

The Company recognises that good corporate governance standards maintained throughout the Group serve an effective risk management for the Company. The board of directors (the “Board”) of the Company is committed to lead the Group growing in an efficient manner followed by corporate missions in terms of business strategies and improved operational planning and procedures which are enforced under high corporate governance standard.

### CORPORATE GOVERNANCE PRACTICES

The Board believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. With effect from 1 July 2005, the Company has applied the principles and adopted code provisions set out in the Code on Corporate Governance Practices (the “Code on CGP”) in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as its own code on corporate governance practices. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

In the opinion of the Board, save as disclosed below, the Company has complied with the code provisions of the Code on CGP during the accounting year.

#### Code Provisions B.1.1 to B.1.4

During the year, the Company had not established a remuneration committee in view of the Company’s simple structure and low staff cost.

### DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors (the “Mode Code”). Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standards as set out in the Model Code during the year.

#### i. Board of Directors

The Board reviews and approves corporate matters such as business strategies and investments as well as the general administrative and management of the Group. The Board currently consists of 2 executive directors, 3 non-executive directors and 3 independent non-executive directors:

##### *Executive directors:*

Mr. Pong Po Lam, Paul  
Ms. Wang Wenxia, Wendy

##### *Non-executive directors:*

Mr. Lan Ning (*Chairman*)  
Mr. Ding Xiao Bin  
Dr. Chan Po Fun, Peter

##### *Independent non-executive directors:*

Mr. Zhang Yong  
Dr. Cheung Wai Bun, Charles  
Mr. Gu Qiu Rong

#### (a) *Chairman*

The Chairman of the Board is responsible for the leadership and effective running of the Board.

The number of independent non-executive directors equals to one third of the Board membership. One of the independent non-executive directors, namely Me. Gu Qiu Rong, has the appropriate professional accounting experiences and expertises. The Board membership is covered by professionally qualified and widely experienced personnel so as to bringing in valuable contribution and different professional advices and consultancy for the development of the Company. There is no relationship (including financial, business, family or other material relevant relationship) among members of the Board.

**DIRECTORS' SECURITIES TRANSACTIONS (Continued)****i. Board of Directors (Continued)****(b) Appointment and re-election of directors**

At each annual general meeting, one-third of the directors for the time being or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years.

All directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any director and member of Audit Committee of the Company may take independent professional advice if they so wish at the expense of the Company, as arranged by the Company Secretary.

Save for the board meetings held between the executive directors during the normal course of business of the Company, the Board has had regular board meetings in accordance with the Code on CGP. During the year, the Company held 12 board meetings.

Attendance of individual directors at regular board meetings in 2006:

Number of Board meetings:	12	
	<i>Number of Attendance</i>	<i>%</i>
Executive directors:		
Mr. Pong Po Lam, Paul	4	33%
Ms. Wang Wenxia, Wendy	12	100%
Non-executive directors:		
Mr. Lan Ning	9	75%
Mr. Ding Xiao Bin	10	83%
Dr. Chan Po Fun, Peter	2	17%
Independent non-executive directors:		
Mr. Zhang Yong	1	8%
Dr. Cheung Wai Bun, Charles	1	8%
Mr. Gu Qiu Rong	1	8%
		27%

**ii. Audit Committee**

The Audit Committee comprises three independent non-executive directors of the Company, who possess recognised professional qualifications in accounting and have proven experience in finance, property and accounting.

The functions of the Audit Committee includes but not limited to the following:

- Considering and reviewing the appointment, resignation and removal of external auditors and their fees
- Reviewing the interim and annual results of the Group
- Discussing with the external auditors problems and issues of significance during the annual audit of the Group

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants, and have been updated on terms no less exacting those set out in the Code on CGP. The said terms of reference is available at the registered office of the Company on request.

