

## COMMITMENT TO CORPORATE GOVERNANCE

The Company is firmly committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness. The board ("Board") of directors ("Directors") of the Company ensures that effective self-regulatory practices exist to protect the interests of the shareholders of the Company.

The Company has complied with the Code Provisions under the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2006 (the "year under review"), save for the deviations discussed below. The following sections set out a discussion of the corporate governance practices adopted and observed by the Company, including any deviations therefrom, during the year under review.

### A. 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 to the Listing Rules as its own securities dealing code for the Directors. All the Directors confirmed, upon specific enquiry made by the Company on them, that they had complied with the required standard set out in the Model Code regarding their securities transactions.

### B. Board of Directors

#### (i) Board composition

The Board currently comprises a combination of executive Directors and independent non-executive Directors. As at 31 December 2006, the Board consisted the following Directors:

#### Executive Directors

Mr. Yip Wai Leung Jerry (*Chairman*)

Mr. Ming Kar Fook Charles

#### Independent non-executive Directors

Mr. Chan Kai Yung Ronney

Mr. So Yin Wai

Ms. Zhu You Chun

Mr. Tam Jin Rong, Mr. Tam Kai On and Mr. Tao Ke Wei, the executive Directors resigned on 24 March 2006, and Mr. Huang Shou Deng, Mr. Lau Kwok Wah and Mr. Tsui Wing Tak, the independent non-executive Directors also resigned on 24 March 2006. Mr. Zhou Yaoming, the independent non-executive Director who was appointed on 2 March 2006 and resigned on 5 June 2006. Mr. Chan Kai Yung Ronney was appointed as the independent non-executive Director on 5 June 2006.

# Corporate Governance Report

## B. Board of Directors (Continued)

### (i) Board composition (Continued)

Schedules of matters reserved for the Board include:

- To formulate overall strategy of the Company and its subsidiaries (the “Group”)
- To monitor its financial performance and maintains effective oversight over the management
- To control and approve transactions which are extraordinary and significant to the Group as a whole

### (ii) Board meetings and attendance record

The Company held nine meetings during the year under review. The attendance record of the Board meetings is as follows:

Members of the Board	Number of board meetings held during the director's term of office in 2006	Number of meeting(s) attended
Chairman		
Mr. Tam Jin Rong (Resigned on 24 March 2006)	4	4
Mr. Yip Wai Leung Jerry (Appointed on 2 March 2006)	5	5
Executive Directors		
Mr. Tam Kai On (Resigned on 24 March 2006)	4	4
Mr. Tao Ke Wei (Resigned on 24 March 2006)	4	4
Mr. Ming Kar Fook Charles (Appointed on 2 March 2006)	5	3
Independent non-executive Directors		
Mr. Huang Shou Deng (Resigned on 24 March 2006)	4	4
Mr. Lau Kwok Wah (Resigned on 24 March 2006)	4	4
Mr. Tsui Wing Tak (Resigned on 24 March 2006)	4	4
Ms. Zhu You Chun (Appointed on 2 March 2006)	5	3
Mr. So Yin Wai (Appointed on 2 March 2006)	5	5
Mr. Zhou Yaoming (Appointed on 2 March 2006 and resigned on 5 June 2006)	5	1
Mr. Chan Kai Yung Ronney (Appointed on 5 June 2006)	5	3

Code Provision A.1.3 of the CG Code stipulates that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meeting, reasonable notice should be given. During the year under review, all notices of regular Board meetings were issued to the Directors at least 14 days prior to the relevant Board meeting.

**B. Board of Directors (Continued)***(iii) Independent non-executive Directors*

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors during the year under review. All independent non-executive Directors brought their wealth of experience to the Board and made active contribution to the Group. They closely monitored the developments of the Group and freely expressed their opinions at board meetings. One of the independent non-executive Directors, Mr. So Yin Wai, graduated from Hong Kong Polytechnic University in 1986 and has been in the accounting profession for nearly 20 years. He is a member of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants. His accounting qualification satisfy the requirements of Rule 3.10(2) of the Listing Rules.

