

# CORPORATE GOVERNANCE REPORT

The Board of the Directors (the "Board") is pleased to present this Corporate Governance Report in the Company Annual Report for the nine months ended 31 December 2006.

The Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as promulgated by The Stock Exchange of Hong Kong Limited ("Stock Exchange") came into effect for accounting period commencing on 1st January 2005 (save for the provisions on internal controls which came into effect for accounting periods commencing from 1st July 2005 onwards.)

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") as set out in the CG Code. Throughout the year under review, the Company has complied with the Code Provisions, save for the deviation from Code Provision A.2.1, A.4.1 and A.4.2 which are explained in the relevant paragraph in this report.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

## CORPORATE GOVERNANCE

In the opinion of the directors, saved as disclosed below, the Company has complied with the Code Provisions set out in the CG Code contained in Appendix 14 of the Listing Rules throughout the nine months ended 31 December 2006.

### Code Provision A.2.1

This code stipulates that the role of Chairman and chief executive officer should be separate and should not be performed by the same individual.

The Board does not have any director with the title "Chairman" and any office with the title "chief executive officer". Presently the Company Secretary is responsible to ensure that all directors are properly briefed, either by him or members of the Company's senior management, on issues arising at board meetings. Whereas, management of the Company is responsible to ensure all directors have received adequate, complete and reliable information in a timely manner. The Board considers that the current structure facilitates the execution of the Group business strategies and maximizes effectiveness of its organization. The Board shall nevertheless review the structure from time to time to ensure appropriate move being taken should suitable circumstances arise.

### Code provisions A.4.1

This code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

The non-executive and independent non-executive directors of the Company are not appointed for a specific term but they are subject to retirement by rotation and re-election at the annual general meeting of the Company.

# CORPORATE GOVERNANCE REPORT (Continued)

## **CORPORATE GOVERNANCE** *(Continued)*

### **Code Provision A.4.2**

This code stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Under the present Bye-laws of the Company ("Bye-laws"), directors who are appointed to fill a casual vacancy only required to be re-elected at the next annual general meeting. Moreover, the chairman of the Board and/or the managing director of the Company are not subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. These constitute deviation from the code provision A.4.2 of the Code.

## **THE BOARD OF DIRECTORS**

### **Responsibilities**

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic, decisions and performances. The senior management was delegated the authority and responsibilities by the Board of the day-to-day management and operations of the Group. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management.

All directors have full and timely access to all relevant information in relation to the Company as well as the advice and services of the Company Secretary, if and when required, with a view ensuring that the Board procedures and all applicable rules and regulations are followed.

There are established procedures for directors to seek independent professional advice for them to discharge their duties and responsibilities, where appropriate at the Company's expenses.

### **Composition**

The Board currently comprises two executive directors, two non-executive directors and three independent non-executive directors from different business and professional fields. The directors, including non-executive directors and independent non-executive directors, have brought a wide spectrum of valuable business and professional expertise, experiences and independent judgement to the Board for its efficient and effective delivery of the Board function.

# CORPORATE GOVERNANCE REPORT (Continued)

## THE BOARD OF DIRECTORS (Continued)

### Composition (Continued)

The Board of the Company comprises the following directors:

#### *Executive Directors:*

Mr. Wu Jian Feng

Mr. Zhang Cheng Jie

#### *Non-executive Directors:*

Mr. Chan Chi Yuen

Mr. Chan Chung Yin, Victor

#### *Independent non-executive Directors:*

Mr. Fung Chi Kin *(Chairman of Remuneration Committee and member of Audit Committee)*

Mr. Qian Zhi Hui *(Member of Audit and Remuneration Committee)*

Mr. Chiu Wai On *(Chairman of Audit Committee and member of Remuneration Committee)*

The profiles of each director are set out in the "Biographical Details of Directors" section in this Annual Report.

Due to the resignation of Mr. Law Fei Shing, Mr. Tse On Po, Vincent and Ms. Ho Pui Man, the Company had only appointed two independent non-executive directors and audit committee members, Mr. Fung Chi Kin and Mr. Qian Zhi Hui on 25 October 2006. Thereafter, Mr. Chiu Wai On was appointed as an independent non-executive director and audit committee member with effect from 6 November 2006. Except for this the Board had met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one professional qualification, or accounting or related financial management expertise during the nine months ended 31 December 2006.

The Company has received written annual confirmation from each independent non-executive director of their independence pursuant to the requirements of Rules 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independence in accordance with the independence guidelines set out in the Listing Rules.

### Induction for Directors

Each newly appointed director will receive comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has proper understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary. The directors are continually updated with legal and regulatory developments, and business and market changes to facilitate the discharge of the responsibilities.

# CORPORATE GOVERNANCE REPORT (Continued)

## **THE BOARD OF DIRECTORS** (Continued)

### **Board and Board Committee Meetings**

#### *Number of Meetings and Directors' Attendance*

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The Board met 3 times during the nine months ended 31 December 2006.

#### Practices and Conduct of Meetings

Notices of regular Board meetings are served to all directors at least 14 days before the meetings while reasonable notice is generally given for other Board meetings. For committee meetings, notices are served in accordance with the required notice period stated in the relevant terms of reference.

Agenda and Board papers together with all appropriate, complete and reliable information are normally sent to all directors before each Board meeting to keep the directors apprised to the latest developments and financial position of the Company and to enable them to make informed decisions. All directors are given the opportunity to include matters in the agenda for regular Board meetings. The Board and each director also have separate and independent access to senior management whenever necessary.

Minutes of all Board meetings sufficient details of matters considered and decisions reached are kept by the secretary of the meetings are open for inspection by the directors.

