

The Company is committed to achieving and maintaining a high standard of corporate governance. The Board considers effective corporate governance essential to protecting shareholders' interests and enhancing stakeholder value. Accordingly, the Board attributes a high priority to identifying and implementing appropriate corporate governance practices to ensure transparency, accountability and effective internal controls.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is fully complied with all code provisions of the Code on Corporate Governance Practices ("CG Code") in Appendix 14 of the Listing Rules on the Stock Exchange for the year ended 31 December 2006.

## THE BOARD

The Board is charged with the responsibility of the leadership and control of the Group. The Board promotes the success of the Group and make decisions objectively in the best interests of the Group. The Board's role is clearly defined as directing and supervising the affairs of the Group, establishing its strategic direction and setting objectives and business development plans. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

During the year, 16 full board meetings were held and the attendance of each director is set out as follows:

### Number of Board meetings attended / eligible to attend

#### Executive Directors:

Mr. Yue Jialin	(Chairman)	16/16
Mr. Lau Yau Cheung	(Chief Executive Officer)	16/16
Mr. Michael Joseph Bogue	(appointed on 25 September 2006 as Independent Non-Executive Director and re-designated as Executive Director on 10 January 2007)	5/6

#### Independent Non-Executive Directors:

Mr. Wong Wing Kuen, Albert		14/16
Mr. Tsui Robert Che Kwong		13/16
Mr. Yang Weiming	(appointed on 8 August 2006)	7/9
Mr. Wu Guo Jian	(resigned on 8 August 2006)	6/8

Board meetings are scheduled to be held at approximately quarterly interval and additional meetings will be held as and when required. With respect to the regular Board meetings, Directors receive written notice of the meeting at least 14 days' in advance. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the date of every regular Board meetings so that the directors have the time to review the documents. With respect to other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances. Draft minutes of each Board meeting are circulated to all Directors for their comment before approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable notice by any Director.

Every Director is entitled to have access to board papers and related materials and has access to the advice and services of the Company Secretary, and has the liberty to seek independent professional advice if so required. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and the Chief Executive Officer of the Company are Mr. Yue Jialin and Mr. Lau Yau Cheung respectively. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by two separate individuals who have no relationship with each other to strike a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the board is responsible for the leadership and effective running of the board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all respects effectively. The division of responsibilities between the Chairman and the Chief Executive Officer have been clearly established and set out in writing.

## BOARD COMPOSITION

The Board currently comprises six Directors, with three Executive Directors and three Independent Non-Executive Directors. The composition of the Board during the year and up to date of this report is set out as follow:

### Executive Directors:

Mr. Yue Jialin	(Chairman)
Mr. Lau Yau Cheung	(Chief Executive Officer)
Mr. Michael Joseph Bogue	(appointed on 25 September 2006 as Independent Non-Executive Director and re-designated as Executive Director on 10 January 2007)

### Independent Non-Executive Directors:

Mr. Wong Wing Kuen, Albert	
Mr. Tsui Robert Che Kwong	
Mr. Yang Weiming	(appointed on 8 August 2006)
Mr. Wu Guo Jian	(resigned on 8 August 2006)

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third in number of its members comprising Independent Non-Executive Directors. At least one of the Independent Non-Executive Directors has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The brief biographical details of the Directors are set out in pages 7 and 8, which demonstrates a diversity of skills, expertise, experience and qualifications. The Board has received annual confirmation of independence from the Independent Non-Executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

## **APPOINTMENTS AND RE-ELECTION OF DIRECTORS**

Each of the Independent Non-Executive Directors of the Company was appointed for a specific term (“the Term”) but subject to the relevant provisions of the Bye-laws of the Company or any other applicable laws whereby the Directors shall vacate or retire from their office. The Term for Mr. Wong Wing Kuen, Albert and Mr. Tsui Robert Che Kwong have been renewed upon expiry on 31 December 2006. The Term for Mr. Yang Weiming will be expired on 30 June 2007.

According to the Bye-laws of the Company then in effect before 23 May 2006, at each annual general meeting (the “AGM”) of the Company, one-third of the Directors for the time (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) should retire from office by rotation, provided that the Chairman of the Board and/or the Managing Director of the Company should not be subject to retirement by rotation. Further, any Director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following AGM and should then be eligible for re-election at that meeting. To ensure full compliance with the code provision A.4.2 of the CG Code, relevant amendments to the Bye-laws of the Company were proposed and approved by the shareholders at the AGM of the Company held on 23 May 2006 so that (i) any Director appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board); and (ii) each Director shall be subject to retirement by rotation at least once every three years.

