

Corporate Governance Report

Corporate Governance Practices

Compliance with Code on Corporate Governance Practices

The Company is committed to maintaining a high standard of corporate governance within a sensible framework. The Company has complied with all the code provisions as set out in Appendix 14 of the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31st December 2006, except for the following deviation:

Code Provision A.2.1

This Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The roles of chairman and chief executive ("CE") are managed by the same individual, Mr. Dai Xiaoming. Given that the Group is still adjusting its business strategy and structure, the roles of chairman and CE have not been separated in order to maintain the effectiveness and efficiency of the governance and management of the Group. The Board would review this arrangement at regular intervals.

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 as its own code of conduct regarding the directors' securities transactions. Following specific enquiry made with all directors, the Company has confirmed that they have complied with the Model Code for the year ended 31st December 2006.

Written guidelines on no less exacting terms than the Model Code relating to securities transaction for employees have been distributed to all employees of the Group.

Board of Directors

The Board of the Company comprises a total of five directors of which two are executive directors. The chairman and the CE is Mr. Dai Xiaoming and the deputy chief executive is Mr. Kenneth Hiu King Kon. The three independent non-executive directors are Mr. Jesse Nai Chau Leung, Mr. Xiang Bing and Mr. Edward Shen. Mr. Jesse Nai Chau Leung has contributed to the Board his appropriate professional qualifications in accounting and related financial management expertise. On 18th May 2005, the Company issued an appointment letter to each of the three independent non-executive directors in which their appointments would be valid for a period of three years but subject to retirement by rotation at each general meeting pursuant to Article 102 of the Articles of Association of the Company. The Directors participates in the affairs of the Board and the Board always acts in the best interests of the Group as a whole.

The chairman ensures that the Board works effectively and that all key and appropriate issues are discussed in a timely manner. Members of the Board have been provided with appropriate and sufficient information at an opportune moment so that they would be updated with the latest development of the Group to discharge of their duties. Any matters proposed for inclusion in the agenda has been consulted with all directors. The chairman has delegated to the Company Secretary the responsibility for drawing up the agenda for each Board meeting. The chairman ensures that all directors have received complete and reliable information in a timely manner and are properly briefed on issues arising at the Board meetings. In addition, in order to protect the directors and officers of the Group from their risk exposure arising from the business of the Group, appropriate insurance cover on directors' and officers' liability has been in force.

The Board delegates the day-to-day management and operations of the Group's businesses to the management under the supervision of the CE. The CE together with deputy chief executive are responsible for managing the businesses of the Group, including implementation of the annual budget and strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group.

As at the date of this Report for the year 2006, the Board held five meetings on 18th April 2006, 20th June 2006, 8th September 2006, 12th December 2006 and 19th April 2007.

Members of the Board	Attendance
Executive Directors	
Dai Xiaoming (Chairman and CE)	5/5
Kenneth Hiu King Kon (Deputy Chief Executive)	5/5
Independent Non-executive Directors	
Jesse Nai Chau Leung	5/5
Xiang Bing ⁽¹⁾	4/5
Edward Shen	5/5

Note:

(1) Absent on 8th September 2006.

Apart from the directorship with the Company, there is no other relationship, including financial, business, family or other material/relevant relationship(s), among the five directors of the Board.

Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors meet the independence requirements in accordance with the terms of the guidelines.

Remuneration Committee

The Company has established the Remuneration Committee on 13th September 2005. The Remuneration Committee comprises the chairman, Mr. Edward Shen, being an independent non-executive director, and the two independent non-executive directors, namely Mr. Jesse Nai Chau Leung and Mr. Xiang Bing.

The principal responsibility of the Remuneration Committee includes making recommendation to the Board on the policy and structure of the Company for all remuneration of directors and senior management and reviewing the specific remuneration packages of all executive directors and senior management by reference to corporate goals and objectives resolved by the Board. The emoluments of directors are based on the skill and contribution to the Company's affairs and are determined by reference to the duties and responsibilities of the executive and non-executive directors after considering the performance of the Group and prevailing market conditions including salaries paid by comparable companies. Terms of reference of the Remuneration Committee are available at the website of the Company.

