>Executive Directors</b>		
Liu Lit Man, <i>Chairman</i>	(3/4)	75%
Liu Lit Mo, <i>Managing Director</i>	(4/4)	100%
Liu Lit Chi	(4/4)	100%
Liu Kam Fai, <i>Winston</i>	(4/4)	100%
Lee Wai Hung	(4/4)	100%
<b>Non-Executive Directors</b>		
Liu Lit Chung	(0/4)	0%
Andrew Liu	(2/4)	50%
Liu Chun Ning, <i>Wilfred</i>	(2/4)	50%
Liu Kwun Shing, <i>Christopher</i>	(4/4)	100%
<b>Independent Non-Executive Directors</b>		
Lee Tung Hai, <i>Leo</i>	(3/4)	75%
Ng Ping Kin, <i>Peter</i>	(3/4)	75%
Cheng Mo Chi, <i>Moses</i>	(1/4)	25%
Tong Tsin Ka	(4/4)	100%

**(ii) Supply of Information: quality and timeliness**

- The Company attaches great importance to continually improve on the quality and timeliness of the dissemination of information to the Directors.
- The Chairman is responsible for ensuring adequate supply of information to the Directors.
- The agenda and accompanying board papers will be sent in full to all Directors in a timely manner (we aim to give notice of Board meeting at least five clear days replacing current practice of at least three clear days in advance of meeting). Where appropriate, communications are sent electronically.
- Executive Directors are currently provided with two half-year end comprehensive management reports of the Group showing the financial and operating results including but not limited to financial performance, financial analysis, rental status, and cash flow movement details.
- Managing Director is currently holding monthly internal management meeting with various department heads to update Directors on their lines of business and to review performance for delegated assignment.

**(D) REMUNERATION OF DIRECTORS**

Procedures for Remuneration Committee to set Directors and Senior Management's remuneration policy:

- The Company has set up Remuneration Committee on 3 March 2005. Its terms of reference are to review and determine the remuneration packages for all Directors and Senior Management.
- The Remuneration Committee is chaired by the Independent Non-Executive Director, Dr. The Hon. Lee Tung Hai, Leo, with a majority of Independent Non-Executive Directors.
- Its other current members are Mr. Ng Ping Kin, Peter, Mr. Cheng Mo Chi, Moses, Mr. Tong Tsin Ka, all of them are Independent Non-Executive Directors.
- The Committee meets at least once per annum.

- Details of 2006 Remuneration Committee meeting attendance are set out below:

	Number of meeting attended	Attendance Rate
<b>Members of Remuneration Committee</b>		
Lee Tung Hai, Leo, <i>Chairman</i>	(1/1)	100%
Tong Tsin Ka	(1/1)	100%
Ng Ping Kin, Peter	(1/1)	100%
Cheng Mo Chi, Moses	(1/1)	100%
Cavior Liu, Secretary	(1/1)	100%

- The Committee is authorized by the Board to oversee and make recommendation on the remuneration of Executive Directors and Senior Management.
- No Director is involved in deciding his own remuneration. On matters other than those concerning him, the Chairman or Managing Director may be invited to Committee meetings to give advices.
- Committee members are allowed under certain procedures to take independent professional advice at Company's expense for making and determining the remuneration package proposal.
- The Committee will presents a report to the Board after each meeting, which addresses its work and findings.
- The Committee will make recommendation to the Board regarding the remuneration, comprising directors' fees for all non-executive directors, for shareholders approval at the Annual General Meeting.
- Details on the mandate and summary of the work by the Remuneration Committee during the year are set out in the Remuneration Committee Report on page 23.
- The terms of reference of Remuneration Committee are available on the Company's website.

**(E) ACCOUNTABILITY AND AUDIT**

**(i) Financial Reporting: balanced, clear and comprehensive assessment of Company's performance, position of prospects**

- The Board believes that it presents a comprehensive, balanced and understandable assessment of the Group position and prospects in all shareholder communications.
- The Board fully appreciates its responsibilities regarding the preparation of financial statements.

**(ii) Audit Committee and Auditors: terms of reference and relationship with management and external auditors**

- The Audit Committee is chaired by the Independent Non-Executive Director, Mr. Tong Tsin Ka and has a majority of Independent Non-Executive Directors.
- Its other current members are Dr. The Hon. Lee Tung Hai, Leo, Mr. Ng Ping Kin, Peter and Mr. Cheng Mo Chi, Moses, all of them are Independent Non-Executive Directors. All members have experience in reviewing and analyzing audited financial statements of public companies or major organization.
- The Committee meets not less than twice per annum. Meetings are also attended by invitation by the Managing Director and Executive Director who is in charge of finance matters.
- Details of 2006 Audit Committee meetings attendance are set out below:

	Number of meeting attended	Attendance Rate
<b>Members of Audit Committee</b>		
Tong Tsin Ka, <i>Chairman</i>	(2/2)	100%
Lee Tung Hai, Leo	(2/2)	100%
Ng Ping Kin, Peter	(1/2)	50%
Cheng Mo Chi, Moses	(2/2)	100%
Lee Wai Hung, <i>Secretary</i>	(2/2)	100%

- Under its terms of reference, the Committee is required, amongst other things, to oversee the relationship with external auditors, to review the Company's interim and annual financial statements, and to evaluate Group system of internal controls.
- There is an agreed procedure for Audit Committee members to take independent professional advice at Company's expense.

