

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhance its corporate governance standards by emphasising transparency, independence, accountability, responsibility and fairness. The Company exercises corporate governance through the Board of Directors ("Board") and various committees with designated functions. The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2006.

## DIRECTORS' SECURITIES TRANSACTIONS

Other than the governance through the board and the committees, the Company has adopted the code of conduct regarding the directors' securities transactions as set out in the Model Code of the Listing Rules. Following specific enquiry by the Company, all directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year under review.

## BOARD OF DIRECTORS

As at 31 December 2006, the Board comprised seven Directors as follows:

### Executive Directors

|                                   |                          |
|-----------------------------------|--------------------------|
| Mr. Yu Pan                        | <i>(Chairman)</i>        |
| Mr. Lau Yat Tung, Derrick         | <i>(Deputy Chairman)</i> |
| Mr. Wong Lok                      |                          |
| Mr. Wen Xiao Bing <sup>(1)</sup>  |                          |
| Mr. Zheng Jian Wei <sup>(2)</sup> | <i>(Resigned)</i>        |
| Mr. Mai Zhi Hui <sup>(3)</sup>    | <i>(Resigned)</i>        |

### Independent Non-executive Directors

Mr. Choy Shu Kwan  
Mr. Cheng Wing Keung, Raymond  
Ms. Chung Lai Fong

Notes:

- (1) Appointed as Executive Director on 30 June 2006.
- (2) Appointed as Executive Director on 11 January 2006 and resigned on 30 June 2006.
- (3) Resigned as Executive Director on 1 January 2006.

# Corporate Governance Report

## BOARD OF DIRECTORS *(Continued)*

The Board held five meetings during the 2006 financial year. The record of attendance of each Director is as follows:

|                                     | <b>Name of Director</b>                              | <b>Number of Board Meetings Attended</b> |
|-------------------------------------|--|--|
| Executive Directors                 | Mr. Yu Pan ( <i>Chairman</i> )                       | 4/5                                      |
|                                     | Mr. Lau Yat Tung, Derrick ( <i>Deputy Chairman</i> ) | 5/5                                      |
|                                     | Mr. Wong Lok   | 4/5                                      |
|                                     | Mr. Zheng Jian Wei <sup>(1)</sup>                    | 3/5                                      |
|                                     | Mr. Wen Xiao Bing <sup>(2)</sup>                     | 2/5                                      |
| Independent Non-executive Directors | Mr. Choy Shu Kwan                                    | 5/5                                      |
|                                     | Mr. Cheng Wing Keung, Raymond                        | 5/5                                      |
|                                     | Ms. Chung Lai Fong                                   | 5/5                                      |

*Notes:*

- (1) Resigned on 30 June 2006 and he attended all three meetings during his appointment.
- (2) Appointed on 30 June 2006 and he attended all two meetings during his appointment.

The Board is responsible for formulating and reviewing the long-term business directions and strategies, and monitoring the operating and financial performance of the Group. The management is delegated by the Board with the authority of decision-making in daily operations.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In pace with the business development and growth of the Group, the Group currently maintains a small but efficient team in the daily operations of the Group. Due to the relatively small size of the management team, both the roles of the Chairman and Chief Executive Officer of the Company are currently taken up by Mr. Yu Pan. The Board considers the current simple but efficient team serves effectively the existing needs of the Group. The Board will, nonetheless, review the business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the day-to-day management team to ensure a proper balance of power and authority within the Company.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises the Chairman, Mr. Yu Pan and all three independent non-executive directors, namely, Mr. Choy Shu Kwan, Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong (the Chairman of the Committee).

The Remuneration Committee held four meetings in 2006 and were attended by all four members.

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

1. to make recommendations to the Board on the remuneration policy and structure of the Board, all committees members and senior management;
2. to determine the remuneration packages of the directors, all committee members and senior management. The remuneration packages include basic salary, annual bonus, retirement and compensation packages;
3. to review and approve the compensation to executive directors and senior management on termination or dismissal;
4. to review and approve the performance target, appraisal system, remuneration terms and conditions, amount and distribution basis of the annual bonus; and
5. to review the expenses reimbursement policy.

## NOMINATION COMMITTEE

The Nomination Committee comprises three executive directors, namely, Mr. Yu Pan (Chairman of the Committee), Mr. Lau Yat Tung, Derrick and Mr. Wong Lok and one independent non-executive director, Mr. Choy Shu Kwan.