Particulars of the emoluments of the Directors are set out in note 11 of the financial statements.

As at the date of this Report for the year 2006, three Remuneration Committee Meetings were held on 4th April 2006, 20th October 2006 and 4th April 2007. The attendance record of each member of the Remuneration Committee is set out as below.

Members of the Remuneration Committee	Attendance
Independent Non-executive Directors	
Edward Shen (Chairman)	3/3
Xiang Bing	3/3
Jesse Nai Chau Leung	3/3

The Remuneration Committee reviewed the remuneration of all staff, including the two executive directors, of the Company and its subsidiaries in the Remuneration Committee Meeting held on 20th October 2006. Management decided that the remuneration of all staff of the Company and its subsidiaries would remain unchanged in the financial year ending 31st December 2007.

Employees

The long-term remuneration policy of the Group for all employees is to ensure that the pay levels are competitive and effective in attracting, retaining and motivating employees.

In addition to basic salaries, employees in Hong Kong are provided with medical insurance and some of them are included under defined contribution provident fund scheme and mandatory provident fund scheme.

Directors' Responsibility for the Financial Statements

The directors acknowledge their responsibility for preparing the financial statements for the Group.

Management has provided adequate explanations and information to the Board on a timely basis which enables the Board to make an informed assessment on the financial statements of the Group. In addition, with the assistance of the Finance Department and under the supervision of the Financial Controller of the Company, the directors ensures that financial statements of the Group, which is prepared on a going concern basis, are in accordance with the statutory requirements and applicable accounting standards. The Directors also ensure that the publication of the financial statements of the Group is on a timely basis.

Audit Committee

The Audit Committee was established on 15th September 1998 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. The Audit Committee comprises the Chairman, Mr. Jesse Nai Chau Leung, and other two independent non-executive directors, namely Mr. Xiang Bing and Mr. Edward Shen. Terms of reference of the Audit Committee, which are the same as the provisions set out in the Code on Corporate Practices, are available at the Company's website.

As at the date of this Report for the year 2006, three Audit Committee Meetings were held on 4th April 2006, 7th September 2006 and 4th April 2007 respectively. The attendance record of each member of the Audit Committee is set out as below.

Members of the Audit Committee	Attendance
Independent Non-executive Directors	
Jesse Nai Chau Leung (Chairman)	3/3
Xiang Bing ⁽²⁾	2/3
Edward Shen	3/3

Note:

(2) Absent on 7th September 2006.

The following is a summary of the work of the Audit Committee:

- (i) review and supervision of the financial reporting system of the Group;
- (ii) review of the procedures and effectiveness of internal control of the Group;
- (iii) review of the Group's financial information, including review of the continuing connected transactions;
- (iv) review of the relationship between the Auditors and the Company;
- (v) review of the financial reports for the year ended 31st December 2005 and for the six months ended 30th June 2006 and for the year ended 31st December 2006;
- (vi) review of the annual report of the Group for the year ended 31st December 2006; and
- (vii) consideration and approval of the 2006 audit fees.

The Audit Committee has meetings twice a year and additional meetings are held as the work of the committee demands.

Internal Control

During the year, the Board reviewed the effectiveness of the internal control system of the Group (the "ICS"). The review covers all material controls, including financial operation and compliance controls and risk management functions. The Audit Committee proposed that an external consultant for reviewing the ICS should be appointed and the review of the ICS should be mainly focus on the Hong Kong business of the Group and the aforesaid review should be phased over a period of 2 to 3 years in order to improve the ICS at a sensible pace. The Company Secretary of the Company has invited, compared the fee quotes and given recommendation in respect of the most suitable external consultant to the Audit Committee.

Auditors' Remuneration

For the year ended 31st December 2006, the Auditors of the Company will receive HK\$900,000 for the audit of the financial statements of the Group.