- Relationship with management and external auditors:
  - the Committee oversees the financial reporting system and internal control procedures.
  - management is principally responsible for the preparation of Group financial statements including the selection of suitable accounting policies.
  - external auditors are responsible for auditing and attesting to Group financial statements and will report to the management of the Company from time to time on any weakness in controls which come to their attention.
  - the Committee oversees the respective work of management and external auditors to endorse the processes and safeguards employed by them.
- The Committee presents a report or make advice to the Board after each meeting, which addresses its work and findings.
- Details on the mandate and work performed by the Audit Committee during the year are set out in the Audit Committee Report on page 24.
- The terms of reference of Audit Committee are available on the Company's website.

**(iii) Auditor Independence**

During the year, the fees paid to the Company's paid to its external Hong Kong auditors for audit service and non-audit amounted to HK\$1,074,245 and HK\$752,047 respectively. Included in the non-audit expenses are tax representative services fees of HK\$169,300 and miscellaneous services fees of HK\$304,866.

**(iv) Internal Control: sound and effective system to safeguard shareholder interests and Company assets**

- Risk management is a crucial part of the Group's strategic management to monitor the Company's overall financial position and to protect its assets.
- The Group is committed to implementing effective risk management policies and internal control procedures to identify and manage the risks that the Group may be exposed to.
- These policies and procedures are reviewed regularly by management together with the assistant by external auditors during the course of audit to ensure their effectiveness and compliance with Code on Corporate Governance Practices.



- The Managing Director and Executive Director will discuss with external Auditors in the Audit Committee meeting at least twice a year on key issues in relation to internal controls, audit finding and risk management.
- As concluded in 2006 Audit Committee meeting, no irregularities and major weakness in control were found by the Auditors.

## **(F) DELEGATION BY BOARD**

### **(i) Relationship with management**

- The Board and management (include different departmental heads) fully appreciate their respective roles with supportive commitments of creating a healthy corporate governance culture.
- The Board is responsible for overseeing the processes that management (include different departmental heads) has in place to identify business opportunities and risks.
- The Board's role is not to manage the business which responsibility remains vested with management and different departmental heads.

### **(ii) Board Committees: specific terms of reference and report to full Board**

- The Board currently has two Board Committees, namely the Audit Committee and Remuneration Committee with specific written terms of reference.
- The Audit and Remuneration Committee, being corporate governance committees, each has a 100% non-executive membership with a majority of Independent Non-Executive Directors.
- Board Committees present their respective reports to the Board after each meeting, which addresses their work and findings.

## **(G) COMMUNICATION WITH SHAREHOLDERS**

### **(i) General communication programme with shareholders**

- The Group is committed to maintain a policy of open and timely disclosure of relevant information on its activities to shareholders, subject to applicable legal requirements.
- Communication is made through:
  - the Company's annual and interim reports, which have been enhanced to present a comprehensive, balanced and understandable assessment of the Group position and prospects.

- notices of and explanatory memoranda for annual and other general meetings, which have been enhanced to provide shareholders with additional information in an understandable manner.
- press releases on major developments of the Group.
- disclosures to the Stock Exchange and relevant regulatory bodies.
- inquiries from investors, media or the public are responded by the Chief Financial Officer, Company Secretary or the appropriate members of senior management.
- Company's website at <http://www.lchi.com.hk> from which shareholders can access information on the Group. The website provides, *inter alia*, corporate announcements, press releases, annual reports, and corporate information of the Group.

**(ii) Shareholder Communications: constructive use of annual general meetings, voting and general proceedings**

- The Board welcomes moves towards a more constructive use of Annual General Meetings and regards the Annual General Meetings as the principal opportunity to meet private shareholders.
- In 2006, almost all Executive Directors and a majority of Independent Non-Executive Directors attended the Annual General Meeting.
- The Company arranges for the Annual Report and Financial Statements and related papers to be posted for shareholders so as to allow at least 21 days for consideration prior to the Annual General Meeting.
- All ordinary shares of the Company have equal voting rights. Annual General Meeting proceedings are continually reviewed in the light of Code on Corporate Governance Practices.
- separate resolutions are proposed at the meeting on each substantially separate issue, including the election of individual Directors.
- preparation of a comprehensive Annual General Meeting circular containing:
  - detailed report on voting procedures including procedures for demanding a poll; and
  - comprehensive information on each resolution to be proposed.

**(iii) Shareholder rights and shareholdings information**

Information on top 10 largest shareholders and location of shareholders is set out in Directors' Report on page 20.