



# CORPORATE GOVERNANCE REPORT

The Company is committed to maintain high corporate governance standard and unambiguous procedures to ensure the integrity, transparency and quality of disclosure in order to enhance its shareholders' value.

## CORPORATE GOVERNANCE PRACTICE

In the opinion of the directors of the board (the "Board"), the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2006, except for the deviation from Code A.2.1, A.4.1 and A.4.2 which, in the Company's opinion, are unsuitable or inappropriate for adoption. Explanations for such non-compliance are provided below.

## MODEL CODE FOR 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 to the Listing Rules.

Specific enquiries have been made to all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2006.

The Company has also established written guidelines on no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

## DELEGATION BY THE BOARD

The overall management of the Company's businesses is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and monitoring its affairs. All directors should take decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned senior management of the Company.

The Board has the full support of its board committees and the senior management of the Company to discharge its responsibilities.



# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

The current Board is made up of eight directors including three executive directors, two non-executive directors and three independent non-executive directors (the "INEDs"). The directors are, collectively and individually, aware of their responsibilities to the shareholders. The directors' biographical information is set out on pages 16 to 18 under the heading "Biographical Details of Directors and Senior Management". The Board consists of the following:

### Executive Directors

Mr. YU Pun Hoi (*Chairman*)

Mr. QIN Tian Xiang

Ms. CHEN Dan

Mr. ZHANG Hong Ren

(re-designated from INED on 14 February 2006)

(appointed on 14 February 2006)

(resigned on 1 April 2006)

### Non-executive Directors

Mr. YU Lin Hoi\*

Mr. LAM Bing Kwan

### Independent Non-executive Directors

Mr. HUANG Yaowen

Prof. JIANG Ping

Mr. LAU Yip Leung

Ms. WEI Jingyun

Mr. WU Chen

(appointed on 14 February 2006)

(appointed on 14 February 2006)

(appointed on 29 May 2006)

(retired on 29 May 2006)

(retired on 29 May 2006)

\* Mr. Yu Lin Hoi is the elder brother of Mr. Yu Pun Hoi.

The Board is also responsible for the procedures of agreeing to the appointment of its own members and for nominating on first appointment and thereafter at regular intervals by rotation. It reviews the structure, size and composition (including the skill, knowledge and experience) of the Board from time to time and determines the appointments of directors.

Code Provision A.4.2 stipulated that every director including those appointed for a specific term should be subject to retirement by rotation at least once every three years.

According to Bye-law 99, every Director, including those appointed for a specific term, shall (save for any executive Chairman or Managing director) be subject to retirement by rotation at the annual general meeting at least once every three years. In the opinion of the Board, stability and continuation are key factors to the successful implementation of business plans. The Board believes that it is beneficial to the Group that there is continuity in the role of the chairman and, therefore, the Board is of the view that the chairman should be exempt from this arrangement at the present time.

Saved as disclosed above, Board members do not have any financial, business and family or other material/relevant relationship with each other. During the year, the Board held eight meetings.

### Chairman and Chief Executive Officer

Code Provision A.2.1 stipulated that the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual.

The Company has not appointed a CEO. The role of the CEO is also performed by Mr. Yu Pun Hoi who is the chairman of the Company. The Board believes that vesting the roles of both chairman and CEO in the same person provides the Company with strong and consistent leadership, and allows for effective and efficient planning and implementation of business decisions and strategies.



# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS (continued)

### Non-executive Directors

Code Provision A.4.1 stipulated that non-executive directors should be appointed for a specific term subject to re-election.

The non-executive directors of the Company are not appointed for a specific term. However, all non-executive directors are subject to the retirement and rotation requirements in accordance with the Company's Bye-Laws. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

### Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three INEDs of whom Mr. Lau Yip Leung is a certified public accountant in Hong Kong. Besides, Mr. Huang Yaowen is practicing lawyer in the PRC.

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

## BOARD COMMITTEES

The Board has established three board committees, namely Executive Committee, Audit Committee and Remuneration Committee, to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. The Board will review all delegations of powers at least once per year.