The Nomination Committee held three meetings in 2006. The record of attendance of its members is as follows:

| <b>Name of Director</b>                  | <b>Number of Nomination Committee Meetings Attended</b> |
|--|---|
| Mr. Yu Pan                               | 3/3   |
| Mr. Choy Shu Kwan                        | 3/3   |
| Mr. Lau Yat Tung, Derrick <sup>(1)</sup> | 2/3   |
| Mr. Wong Lok <sup>(2)</sup>              | 2/3   |

Notes:

- (1) Absent from the meeting on 20 February 2006 due to his abstaining from voting for appointing himself as Deputy Chairman.
- (2) Appointed as Nomination Committee members on 11 January 2006 and he attended all two meetings during his appointment.

# Corporate Governance Report

## **NOMINATION COMMITTEE** *(Continued)*

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

1. to propose the basic requirements and objective entry standard for directors;
2. to review and approve the selection, nomination and appointment procedures for directors, all committee members and senior management;
3. to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board in all such aspects;
4. to ensure the fixed employment period for the directors and fulfillment of the re-election requirements set under the bye-laws of the Company and related regulatory bodies;
5. to assess the independence of independent non-executive directors; and
6. to review and approve the part-time policy for the directors and senior management; and oversee the establishment of appropriate succession planning for directors in particular the chairman and the chief executive officer.

## **AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive directors, Mr. Choy Shu Kwan (Chairman of the Committee), Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong.

The Audit Committee held three meetings in 2006. The record of attendance of its members is as follows:

| <b>Name of Director</b>       | <b>Number of Audit Committee Meetings Attended</b> |
|-------------------------------|--|
| Mr. Choy Shu Kwan             | 2/3  |
| Mr. Cheng Wing Keung, Raymond | 3/3  |
| Ms. Chung Lai Fong            | 3/3  |

The major roles and functions of audit committee are as follows:

1. review the integrity of accounts and financial reporting process;
2. review and oversee the effectiveness of internal control systems which covers operational and financial control procedures, identifying business risks and ensuring compliance with legal and regulatory requirements; and
3. appointment of external auditors and assessment of their qualifications, independence and performance.

The Audit Committee has reviewed the audited results of the Group for the year ended 31 December 2006.

## AUDITORS' REMUNERATION

Messrs. BDO McCabe Lo Limited was re-appointed by the shareholders as the Company's auditors during 2006. Their engagement of the audit for 2006 has been reviewed and approved by the audit committee.

During the year under review, the remuneration paid to the Company's auditors are set out as follows:

| <b>Nature of service</b>   | <b>Fees paid<br/>(HK\$)</b> |
|--|-----------------------------|
| Under-provision of fee for audit services for 2005   | 80,000                      |
| Interim results review services  | 50,000                      |
| 2006 final announcement review services  | 30,000                      |
| Audit services for 2006  | 600,000                     |
| Audit disbursements  | 12,000                      |
| Non-audit services   |                             |
| — Reporting accountant's service for a very substantial acquisition transaction and open offer | 626,700                     |
| <b>TOTAL</b>   | <b>1,398,700</b>            |

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with all shareholders. The Company's general meetings are a valuable forum for the Board to communicate directly with the shareholders. The members of the Board and the committees and other engaged professionals are present to answer shareholders' questions in each meeting.

A meeting circular is distributed to all shareholders at least 21 days before the annual general meeting and at least 14 days before special general meetings. It sets out the procedures for demanding and conducting a poll at the shareholders' meeting and voting intention of proxies. The results of the poll will be published in the newspapers.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its interim and annual results in a timely manner and released, on proper and timely basis, major or price sensitive information about the Group to the public.

The 2007 annual general meeting will be held at [Luk Kwok Hotel, Basement, 72 Gloucester Road, Wanchai, Hong Kong on Monday, 21 May 2007 at 11:00 a.m..

## **INTERNAL CONTROLS**

The Board has overall responsibilities for maintaining sound and effective internal control systems of the Group whilst the internal control department is responsible primarily to ensure the systems are functioning. The Group's system of internal control includes a defined management structure with limits of authority, and is designed to help the Group achieve its business objectives, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. Overall, the systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage failure in material aspects in the Group's operational systems and in the achievement of the Group's business objectives.

The internal auditor reported to the senior management and the executive directors with findings on regular audits and recommendations on the effectiveness of the controls during the year 2006. While there have been no material issues noted, areas for improvement were identified and remedial actions being taken by the management. The independent audits on the internal control systems covered key financial and operational areas, compliance controls and risk management.