

# Corporate Governance Report<sup>■</sup>

## CORPORATE GOVERNANCE PRACTICE

The Group commits to maintaining and ensuring a high level of corporate governance standards and continuously reviews and improves our corporate governance and internal controls practices. Set out below are the principles of corporate governance as adopted by the Company during the financial year under review.

## DISTINCTIVE ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER (“CEO”)

Mr. Chin Jong Hwa, the Chairman of the Board, is responsible for leading the Board in establishing and monitoring the implementation of strategies and plans to create values for shareholders. Mr. Shi Jian Hui, the CEO, is responsible for managing the operation of the Group’s businesses, proposing strategies to the Board and the effective implementation of the strategies and policies adopted by the Board.

## THE BOARD

As of 31 December, 2006, there are nine members on the Board, which are the Chairman, the CEO, three other Executive Directors, one Non-executive Director (“NED”) and three Independent Non-executive Directors (“INEDs”).

The INEDs are considered by the Board to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgments. The Board considered that each of the INEDs brings his own relevant expertise to the Board and its deliberations.

None of the INEDs has any business or financial interests with the Group nor has any relationship with other Directors and confirmed their independences to the Group.

The Board met regularly during the year and on ad hoc basis as required by business needs. The Board’s primary purpose is to set and review the overall strategic development of the Group and to oversee the achievement of the plans to enhance Shareholders’ value. Daily operational decisions are delegated to the Executive Directors. The Board met five times during the year and the Directors’ attendance is shown in the table on page 24. Each of the Directors is appointed by the Board during the year. The term of appointment of Shaw Sun Kan Gordon is two years.

Mr. Zhao Feng and each of the INEDs offer themselves for re-election in the forthcoming Annual General Meeting.

Chin Jung Hung is Chin Jong Hwa’s cousin. Save as disclosed, the Directors are independent from each other.

The Company appointed the Non-Executive Director by the Board’s appointment during the year. The term of appointment shall be expired up to the forthcoming Annual General Meeting and can offer for re-election in the Annual General Meeting.

## AUDIT COMMITTEE

The Group has established an Audit Committee with written terms of reference as suggested under the Code of Best Practice set out in Appendix 14 of the Listing Rules and adopted with reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants. The Audit Committee comprises Heng Kwo Seng, Wang Ching and Zhang Liren, all INEDs. The chairman of the Audit Committee is Heng Kwo Seng. Each member can bring to the Committee his valuable experience in reviewing financial statements and evaluating significant control and financial issues of the Group who among themselves possess a wealth of management experience in the accounting profession or commercial sectors. The Audit Committee has held 3 meetings during the year and the relevant Directors' attendance is shown in the table on page 24.

The main duties of the Audit Committee are as follows:

- (i) to review the half-year and annual financial statements before they are submitted to the Board for approval;
- (ii) to make recommendations to the Board on, the appointment, reappointment and removal of the external auditors, and approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditors;
- (iii) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (iv) to review the Company's financial controls, internal controls and risk management systems;
- (v) to review the Group's financial and accounting policies and practice;
- (vi) to review and monitor the effectiveness of the internal audit function; and
- (vii) to review the terms and conditions of connected transactions of the Group.

The Audit Committee reviewed the financial statements of the Group for the year ended 31 December, 2006 prior to recommending the financial statements to the Board for approval.

## REMUNERATION COMMITTEE

The Company established a remuneration committee in November 2005 and has not held any meeting during the year. The Remuneration Committee comprises Shaw Sun Kan, Gordon, Heng Kwo Seng, Wang Ching and Zhang Liren. The Chairman of the Remuneration is Shaw Shun Kan, Gordon. Its terms of reference are summarized as follows:

- (i) to evaluate the performance of the Executive Directors in order to make recommendations to the Board on the remuneration policy of the Group;

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- (ii) to determine the salaries and compensation packages of the Directors and senior management; and
- (iii) to manage and determine the Group's Share Option Scheme.

In order to attract, retain, and motivate executives and key employees serving the Group, the Company has adopted Share Option Scheme in 2005. Such incentive schemes enable the eligible persons to obtain an ownership interest in the Company and thus rewards the participants who contribute to the success of the Group's operations.

Details of the amount of Directors emoluments are set out in note 8 to the accounts and details of the 2005 share option scheme are set out in the Directors' Report and note 34 to the accounts.

### NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of an individual to act as a Director, and approving and terminating the appointment of a Director. The Company has not established a Nomination Committee. The Company currently does not have any plans to set up a Nomination Committee considering the small size of the Board.

The Chairman is responsible for identifying suitable candidates for member of the Board when there is a vacancy or an additional Director is considered necessary. The Chairman proposes the appointment of such candidates to each member of the Board for consideration. Each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his or her qualifications, experiences and background.

### Attendance Record

	The Board	Audit Committee	Remuneration Committee
<b>Number of Meetings</b>	5	3	0
<b>Executive Directors</b>			
Chin, Jong Hwa ( <i>Chairman</i> )	4		
Shi, Jian Hui ( <i>CEO</i> )	5		
Mu, Wei Zhong	4		
Liang, Current Tien Tzu ( <i>resigned on 22 December, 2006</i> )	4		
Chin, Jung Huang	4		
Zhao, Feng ( <i>was appointed on 22 December, 2006</i> )	0		
<b>Non-executive Director</b>			
Shaw Sun Kan, Gordon	4		0
<b>Independent Non-executive Directors</b>			
Heng Kwoo Seng	4	3	0
Wang Ching	5	3	0
Zhang Liren	4	3	0

## LOOKING FORWARD

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavors to take the necessary actions to ensure the compliance with the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.

## INDEPENDENCE INFORMATION

The Company has received, from each of the INEDs, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND COMPLIANCE WITH MODEL CODE

None of the Directors is aware of any information that would reasonably indicate that the Company was not at any time during the Review Period in compliance with the Code on Corporate Governance Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company had adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the Directors (the “Code”). Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard as set out in the Code.

## AUDITORS’ REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group is required to pay an aggregate of approximately HKD2.6 million to the external auditors for their services including audit and non-audit services.

## DIRECTORS’ AND AUDITORS’ RESPONSIBILITIES FOR ACCOUNTS

The Directors’ responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 38.