## REMUNERATION COMMITTEE

The Remuneration Committee currently consists of three Independent Non-Executive Directors. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The Remuneration Committee shall meet at least once a year. Three committee meetings were held in 2006 to review and discuss the existing policy and remuneration packages of both the Executive and Independent Non-Executive Directors and the attendance of each member is set out as follows:

<b>Committee member</b>	<b>Number of Committee meetings attended / eligible to attend</b>
Mr. Wong Wing Kuen, Albert (Chairman)	4/4
Mr. Tsui Robert Che Kwong	4/4
Mr. Michael Joseph Bogue (appointed on 25 September 2006 and resigned on 10 January 2007)	3/3
Mr. Yang Weiming (appointed on 8 August 2006)	3/3
Mr. Wu Guo Jian (resigned on 8 August 2006)	1/1

The remuneration payable to Directors will depend on their respective contractual terms under their employment or service contracts, as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 8 to the financial statements.

The major roles and functions of the Remuneration Committee are as follows:

1. to review and make recommendations to the Board on the Company's policy and structure for remuneration of all directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
2. to have the delegated responsibility to determine the specific remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss of office or termination of their office or appointment, and make recommendations to the Board of the remuneration of Independent Non-Executive Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment and conditions elsewhere in the Group and desirability of performance-based remuneration;
3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
4. to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment;

5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
6. to ensure that no Directors or any of his associates is involved in deciding his own remuneration;

## AUDIT COMMITTEE

The Audit Committee has been established since July 2004 and currently comprises all three Independent Non-Executive Directors of the Company, Mr. Wong Wing Kuen, Albert, Mr. Tsui Robert Che Kwong and Mr. Yang Weiming.

The Audit Committee shall meet at least twice a year. Four committee meetings were held during the year. The attendance of each member is set out as follows:

<b>Committee member</b>	<b>Number of Committee meetings attended/eligible to attend</b>
Mr. Wong Wing Kuen, Albert (Chairman)	4/4
Mr. Tsui Robert Che Kwong	3/4
Mr. Yang Weiming (appointed on 8 August 2006)	1/1
Mr. Wu Guo Jian (resigned on 8 August 2006)	3/3

Full minutes of audit committee meetings are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the audit committee meetings are sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

The major roles and functions of the Audit Committee are:

1. to consider and recommend to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of those auditors;
2. to consider and discuss with the external auditors the nature and scope of each year's audit;
3. to review and monitor the external auditors' independence and objectivity;
4. to review the interim and annual financial statements before submission to the Board;

5. to discuss any problems and reservation arising from the interim review and final audit, and any matters the external auditors may wish to discuss;
6. to review the external auditors' management letters and management's response;
7. to review the Group's financial controls, internal control and risk management systems; and
8. to consider any findings of major investigations of internal control matters as delegated by the Board and management's response.

During the meetings held in 2006, the Audit Committee had performed the work as summarized below:

1. recommended to the Board, for the approval by shareholders, of the change of auditors.
2. reviewed the final results of the Group for the year ended 31 December 2006 and the interim results for the six months ended 30 June 2006 before submission to the Board;
3. reviewed the external auditors' independent review report in the relation to the 2006 interim results;
4. recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors.

## **DIRECTORS' SECURITIES TRANSACTIONS**

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 its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the year.

## **ACCOUNTABILITY AND AUDIT**

The Directors acknowledge their responsibility for preparing, with the support from the finance department, the consolidated financial statements for each financial year which give true and fair view of the state of affairs of the Group in presenting the interim and annual financial statements, and announcements to shareholders. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the accounts. The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's interim and annual reports, other price-sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators.

The responsibility of the external auditors with respect to the financial reporting are set out in the section "Independent Auditor's Report" on page 25.

## INTERNAL CONTROLS

The Board is responsible for overseeing the Group's system of internal controls. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure, to achieve the business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines.

The Board has conducted a review of the effectiveness of the system of internal control of the Group and is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of the shareholders, customers and the Group's assets.

## AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's auditors, Messrs. Graham H. Y. Chan & Co. is set out as follows:

Services rendered	Fee paid/payable HK\$'000
Audit services	250
Non-audit services	701
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	951
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## COMMUNICATIONS WITH SHAREHOLDERS

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The Company's general meetings are a valuable forum for the Board to communicate directly with the shareholders. Shareholders are encouraged to attend all general meetings of the Company.

The Chairman of the Board as well as Chairman of the Audit Committee and Remuneration Committee were presented to answer any questions from the shareholders at the Company's 2006 AGM.

# Corporate Governance Report



Circulars had been distributed to all shareholders at least 21 days prior to the Company's 2006 AGM and at least 14 days prior to the special general meetings of the Company convened during 2006 (the "SGMs"), setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The Chairman had explained the procedures for demanding and conducting a poll again at the beginning of the Company's 2006 AGM, and revealed how many proxies for and against have been received in respect of each resolution. All substantive resolutions at the SGMs were decided on a poll which were conducted by the Chairman and scrutinized by the Company's Hong Kong Branch Share Registrars. All the resolutions put to shareholders at the SGM, were passed. The results of the poll were published on the website of the Stock Exchange and also in local newspapers.