

Report of The Corporate Governance

Overview

The directors of the Company are committed to achieving and maintaining high standards of corporate governance to ensure that all decisions are made in good faith, in the best interest of shareholders and in long-term shareholders value.

The corporate governance standards of the Company are built on the principles of independence, accountability, transparency and fairness. The Company has complied with the code provision set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") which was in force prior to 1 January 2005.

1. Corporate Governance Practice

- (a) With respect to the compliance with paragraph A of the Code, the Company has carried out the following corporate governance practices:

The Company has held forty-one Board meetings in the year of 2006. Directors have been consulted to advise the agenda of the Board meetings. Sufficient notice of the Board meeting has been given to the Directors. Directors may attend meetings in person or through other means of telephone, electronic or other communication facilities in accordance with the Company's Articles of Association. Minutes of the Board and the Board Committees are recorded in sufficient details and kept by the company secretary for inspection at any reasonable time on reasonable notice by any Director. Directors were supplied with adequate and relevant information in a timely manner to enable them forming decision in the relevant meetings. The composition of the Board is shown on page 17 of this report. At every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation provided that every Directors, including those appointed for a specific term shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election to fill a casual vacancy until the next general meeting or the next annual general meeting. Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company. Details of the Directors attendance in different meetings are set out on page 18 of this report. Agreed procedures are in place providing to the member of the Board and/or committee to seek independent professional advice at the Company's expenses to assist them to discharge their duties.

For other details of the responsibilities of Directors, please refer to the section "Board of Directors".

- (b) With respect to the compliance with paragraph B of the Code, the Company has established a remuneration committee with specific written terms of reference, details of which are set out on pages 19 to 20 of this report.
- (c) With respect to the compliance with paragraph C of the Code, the Company has carried out the following corporate governance practices:

Management has provided sufficient explanation and information to the Board as will enable the Board to make an informed assessment of financial and other information put before the Board for approval. The Company has announced the annual report of 2006 on 25 April 2007. A statement by the auditors



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about their reporting responsibilities is included in the Report of the Auditors on page 32 of this annual report. The details of the internal controls of the Company and the audit committee are set out under the section "Internal Control and Audit Committee".

Internal Control and Internal Audit

The Board acknowledges its responsibility in maintaining sound and effective internal control system for the Group to safeguard investments of the shareholders and assets of the Company at all times. The system of internal controls aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of the system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought. Management has conducted regular reviews during the year on the effectiveness of the internal control system covering all material controls in area of financial, operational and compliance controls, various functions for risks management as well as physical and information systems security. The Financial Controller ("FC") has reported to the Audit Committee from time to time during the year, in conjunction with key findings identified by the external auditors, findings and actions or measures taken in addressing those internal controls. The Audit Committee in turn reports any material issues to the Board. The Board, through the Audit Committee, also sets targets for and reviews plan and progress on continuous improvement work of the Company's internal control system with the FC on a periodic basis.

- (d) With respect to the compliance with paragraph D of the Code, the Company has carried out the following corporate governance practices:

When the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstance where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The Company has set up three committees, for details please refer to the relevant sections below.

- (e) With respect to the compliance with paragraph E of the Code, the Chairman of the Company and the Chairmen of the audit and remuneration committees were attend in the annual general meeting to answer questions at the general meetings. The procedures for demanding a poll by the shareholders were incorporated in every circular issued during the financial year ended 31 December 2006.

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- (f) Pursuant to A4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election while all directors should be subject to retirement by rotation at least once every three years.

Under the period of review, non-executive directors of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meetings of the Company in line with the Company's Articles of Association. As such, the Company 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.

2. Directors' Securities Transaction

The Company has adopted the full set of Model Code set out in Appendix 10 of the Listing Rules as the code of the conduct for securities transactions by directors (the "Model Code"). The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are privy to price sensitive information of the Group. Having made specific enquiry of all directors, the Board confirms that the director of the Company have complied with the Model Code regarding directors' securities transactions during the year and up to the date of publication of the Annual Report.

3. Board of Directors

- (a) The Board comprises a total of twelve members including seven executive directors, two non-executive directors and three independent non-executive directors. Members of the Board have different professional and relevant industry experiences and background so as to bring in valuable contributions and advices for the development of the Group's business. One-fourth Directors are independent non-executive directors and two of them are qualified accountants.
- (b) The Company has received written confirmation from each independent non-executive director of their independence to the Group. The Group considered all of Independent Non-Executive Directors meets the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines. The names of the directors and their respective biographies are set out on pages 12 to 13 of this annual report.

