



# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31st December 2006, except for the deviation from provision A.2.1 of the CG Code in respect of segregation of the roles of chairman and chief executive officer and the deviation from provision A.4.2 of the CG Code in respect of retirement and rotation of each director in every three years. Such deviations will be discussed in the relevant sections of this report in more details. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of Listing Rules for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31st December 2006.

## BOARD OF DIRECTORS

The principal focus of the Board is on the overall strategic development of the Group. The Board also monitors the financial performance and the internal controls of the Group's business operations.

The Board of Directors of the Company comprises:

*Executive Directors:*

Mr. Lao Yuan Yi, Chairman  
Mr. Xin Shulin, Steve  
Mr. Yeung Wai Kin  
Mr. Hu Yi Ming

*Non-executive Director:*

Mr. Kwok Lam Kwong, Larry, J.P.

*Independent Non-executive Directors:*

Prof. Woo Chia Wei  
Mr. Liu Ji  
Mr. Yu Qi Hao

The Board comprises of four executive directors and four non-executive directors. Of the four non-executive directors, three of them are independent non-executive directors that represent more than one-third of the Board. In addition, two of the non-executive directors possess appropriate professional accounting qualifications and financial management expertise. There is no relationship between members of the Board.

The Company does not establish a nomination committee in consideration of the size of the Group. The Board is empowered under the Company's Articles to appoint any person as a director either to fill a causal vacancy on or as an addition to the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

## CORPORATE GOVERNANCE REPORT

The non-executive directors serve an important function of ensuring and monitoring the basis for an effective corporate governance framework. With a wide range of expertise and a balance of skills, the non-executive directors bring independent judgement on issues of strategic direction, development, performance and risk management through their contribution at board meetings and committee work.

The Board considers that each independent non-executive director is independent in character and judgement and that they all meet the specific independence criteria as required by the Listing Rules. The Company has received from each independent non-executive director an annual confirmation or confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

The Board meets regularly throughout the year to review the overall strategy and to monitor the operation as well as the financial performance of the Group. Notice of at least 14 days have been given to all directors for all regular board meetings and the directors can include matters for discussion in the agenda if necessary. Agenda and accompanying board papers in respect of regular board meetings are sent out to all directors within reasonable time before the meeting.

Draft minutes of board meeting are circulated to directors for comment within a reasonable time prior to confirmation. Minutes of board meetings and meetings of board committees are kept by duly appointed secretaries of the respective meetings and all directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

During the year, five board meetings were held and the individual attendance of each director is set out below:

<b>Name of director</b>	<b>Number of meetings attended</b>	<b>Attendance rate</b>
Mr. Lao Yuan Yi	5/5	100%
Mr. Xin Shulin, Steve	2/5	40%
Mr. Yeung Wai Kin	5/5	100%
Mr. Hu Yi Ming	2/5	40%
Mr. Kwok Lam Kwong, Larry, J.P.	4/5	80%
Prof. Woo Chia Wei	5/5	100%
Mr. Liu Ji	1/5	20%
Mr. Yu Qi Hao	5/5	100%

The provision A.4.2 of the CG Code provides that every director should be subject to retirement by rotation at least once every three years. However, according to the Articles of Association of the Company, at each annual general meeting one-third of the directors for the time being shall retire from office. The Articles of Association constitutes a deviation from the CG Code. The management is considering the amendment of the Articles of Association to comply with the code provision A.4.2.

### **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The chairman and chief executive officer of the Company is Mr. Lao Yuan Yi. This deviates from provision A.2.1 of the CG Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.



## CORPORATE GOVERNANCE REPORT

The Board believes that vesting the role of both positions in Mr. Lao provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board. The Board believes that the structure outlined above is beneficial to the Company and its business.

### NON-EXECUTIVE DIRECTOR

Each of the non-executive directors of the Company has entered into a service contract with the Company for a term of two years. Such term is subject to his re-appointment by the Company at general meeting upon retirement by rotation pursuant to the Articles of Association of the Company.

### REMUNERATION COMMITTEE

The Remuneration Committee of the Board of Directors was established on 30th June 2005. The majority of the Remuneration Committee members are independent non-executive directors and its current members include:

<i>Executive Directors:</i>	Mr. Lao Yuan Yi
<i>Independent Non-executive Directors:</i>	Mr. Yu Qi Hao Prof. Woo Chia Wei

The terms of reference of the Remuneration Committee were adopted when the Committee was established. The Remuneration Committee was set up to review and approve the remuneration packages of the directors and senior management including the terms of salary and bonus schemes and other long term incentive schemes.

During the year, three meetings were held to discuss the remuneration policies and approve the remuneration packages of the directors of the Company. The individual attendance of each director is set out below:

<b>Name of Committee member</b>	<b>Number of meetings attended</b>	<b>Attendance rate</b>
Mr. Lao Yuan Yi	3/3	100%
Prof. Woo Chia Wei	3/3	100%
Mr. Yu Qi Hao	3/3	100%

### AUDIT COMMITTEE

The Audit Committee of the Board of Directors was established on 27th December 1998 and its current members include:

<i>Independent Non-executive Directors:</i>	Mr. Yu Qi Hao, Committee Chairman Prof. Woo Chia Wei Mr. Liu Ji
<i>Non-executive Director:</i>	Mr. Kwok Lam Kwong, Larry, J.P.

Each member of the Audit Committee has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules.

## CORPORATE GOVERNANCE REPORT

The Audit Committee meets regularly to review the reporting of financial and other information to shareholders, the system of internal controls, risk management and the effectiveness and objectivity of the audit process.

During the year ended 31st December 2006, the Audit Committee has reviewed the annual and interim consolidated financial statements, including the Group's accounting principles and practices adopted by the Group, which was of the opinion that such reports were prepared in accordance with the applicable accounting standard and requirements. The Audit Committee has also discussed with the Group's internal auditor and considers the system of internal control of the Group to be effective and that the Group has adopted the necessary control mechanisms to its financial, operational, statutory compliance and risk management functions.

During the year, three meetings were held and the individual attendance of each director is set out below:

<b>Name of Committee member</b>	<b>Number of meetings attended</b>	<b>Attendance rate</b>
Mr. Yu Qi Hao	3/3	100%
Prof. Woo Chia Wei	3/3	100%
Mr. Kwok Lam Kwong, Larry, J.P.	3/3	100%
Mr. Liu Ji	1/3	33%

**AUDITOR'S REMUNERATION**

For the year ended 31st December 2006, PricewaterhouseCoopers ("PWC"), the external auditor of the Company, has charged approximately HK\$1,990,000 for audit and related services and HK\$107,000 for other non-audit services – taxation services.