Code Provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term subject to re-election. However, the independent non-executive Directors for the year under review were not appointed for a specific term but were subject to the retirement and rotation requirements in accordance with the Company's Bye-laws. The Company believes that the fixing of directors' tenure by Bye-laws and the shareholders right to re-elect retiring directors serves to safeguard the long term interests of the Company and such provisions are not less exacting than those in the CG Code.

None of the independent non-executive Directors, has any business or financial interests with the Group and each of them has confirmed their independence to the Group pursuant to Rule 3.13 of the Listing Rules. Based on such confirmation, the Board considers that all independent non-executive Directors were independent.

*(iv) Relationship among members of the Board*

There is no relationship (including financial, business, family or other material/relevant relationships) among members of the Board. All of them are free to exercise their independent judgment.

**C. Chairman and chief executive officer**

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company did not segregate the role of the chairman and that of the chief executive officer. The role of the chief executive officer was performed by Mr. Yip Wai Leung Jerry, who was the then existing chairman of the Company during the year under review. The Board believes that vesting the roles of both chairman and chief executive officer 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.

The Board will periodically review the merits and demerits of such management structure and will adopt such appropriate measures as may be necessary in the future taking into consideration of the nature and extent of the Group's operation.

## Corporate Governance Report

### D. Remuneration of Directors

The Company established a remuneration committee on 21 December 2005 with written terms of reference in compliance with the CG Code. Members of the remuneration committee as at 31 December 2006 comprised Ms. Zhu You Chun, Mr. So Yin Wai and Mr. Chan Kai Yung Ronney. Mr. Chan Kai Yung Ronney is the chairman of the remuneration committee. All votes in the remuneration committee are exercisable by independent non-executive Directors. No Directors will be involved in any discussion in connection with his own remuneration.

The main duties of the remuneration committee are as follows:

- To determine the remuneration policy of the Group
- To determine the remuneration of executive Directors upon consultation with the Chairman regarding their proposals for such remuneration
- To review and approving all equity based plans
- To review the appropriateness and relevance of the remuneration policy
- To approve the performance related pay schemes operated by the Group
- To review all share incentive plans for approval by the Board
- To review annually and take note of the remuneration trends of the Group and obtain reliable and up-to-date information about remuneration packages of other closely comparable companies

It is the Company's policy that the remuneration package of each Director shall be determined by reference to their experience, qualification and the time expected to be devoted by them on the affairs of the Company.

The remuneration committee held one meeting during the year under review.

	Number of meetings held during the committee member's term of office in 2006	Number of meeting(s) attended
Mr. Chan Kai Yung Ronney	0	0
Mr. So Yin Wai	1	1
Mr. Zhou Yaoming (Appointed on 2 March 2006 and resigned on 5 June 2006)	1	1
Ms. Zhu You Chun	1	1

Mr. Zhou Yaoming ceased to be a member of the remuneration committee on 5 June 2006, and Mr. Chan Kai Yung Ronney was appointed as a member of remuneration committee on the same day.

The Company has adopted a share option scheme on 5 June 2006, which serves as an incentive to attract, reward and motivate eligible staff etc.

Details of the share option scheme are set out in note 29 to the financial statements.

**E. Nomination of Directors**

The Company established a nomination committee on 21 December 2005. Members of the nomination committee as at 31 December 2006 comprised Mr. Chan Kai Yung Ronney, Mr. Yip Wai Leung Jerry and Ms. Zhu You Chun. Ms. Zhu You Chun is the chairwoman of the nomination committee.

The nomination committee shall meet before the annual general meeting of the Company, or at other times as required by the chairman of the nomination committee.

The main duties of the nomination committee are as follows:

- To review the structure, size and composition of the Board regularly and to make recommendations to the Board with regard to any changes required
- To evaluate the balance of skills, knowledge and experience of the Board
- To identify and nominate any candidate for the Board's approval
- To make recommendations for the appointment and removal of the Chairman or any Director
- To make recommendations to the Board on the re-appointment of any non-executive Director at the conclusion of his specified term of office
- To report to the Board on its proceedings after each meeting.

The nomination committee has held one meeting during the year under review.