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- (c) The Board holds meetings on a regular basis and will meet on other occasions when a board-level decision on a particular matter is required. The Board also monitors and controls financial performance in pursuit of the Group's strategic objectives. The names of the directors during the financial year and their individual attendance of is set out below:

| Name | Attendance/Numbers of Meetings entitle to attend | | |
|---|---|--------------------|---------------------------|
| | Board | Audit Committee | Remuneration Committee |
| <i>Total numbers of meetings held during the year of 2006</i> | 41 | 2 | 3 |
| Executives: | | | |
| Mr. Wang Chia Chin (<i>Chairman</i>) | 34/41 | 1/2 | N/A |
| Mr. Chen Ho Fa (Resigned on 1 June 2006) | 6/6 | 1/2 | N/A |
| Mr. Wu Chi Lok (Resigned on 16 January 2007) | 28/41 | 1/2 | 2/3 |
| Mr. Wong Chong Fai, William (Resigned on 4 October 2006) | 16/20 | N/A | N/A |
| Mr. Yeung Tsz Keung, Jackey (Resigned on 6 June 2006) | 5/12 | N/A | N/A |
| Mr. Luk Chi Shing (Appointed on 6 June 2006 and resigned on 14 November 2006) | 21/21 | N/A | N/A |
| Mr. Sze Chun Ning, Vincent (<i>Deputy Managing Director</i>) (Appointed on 23 June 2006) | 28/28 | N/A | N/A |
| Mr. Shi De Mao (Appointed on 10 August 2006) | 22/25 | N/A | N/A |
| Mr. Zhong Wen Sheng (<i>Managing Director</i>) (Appointed on 28 November 2006) | 7/7 | N/A | N/A |
| Mr. Wang Xiao Bo (<i>Deputy Chairman</i>) (Appointed on 5 December 2006) | 4/5 | N/A | N/A |
| Ms. Chu Yin Yin, Georgiana (Appointed on 12 October 2006) | 19/19 | N/A | N/A |
| Mr. Liu Bai Yue (<i>Chief Operating Officer</i>) (Appointed on 8 January 2007) | N/A | N/A | N/A |
| Non-Executives: | | | |
| Mr. Huang Yuan Wen (Appointed on 9 November 2006) | 10/12 | N/A | N/A |
| Mr. Pan Shi Ying (Appointed on 9 November 2006) | 10/12 | N/A | N/A |
| Independent Non-Executives: | | | |
| Mr. Lien Wai Hung (Appointed on 8 May 2006 and resigned on 15 September 2006) | 2/16 | N/A | 2/3 |
| Mr. Lee Hung Sang (Appointed on 12 May 2006 and resigned on 10 October 2006) | 4/21 | N/A | N/A |
| Mr. Chan But Leung (Resigned on 6 June 2006) | 8/11 | 1/2 | 3/3 |
| Mr. Shum Po Cheung (Resigned on 8 May 2006) | 5/9 | 1/2 | 1/3 |
| Mr. Chang Kin Man (Appointed on 6 June 2006) | 25/29 | 1/2 | 1/3 |
| Mr. Wu Tak Lung (Appointed on 23 June 2006) | 2/27 | 0 | 0 |
| Mr. Gu Wen Xuan (Appointed on 9 November 2006) | 10/12 | 0 | N/A |
| Mr. Lui Nam Kit (Resigned on 15 September 2006) | 5/9 | N/A | N/A |

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- (d) The Board is responsible for the leadership and control of the Company, oversee the Group's businesses and evaluate the performance of the Group. The Board also focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.
- (e) The Board delegates day-to-day operations of the Group to Executive Directors and senior management, while reserving certain key matters for its approval. When the Board delegates aspects of its management and administration functions to Management, it has given clear directions as to the powers of the Management, in particular, with respect to the circumstances where Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

4. Chairman and Chief Executive Officer

- (a) The position of the Chairman and Chief Executive Officer is held by Mr. Wang Chia Chin and Mr. Zhong Wen Sheng respectively. Mr. Wang Chia Chin is the founder of the Company and was appointed as a Chairman since the incorporation of Company. Mr. Zhong Wen Sheng was appointed as the Managing Director of the Company on 28th November 2006 but his role and function are same as the Chief Executive Officer of which are mainly in charge of the Company's day-to-day management and operations and set up long-term business objectives. They play different and distinctive roles, their responsibilities are clearly defined and as set out in the Guidance notes of the separation of roles of the Chairman and Chief Executive Officer under the Code on Corporate Governance Practices of the Company adopted on 28 November 2006.
- (b) The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at board meeting.
- (c) The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. He is also responsible for developing strategic plans and formulating the company practices and procedures, business objectives, and risk assessment for the Board's approval.

5. Non-executive Directors

The Board appointed two directors namely Mr. Huang Yuan Wen and Mr. Pan Shi Ying, as Non-executive Directors on 9 November 2006. They are subject to retirement by rotation and eligible for re-election in annual general meeting in accordance with the articles of association of the Company.