### Executive Committee

The Company formulated written terms of reference for the Executive Committee, which consists of all the executive directors as follows:

Mr. YU Pun Hoi ( <i>Chairman</i> )	
Mr. QIN Tian Xiang	(re-designated as executive director 14 February 2006)
Ms. CHEN Dan	(appointed on 14 February 2006)
Mr. ZHANG Hong Ren	(resigned on 1 April 2006)

The duties of the Executive Committee are empowered to plan, determine, approve, implement, handle, arrange, review and amend all policies, operations and internal control of the Group, ensuring that the delegation of its powers to the senior management is clearly defined, and that a transparent reporting procedural system is in place and effectively monitored. The Executive Committee held eleven meetings during the year.

### Audit Committee

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee consists of all INEDs as follows:

Mr. HUANG Yaowen	(appointed as Chairman of the Audit Committee on 14 February 2006)
Prof. JIANG Ping	(appointed on 14 February 2006)
Mr. LAU Yip Leung	(appointed on 29 May 2006)
Mr. QIN Tian Xiang	(resigned as member of the Audit Committee on 14 February 2006)
Ms. WEI Jingyun	(retired on 29 May 2006)
Mr. WU Chen	(retired on 29 May 2006)



# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES (continued)

### Audit Committee (continued)

The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reports and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

During the year, the Audit Committee held two meetings, in particular, to review with management the accounting principles and practices adopted by the Group and to discuss auditing, internal control and financial reporting matters. The Audit Committee has also reviewed the audited accounts for the year ended 31 December 2005 and the unaudited interim results for the six months ended 30 June 2006.

### Remuneration Committee

The Company formulated written terms of reference for the Remuneration Committee in accordance with the requirements of the Listing Rules. The Remuneration Committee consists of all INEDs as follows:

Mr. HUANG Yaowen	(appointed as Chairman of the Remuneration Committee on 14 February 2006)
Prof. JIANG Ping	(appointed as 14 February 2006)
Mr. LAU Yip Leung	(appointed on 29 May 2006)
Mr. QIN Tian Xiang	(resigned as member of the Remuneration Committee on 14 February 2006)
Ms. WEI Jingyun	(retired on 29 May 2006)
Mr. WU Chen	(retired on 29 May 2006)

The Remuneration Committee is responsible for ensuring formal and transparent procedures for formulating remuneration policies and overseeing the remuneration packages of the directors and senior management. It takes into consideration on such factors as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions and desirability of performance-based remuneration. The Remuneration Committee held three meetings during the year.



# CORPORATE GOVERNANCE REPORT

## NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

The following table shows the individual attendance of each director at the meetings of the full Board, the Executive Committee, the Audit Committee and the Remuneration Committee for the year ended 31 December 2006:

Name of Director	Attendance/Number of Meetings			
	Board	Executive Committee	Audit Committee	Remuneration Committee
<b>Executive Directors</b>				
Mr. YU Pun Hoi	8/8	10/11	N/A	N/A
Mr. QIN Tian Xiang	7/8	2/11	N/A	N/A
Ms. CHEN Dan (appointed on 14 February 2006)	5/8	9/11	N/A	N/A
Mr. ZHANG Hong Ren (resigned on 1 April 2006)	4/8	3/11	N/A	N/A
<b>Non-executive Directors</b>				
Mr. YU Lin Hoi	7/8	N/A	N/A	N/A
Mr. LAM Bing Kwan	7/8	N/A	N/A	N/A
<b>Independent Non-executive Directors</b>				
Mr. HUANG Yaowen (appointed on 14 February 2006)	5/8	N/A	2/2	2/3
Prof. JIANG Ping (appointed on 14 February 2006)	5/8	N/A	2/2	2/3
Mr. LAU Yip Leung (appointed on 29 May 2006)	1/8	N/A	1/2	0/3
Ms. WEI Jingyun (retired on 29 May 2006)	5/8	N/A	1/2	2/3
Mr. WU Chen (retired on 29 May 2006)	5/8	N/A	1/2	2/3
Number of meetings held during the year	8	11	2	3

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITOR'S REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on page 33.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2006 amounted to HK\$3,957,000 and HK\$60,000 respectively. An analysis of the remuneration paid to the external auditors of the Company is set out in note 7 to the financial statements.



# CORPORATE GOVERNANCE REPORT

## INTERNAL CONTROLS

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

During the year under review, the Board, through its Audit Committee and Executive Committee, has conducted regular reviews of the effectiveness of the internal control procedures of the Group.

On behalf of the Board

**Watt Ka Po James**

*Company Secretary*

Hong Kong, 19 April 2007