	Number of meetings held during the committee member's term of office in 2006	Number of meeting(s) attended
Mr. Chan Kai Yung Ronney	0	0
Mr. Yip Wai Leung Jerry	1	1
Mr. Zhou Yaoming (Appointed on 2 March 2006 and resigned on 5 June 2006)	1	1
Ms. Zhu You Chun	1	1

Mr. Zhou Yaoming ceased to be a member of the nomination committee on 5 June 2006, and Mr. Chan Kai Yung Ronney was appointed on 5 June 2006 as a member of the nomination committee.

The Group will consider the background, experience and qualification of any proposed candidates to ensure that the proposed candidates possess the requisite experience, characters and integrity to act as a Director of the Company.

## Corporate Governance Report

### F. Auditor's remuneration

The Audit Committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the remuneration paid to the Company's auditors, RSM Nelson Wheeler, is set out as follows:

Services rendered	Fees paid/payable
	HK\$
Audit services	680,000
Non-audit services	290,000
(including fee on statement of indebtedness and unaudited pro forma financial information on matters related to mandatory conditional cash offer and open offer during the year)	
	970,000

### G. Audit committee

As at 31 December 2006, the audit committee of the Company ("Audit Committee") comprised three independent non-executive Directors, namely Mr. Chan Kai Yung Ronney, Mr. So Yin Wai and Ms. Zhu You Chun. Mr. So Yin Wai is the chairman of the Audit Committee. Mr. So Yin Wai has the appropriate professional qualifications of accounting or related financial management expertise as required under Rule 3.21 of the Listing Rules for the purpose of such appointment.

Meetings of the Audit Committee are held not less than twice a year to review and discuss the interim and annual financial statements respectively. Additional meetings may also be held by the committee from time to time to discuss special projects or other issues which the Audit Committee considers necessary. The external auditors of the Group may request a meeting of the Audit Committee to be convened if they consider that it is necessary.

The main duties of the Audit Committee are as follows:

- To monitor the works of the external auditors
- To review the Group's interim and annual financial statements before submission to the Board
- To discuss problems and reservations arising from the interim and final audits and any matters that the external auditors may wish to discuss
- To review the Group's statement on internal control system prior to endorsement by the Board
- To consider the major findings of any internal investigation and the management's response
- To consider other topics, as defined by the Board

**G. Audit committee (Continued)**

The Audit Committee held two meetings during the year under review. The attendance record of the Audit Committee meetings for the year under review is as follows:

Members of the Audit Committee	Number of meetings held during the committee member's term of office in 2006	Number of meeting(s) attended
Mr. So Yin Wai	2	2
Mr. Zhou Youming (appointed on 2 March 2006 and resigned on 5 June 2006)	1	1
Ms. Zhu You Chun	2	1
Mr. Chan Kai Yung Ronney	1	1

Mr. Zhou Youming ceased to be a member of the Audit Committee on 5 June 2006, and Mr. Chan Kai Yung Ronney was appointed on 5 June 2006 as a member of the Audit Committee.

Throughout the year under review, the Audit Committee discharged its responsibilities by reviewing and discussing the financial results and internal control system of the Group.

**Internal Control:**

Pursuant to the CG Code, the Board should ensure that the Company maintain sound and effective internal controls to safeguard the shareholders' investment and the Company's asset.

The Board has reviewed the efficiency of the Group's internal control systems, including financial operation and compliance control and risk management procedure. The Company has not set up a specialised internal control department yet, but it has required its accounts department to specifically take up the responsibility of reviewing the internal control system of the Group. The Board believes that the Group is responsible to improve the internal control system continuously in order to give hand to the risk of the deficiency in the operating system, if any, with an aim to achieve the Group's objectives.

During the year under review, the Company complied with the code provisions C.2.1 of the CG Code. During the year under review, the Board conducted a full review of the effectiveness of the internal control system of the Group and discussed the assessment with the management.

**H. Directors' and auditor's acknowledgement**

The Directors acknowledge their responsibility for preparing the financial statements for the year under review.

The external auditors of the Company acknowledge their reporting responsibilities in the auditor's report on the financial statements for the year under review.

By order of the Board  
**Yip Wai Leung Jerry**  
Chairman

Hong Kong, 27 April 2007