6. Remuneration of Directors

- (a) The Company has established a remuneration committee since 29 June 2005 with written terms of reference in consistence with the Corporate Governance Code. The primary duties of the remuneration committee include the following:
 - i. To make recommendation to the board on the Company's policy and structure for all remuneration of directors and senior management;



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- ii. To determine the remuneration packages of executive directors and senior management, according to the major scope, responsibilities and duties, importance of position of the directors and the senior management as well as the remuneration level of the related position in the market, including benefit in kind, pension rights and compensation payments which include compensation payable for loss or termination of their office or appointment.
 - iii. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time.
 - iv. 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 to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not exercise for the Company.
 - v. To ensuring that no director or any of his associates shall be involved in any decisions as to their own remuneration.
 - vi. To advising shareholders on how to vote with respect to any service contracts of directors that require shareholders' approval under the Listing Rules.
- (b) During the year under review, the members of remuneration committee comprised Mr. Chang Kin Man (Independent Non-executive Director) who act as Chairman of the remuneration committee, Mr. Wu Tak Lung (Independent Non-executive Director) and Mr. Wu Chi Lok (Executive Director).
- (c) The number of remuneration committee meeting held during the year and record of individual attendance of members, on a named basis, at meetings held during was set out in section headed "Board of Directors" above.
- (d) The emolument policy of the employees of the Group was set up by the Remuneration Committee on the basis of their merit, qualification and competence.
- (e) The emolument of the directors of the Company are determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.
- (f) Further details on the emolument policy and basis of determining the emolument payable to the Directors are set out from pages 54 to 56 of this annual report.
- (g) The Group's stock option scheme as described on pages 74 to 75 of this annual report is adopted as the Group's long-term incentive scheme.

7. Nomination of Directors

The Company does not have a nomination committee, and the power to nominate or appoint additional directors is vested in the Board according to the articles of association of the Company, in addition to the power of the shareholders to nominate any person to become a director of the Company in accordance with the articles of association of the Company.

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The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically follow the articles of association which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The Directors will select and evaluate the balance the skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The Directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

The Board appointed eleven directors to fill the casual vacancies to meet the business strategies for the future business development of the Company. The newly appointed directors during the year of 2006 are shown in section headed "Board of Directors" above.

8. Auditors' remuneration

For the financial year, SHINEWING (HK) CPA Limited, the auditors of the Company, received approximately HK\$580,000 in respect of audit service provided to the Group. The auditors' remuneration has been duly approved by the audit committee and there was no disagreement between the Board and the audit committee on the selection and appointment of auditor. In order to maintain its independence, apart from the provision of annual audit services, this firm does not take on non-audit assignments.

9. Audit Committee

- (a) The audit committee of the Company comprises three independent non-executive directors, namely Mr. Chang Kin Man (Chairman of the Audit Committee), Mr. Wu Tak Lung and Mr. Gu Wen Xuan. Mr. Chang and Mr. Wu both are certified public accountants for many years. In the opinion of the Board, they have sufficient financial management expertise to discharge their duties.
- (b) In 2006, the Audit Committee had convened two meetings. The number of audit committee meetings held during the year and record of individual attendance of members, on a named basis, at meetings held during was set out in section headed "Board of Directors" above.
- (c) The audit committee is delegated by the Board to assess matters related to the financial statements of accounts and to provide recommendations and advices, including but not limited to the followings:
 - i. to consider the appointment of the external auditors, the audit fees, and any questions of their resignation or dismissal;
 - ii. to discuss with the external auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
 - iii. to review, in draft form, the Company's annual report and accounts, Interim report and to provide advice and comment thereon to the Board;
 - iv. to review external auditors' management letter and management's response;



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- v. to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
 - vi. to consider the major findings of internal investigations and management's response;
 - vii. to review compliance with regulatory and legal requirements by the Company;
 - viii. to discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of the executive Board members and/or the management of the Company where necessary);
 - ix. to review the Company's statement on internal control systems prior to endorsement by the Board;
 - x. to consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant or auditors;
- (d) in addition to the above tasks regarding to the Company's financial statement, Committee should also to consider any other matters, as defined by the Board from time to time; and to conduct interviews with any Director, manager, financial controller upon their resignation in order to ascertain the reasons for his departure;
- (e) The Board acknowledges its responsibility in maintaining sound and effective internal control system for the Group to safeguard investments of the shareholders and assets of the Company at all times.
- (f) The Group's annual report for the year ended 31 December 2006 has been reviewed by the Audit Committee.

10. Shareholder Rights and Investor Relations

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's articles of association. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Stock Exchange and published in the newspaper.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Audit Committee and Remuneration Committee, or in their absence, other members of the respective committees, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with investors and analysis to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.