**DIRECTORS' SECURITIES TRANSACTIONS (Continued)****ii. Audit Committee (Continued)**

The works of the Audit Committee during the year under review included:

- Reviewed the 2006 interim results and annual results of the Group
- Discussed with the management of the Company over the completeness, fairness and adequate accounting standards and policies of the Group in the preparation of the 2006 interim and annual financial statements
- Reviewed and discussed with the external auditors over the financial reporting of the Company
- Reviewed and recommended for approval by the Board the 2006 audit scope and fees
- Considered and reviewed the resignation and appointment of external auditors
- Recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors
- Reviewed the connected transactions entered into by the Group during the year

The Audit Committee met two times in 2006. Each committee meeting was supplied with the necessary financial information of the Group for the members to consider, review and assess matters of significance arising from the work conducted.

Attendance of individual members of Audit Committee at audit committee meetings in 2006:

Number of Board meetings	2	
	<i>Number of Attendance</i>	<i>%</i>
Mr. Zhang Yong	2	100%
Dr. Cheung Wai Bun, Charles	2	100%
Mr. Gu Qiu Rong	2	100%
		100%

**iii. Remuneration Committee**

During the year, the Company had not established a remuneration committee in view of the Company's simple structure and low staff cost.

**iv. Remuneration policy**

The remuneration policy of the Company is to ensure that all employees, including directors, are sufficiently compensated for their efforts and time dedicated to the Company and remuneration offered is appropriate for their duties and in line with market practice.

### AUDITORS' REMUNERATION

During the year under review, the remunerations paid to the Company's auditors, CCID CPA Limited is set out as follows:

Services rendered	Fees paid/payable HK\$
CCIF CPA Limited	
– Audit Services	130,000
– review cashflow	50,000
	<u>180,000</u>

### CORPORATE COMMUNICATION

The Company channels corporate information of the Group to the shareholders in a timely and accurate manner. Printed copies of the Annual Report 2005 and Interim Report 2006 were sent to all shareholders.

The Company held an annual general meeting and two extraordinary general meeting in 2006. At the annual general meeting convened on 13 January 2006, separate resolutions were proposed for each issue. In addition to the ordinary business of the Company dealt with at the annual general meeting. The Chairman of the Board had attended the annual general meeting to answer questions at the annual general meeting. The Company had counted all proxy votes and indicated to the annual general meeting the level of proxies lodged on each resolution. All the votes cast at the annual general meeting were properly counted and recorded. At the extraordinary general meeting held on 18 November 2005, an ordinary resolution was passed in regard to the appointment of auditor. All the votes cast at the extraordinary general meeting were properly counted and recorded. Details of the appointment of auditor are disclosed in the circular dated 30 October 2005 of the Company. At the extraordinary general meeting held on 3 April 2006, special resolutions were passed in regard to (i) proposed change of domicile, (ii) reorganization of Share capital involving the Capital Reduction, the Capital Subdivision and the Cancellation of Share Premium Account, (iii) Adoption of the New Memorandum of Continuance and Bye-Laws; ordinary resolutions were passed in regard to (i) Proposed Subscription of New Shares by the Subscriber, (ii) Application for the Whitewash Waiver. The Chairman had explained at the commencement of the extraordinary general meeting the procedures for demanding a poll by shareholders of the Company and the procedures for conducting a poll. All the votes cast at the extraordinary general meeting were properly counted and recorded. Details of the transactions are disclosed in the circular dated 10 March 2006 of the Company.

### CORPORATE CONTROL

The Board has overall responsibility in monitoring the process of corporate reporting and control system throughout the Group. The corporate reporting standards are delegated to the accounting department in terms of proper and regular reviews on the deployment of resources and financial reporting systems. The corporate governance practices and compliance with the Listing Rules, Securities and Futures Ordinance and other applicable regulations are delegated to the Company Secretary. The management of the Company reviews and briefs the reporting systems with the Audit Committee annually.

### INTERNAL CONTROLS

The Board is responsible for overseeing the Group's system of internal controls. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure, to achieve the business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines.

**INTERNAL CONTROLS** *(Continued)*

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders and employee, and the Group's assets.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

- The Audit Committee of the Company reviews internal control issues identified by external auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems.

**DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS**

The Board acknowledge that it is their responsibilities in preparing the financial statements. The statement of the auditors about their reporting responsibilities on the financial statements is set out in the Report of the Auditors on page 18.