

## Corporate Governance Practices

The Company is committed to the overall standards of corporate governance. The board of Directors has adopted the principles and complied all the applicable provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2006 except for deviation from provisions A.4.1 and A.2.1 of the Code. Provision A.4.1 stipulates that non-executive directors should be appointed for specific term, subject to re-election. None of the existing Independent Non-executive Directors ("INEDs") of the Company is appointed for specific term and this constitutes a deviation. However, all Directors are subject to retirement by rotation and re-election at the annual general meeting at least once for every three years. In the opinion of the Directors, this meets the same objectives and is no less exacting than those in the Code.

Mr. Ni Xinguang temporarily took up the role and duties as Managing Director in addition to his role of being the Chairman of the Company after the resignation of Mr. Ha Shu Tong as Executive Director and Managing Director of the Company it derives from provision A.2.1 of the Code. The Company is currently looking for suitable candidate to fill up the vacancy of the position of Managing Director.

## Board of Directors

### Functions and role

The Board has overall responsibility in formulating the strategic development of the Group, monitoring and controlling the Company's operation and financial performance.

All the Directors are appointed and are then subject to rotation for re-appointment at the annual general meeting. Each Director is subject to retirement by rotation at least once every three years. Appropriate and sufficient information was provided to each of the Directors to keep abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

The INEDs are expressly identified in all corporate communications such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed. Each of the INEDs has filed an annual confirmation to the Company confirming their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors meet the independent guideline set out in Rule 3.13 of the Listing Rules and are independent. Each of the INEDs was remunerated at HK\$120,000 per annum.

To the best knowledge of the Company, there is no financial, business, family relationship among the members of the Board as at 31 December 2006. All of them are free to exercise their individual judgment.



## Corporate Governance Report

### Composition

The Board comprises five Directors, of which two are Executive Directors and three are INEDs. One of the three INEDs possesses appropriate professional accounting qualifications and financial management expertise, which complies with the requirement of the Listing Rules. The Director's respective biographical information is set out in this annual report under the heading "Directors' Profiles" and the names of current directors on board and their positions are as follows:

<b>Name of directors</b>	<b>Position</b>
<i>Executive directors</i>	
Mr. Ni Xinguang	Chairman and Managing Director
Mr. Wang Zhiming*	Executive Director
<i>Independent Non-executive directors</i>	
Mr. Chan Wai Sum	Independent Non-executive Director
Mr. Ho Wai Ip**	Independent Non-executive Director
Mr. Lu Wei	Independent Non-executive Director

\* appointed on 18 November 2006

\*\* appointed on 3 April 2007

The Board held 9 Board meetings during the financial year ended 31 December 2006. Appropriate and sufficient information was provided to the Board in a timely manner for their review before the meetings. Attendance of individual Directors at Board meetings is set out in the section of "Directors Attendance at Board, Audit Committee and Remuneration Committee Meetings in 2006".

### Chairman and Managing Director

Originally, the Chairman and Managing Director of the Company were Mr. Ni Xinguang and Mr. Ha Shu Tong, respectively. After Mr. Ha Shu Tong resigned from his roles of Executive Director and Managing Director, on 17 January 2006, the Chairman assumes the role of Managing Director on a temporary basis until the vacancy can be filled. This constitutes a deviation from provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be the same individual.

Mr. Ni Xinguang is mainly responsible for leadership of the Board, and overseeing the business development of the Company and its subsidiaries including strategic and corporate development. The Board does not consider that this structure will impair the balance of power and authority between the Board and the management of the Company given there is a division of responsibility for the individual business operation of the Group. Nevertheless, the Company is actively seeking a replacement to fill in the position of Managing Director who would be responsible for the day to day operation and management of the Group.

### Board Practices

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies and policies; approval of annual budgets and business plans; evaluating the performance of the Group; and oversight of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary. With the support of executive directors and the Company Secretary, the Chairman seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. Nine Board meetings were held during the year for facilitating the function of the Board. The Board believes that the nine Board meetings held during the financial year were adequate to cover all major issues during the year. In any event all directors were available for consultation by management from time to time during the year.

Management is responsible for the day-to-day operations of the Group under the leadership of the Managing Director. The Managing Director, working with the other executive directors and management team is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group. All directors have made full and active contribution to the affairs of the Board and the Board always acts in the best interests of the Group. Apart from the regular Board meetings, the Chairman may hold meetings with the INEDs without the presence of executive directors.

In order to ensure that the Board is able to fulfill its responsibilities, the Board has established and delegated specific responsibilities to the Audit Committee and Remuneration Committee. The details of the committees are stipulated on page 21 of this report.

Sufficient formal notice of every regular board meeting is given to all directors to give them the opportunity to attend Board papers are circulated not less than three days before the Board meetings to enable the directors to make informed decisions on matters to be raised at the Board meetings. The company secretary and qualified accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors shall have full access to information on the Group and are able to seek independent professional advice whenever deemed necessary by the directors. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the directors and officers of the Group from their risk exposure arising from the businesses of the Group.



## Corporate Governance Report

The Company Secretary is responsible to the Board for ensuring that board procedures are followed and for ensuring that the Board is fully briefed on all legislative, regulatory and corporate governance developments and that it has regard to them when making decisions. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

### Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. With the assistance of the Qualified Accountant of the Company, the Directors also ensure the publication of the financial statements of the Group in a timely manner.