# CORPORATE GOVERNANCE REPORT (Continued)

## THE BOARD OF DIRECTORS (Continued)

### Board and Board Committee Meetings (Continued)

#### Number of Meetings and Directors' Attendance (Continued)

#### Practices and Conduct of Meetings (Continued)

The attendance of individual members of the Board and other Board Committees meetings during the nine months ended 31 December 2006 is set out in the table below:

Name of Directors	Full Board	Meetings attended/held		AGM
		Executive Board**	Audit Committee	
<i>Executive directors</i>				
Mr. Wu Jian Feng (Appointed on 25 October 2006)	2/3	7/14	N/A	0/1
Mr. Zhang Cheng Jie (Appointed on 25 October 2006)	2/3	7/14	N/A	0/1
Mr. Liu Ji Cheng (Resigned on 10 May 2006)	0/3	2/14	N/A	0/1
Mr. Lam Kwan Sing (Resigned on 25 October 2006)	1/3	7/14	N/A	1/1
<i>Non-executive director</i>				
Mr. Chan Chi Yuen (Appointed as chairman and executive director on 10 May 2006 and redesignated on 25 October 2006)	3/3	5/14	N/A	1/1
Mr. Chan Chung Yin, Victor (Appointed on 25 October 2006)	2/3	N/A	N/A	0/1
Ms. Huang Ning (Resigned on 10 May 2006)	0/3	N/A	N/A	0/1
<i>Independent non-executive directors</i>				
Mr. Fung Chi Kin (Appointed on 25 October 2006)	2/3	N/A	1/2	0/1
Mr. Qian Zhi Hui (Appointed on 25 October 2006)	2/3	N/A	1/2	0/1
Mr. Chui Wai On (Appointed on 6 November 2006)	2/3	N/A	1/2	0/1
Ms. Ho Pui Man (Resigned on 25 October 2006)	1/3	N/A	1/2	1/1
Mr. Tse On Po, Vincent (Resigned on 25 October 2006)	1/3	N/A	1/2	1/1
Mr. Law Fei Shing (Resigned on 25 October 2006)	1/3	N/A	1/2	1/1

\*\* comprises all executive directors of the Company

# CORPORATE GOVERNANCE REPORT (Continued)

## **THE BOARD OF DIRECTORS** (Continued)

### **Board and Board Committee Meetings** (Continued)

#### *Board Committees*

The Board has established 3 committees namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference.

The majority of the members of each Board committees are independent non-executive directors. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

#### *Remuneration Committee*

The Remuneration Committee comprises three independent non-executive directors of the Company, namely Mr. Fung Chi Kin, Mr. Qian Zhi Hui and Mr. Chiu Wai On. Mr. Fung Chi Kin is the Chairman of the Remuneration Committee.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/ her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee did not hold any committee meeting during the nine months ended 31 December 2006.

#### *Audit Committee*

Pursuant to the requirements of the Corporate Governance Code and Listing Rule 3.21, the Company has established an Audit Committee, comprising three independent non-executive directors of the Company, namely Mr. Fung Chi Kin, Mr. Qian Zhi Hui and Mr. Chiu Wai On. Mr. Chiu Wai On is the chairman of the Audit Committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the followings:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor (if any) or external auditors before submission to the Board.

# CORPORATE GOVERNANCE REPORT (Continued)

## THE BOARD OF DIRECTORS (Continued)

### Board and Board Committee Meetings (Continued)

#### *Audit Committee (Continued)*

- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of management, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the nine months ended 31 December 2006 to review the financial results and report of the Company.

#### *Nomination Committee*

The Nomination Committee comprises three independent non-executive directors of the Company, namely Mr. Fung Chi Kin, Mr. Qian Zhi Hui and Mr. Chiu Wai On. Mr. Fung Chi Kin is the chairman of the Nomination Committee.

The main duties of the Nomination Committee include the followings:

- (a) To review the criteria and procedures of selection of directors and senior management members, and provide suggestions;
- (b) To conduct extensive search for qualified candidates of directors and senior management members; and
- (c) To access the candidates for directors and senior management members and provide the relevant recommendations.

The Nomination Committee did not hold any committee meeting during the nine months ended 31 December 2006.

## MODEL CODE FOR 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 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the nine months ended 31 December 2006.

The Company also has adopted a code of conduct governing securities transactions by employees who may possess or have access to price sensitive information.

# CORPORATE GOVERNANCE REPORT (Continued)

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Group and have adopted the accounting principles generally accepted in Hong Kong and compiled with the requirements of Hong Kong Financial Reporting Standards which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. As at 31 December 2006 directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going-concern basis.

The reporting responsibilities of the Company's independent auditors are set out in the Report of Auditors on page 24 to 25.

## AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services for the nine months ended 31 December 2006 amounted to HK\$350,000.

There was no non-audit service rendered to the Company by its external auditors during the year under review.

## INVESTOR RELATIONS AND COMMUNICATIONS

To promote the relationship between the Company and investor and to enhance the transparency of the operation of the enterprise, the Board is committed to providing clear and updated information on the Company to shareholders through the publication of notices, circulars, interim and annual reports to shareholders.

## INTERNAL CONTROL

The Board, recognizing its overall responsibility in ensuring the system of internal controls of the Company and for reviewing its effectiveness, is committed to implementing an effective and sound internal controls system to safeguard the interests of shareholders and the assets of the Group.

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

The management is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.

During the period under review, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system and all material controls including financial, operational, compliance controls and risk management functions.

The Board reviews the effectiveness of the Group's material internal controls. Based on the information furnished to it and on its own observations, the Board is satisfied with present internal controls of the Group.

The Board is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature, and complexity of the Group's business. The situation will be review from time to time.