The report of the external auditors of the Company, RSM Nelson Wheeler, with regard to their reporting responsibilities on the Company's financial statements is set out in the Independent Auditor's Report on pages 25 and 26.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

### Director Nomination Procedures

The Company has not set up a Nomination Committee yet. According to the Articles of Association of the Company, the Board has the power from time to time and at any time to appoint any person as a Director either to fill a causal vacancy or as an addition to the Board. The current nomination procedures for appointment of new directors would normally take into consideration of the candidates' past experience, qualifications and any other factors, if any, which are relevant to the Company's business. Then, short listed candidates with their profiles would be brought to the Board before meeting for consideration as soon as it is practicable.

### Directors' 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 of the Listing Rules for securities transactions by Directors of the Company in 2006. All the Directors of the board have confirmed, following specific enquiry has made by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2006.

### Audit Committee

#### Composition

The Company has established an Audit Committee since 1999. Written terms of reference is formulated and continuously updated in accordance with the requirements of the Listing Rules. The Audit Committee consists of all three INEDs and was chaired by Mr. Tang Chi Wing. After the resignation of Mr. Tang Chi Wing on 3 April 2007, Mr. Ho Wai Ip replaced as Chairman of the Audit Committee. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The Audit Committee meets twice a year on a half year basis, or more frequently as if require. Two Audit Committee meetings were held during the year and the record of attendance of individual member is listed out on page 22.

#### Functions and Role

The primary functions of the Audit Committee are, inter alia, to assist the Board in fulfilling its oversight responsibilities with respect to relationship with external auditors including review and approve audit engagements fees, terms and all non-audit engagements; to review and ensure the independence and objectivity of the auditors; to review the annual and interim report and other financial information provided by the Company to its shareholders, the public and others and matters within the scope of the terms of reference.

The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with the management on the internal controls and financial reporting matters for the year ended 2006.

### Remuneration Committee

#### Functions and Role

The primary objectives of the Remuneration Committee include determining the remuneration policy and structure and remuneration packages of the Directors and the senior management and making recommendations to the Board, and other related matters.

The Remuneration Committee is responsible for establishing transparent procedures for developing such remuneration policy and structure which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Executive Directors are responsible for reviewing the market conditions, time commitment, responsibilities, performance of individuals and any other relevant information and propose to the Remuneration Committee for consideration and approval. No Executive Director can determine his own remuneration.



## Corporate Governance Report

### Composition

The Remuneration Committee consists of all three INEDs and is chaired by Mr. Chan Wai Sum. The Remuneration Committee meets at least once a year. The Remuneration Committee held a meeting during the year and reviewed the existing remuneration policy and structure of the Company. The record of attendance of individual member is listed below:

### Directors Attendance at Board, Audit Committee and Remuneration Committee Meetings in 2006

Directors	Attendance/Number of Meetings Held		
	Board	Audit Committee	Remuneration Committee
<i>Executive Directors:</i>			
Ni Xinguang	9/9	N/A	N/A
Ha Shu Tong*	0/9	N/A	N/A
Ng Chun Chuen, David*	9/9	N/A	1/1
Wang Zhiming*	0/9	N/A	N/A
<i>Independent Non-executive Directors:</i>			
Chan Wai Sum	9/9	2/2	1/1
Tang Chi Wing**	9/9	2/2	1/1
Ho Wai Ip**	0/9	0/2	0/1
Lu Wei	5/9	1/2	0/1

\* Mr. Ha and Mr. Ng resigned as the Company's Executive Directors on 17 January 2006 and 30 December 2006 respectively. Mr. Wang was appointed as Executive Director on 18 November 2006.

\*\*Mr. Tang Chi Wing resigned as the Company's INED on 3 April 2007 and Mr. Ho Wai Ip was appointed as the Company's INED on 3 April 2007.

### Auditors' Remuneration

During the year, the fees paid or payable to external auditors of the Company, RSM Nelson Wheeler were approximately HK\$900,000 and HK\$32,000 for statutory audit services rendered and non-audit services rendered (including disbursement fees) to the Group respectively.

### Internal Controls and Risks Management

The Board has overall responsibilities for introducing and continuously maintaining sound and effective internal controls system of the Groups and review its effectiveness. It is committed to review and implement an effective and sound internal controls system of the Group to safeguard the shareholders' interests. The Board has delegated to the management with defined structure and limits of authority, to conduct reviews on and maintenance of all material controls including proper financial and accounting records, operational and compliance and risk management functions as well as the implementation of the system of internal controls to ensure the compliance with relevant legislation and regulations.

The internal control system will be reviewed on an ongoing basis by the Board in order to make it practical and effective.

### Investor Relationship and Communication

The Company endeavors to maintain good investor relationship with shareholders and potential investors by way of annual general meeting, publication of interim and annual reports, and timely press releases on newspaper.

Shareholders are encouraged to attend the annual general meetings for which a notice would be served with at least 21 days period. The Chairman and/or Directors are available to answer questions on the Group's business at the meetings. At general meetings, separate resolutions are proposed on each substantially separate issue such as the election of individual directors and re-appointment of auditors.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in a circular to shareholders accompanied this annual report. The circular also includes relevant details on proposed resolutions, and biographies of each candidates standing for re-election.