

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") and management of the Company and its subsidiaries (the "Group") are committed to maintaining high standards of corporate governance and the Board is responsible for achieving consistent and sustainable long-term returns for the shareholders. The Group has complied throughout the review year with the code provisions contained in the Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "SEHK") save and except certain deviations as more specifically described below.

DIRECTORS

Directors' Securities Transactions

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry of all directors, they all have confirmed that they have complied with the required standard as set out in the Model Code throughout the year.

Board of Directors

The Board comprises:

<i>Executive Directors</i>	:	Mr. FU Wai Chung Ms. NG Wan Ms. FU Man Mr. LO Yat Fung
<i>Independent Non-executive Directors</i>	:	Mr. LAM King Pui Mr. NG Keung Mrs. WONG LAW Kwai Wah, Karen

Each independent non-executive director gives an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 3.13 of the Listing Rules.

During the financial year ended 31 December 2006, nine Board meetings were held and the attendance of each director is set out as follows:

Name of director	Number of Board meetings attended in the financial year ended 31 December 2006	Attendance rate
Mr. FU Wai Chung	9	100%
Ms. NG Wan	9	100%
Ms. FU Man	9	100%
Mr. LO Yat Fung	9	100%
Mr. LAM King Pui	9	100%
Mr. NG Keung	9	100%
Mrs. WONG LAW Kwai Wah, Karen	9	100%

Corporate Governance Report

DIRECTORS *(Continued)***Board of Directors** *(Continued)*

The Board has in place a list of key matters that are to be retained for board decision:

- Long-term objectives and strategies
- Extension of Group activities into new areas
- Monitoring the budgets and financial performance of the Company
- Preliminary announcements of interim and final results
- Material banking facilities
- Placing of share activities
- Internal control assessment
- Overseeing the performance of the management

while daily operation and administration are delegated to the management.

The Board held meetings from time to time whenever necessary. The agenda accompanying board papers are sent to all directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents. Minutes of every Board meeting are circulated to all directors for their perusal and comments. The Board also ensures that it is supplied in a timely manner with the agenda and all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Fu Wai Chung ("Mr. Fu") is the chairman of the Company and co-founder of the Company. Mr. Fu has extensive experience in the industry which is beneficial and of great value to the overall development of the Company.

The Company has no such title as the chief executive officer and therefore the daily operation and management of the Company is looked after by the executive directors as well as the senior management.

The Board is of the view that although there is no chief executive officer, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals and meetings between the directors and the management are held from time to time to discuss issues relating to operation of the Company.

Ms. Ng Wan is the wife of Mr. Fu and Ms. Fu Man is the sister of Mr. Fu.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each executive director is appointed for an initial term which is renewable automatically each year. All independent non-executive directors are appointed for a specific term which may be extended as each director and the Company may agree in writing. However, they are appointed subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provision of the Articles of Association of the Company (the "Articles of Association").

The Company has adopted a new set of Articles of Association in the 2006 annual general meeting in order to comply with the Code, especially the director retirement requirements under the Code.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") comprises the three independent non-executive directors and Mr. LAM King Pui is the chairman of the Remuneration Committee.

According to the terms of reference of the Remuneration Committee, its major roles and functions are as follows:

- (1) To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.
- (2) To have the delegated responsibility to determine the specific remuneration package for all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. The Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remunerations.
- (3) To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.
- (4) 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 excessive for the Company.
- (5) To review and approve compensation arrangement relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.
- (6) To ensure that no director or any of his associate is involved in deciding his own remuneration.

The Group's human resources department assists the Remuneration Committee by providing relevant remuneration data and market conditions for the Committee's consideration. The remuneration of executive directors and senior management is determined with reference to the Company's performance and profitability, as well as remuneration benchmarks in the industry and the prevailing market conditions.

A meeting of the Remuneration Committee, which was well attended by all members of the Remuneration Committee, was held in the year 2006 and during the meeting the compensation structure and reward system for all grades of staff were discussed.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The management reports regularly to the Board and provides such explanation and information to the Board on the financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, the Board has prepared the financial statements on a going concern basis.

The responsibility of the external auditors is to form an independent opinion, based on audit, on those consolidated financial statements prepared by the Board and to report their opinion solely to the shareholders of the Company, as a body, and for no other purpose. A statement by the auditors about their reporting responsibility is set out on page 23 of this Annual Report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for overseeing the Company's system of internal control.

To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasizes on the importance of a sound internal control system which is also indispensable to mitigating the Group's risk exposures. In order to achieve such purpose, an internal control department ("ICD") has been established during the financial year which report directly to the Board. An ICD audit team headed by the head of ICD was set up to ensure the branches operation and practices are complied with the Group's policies and procedures. The team will review and check the sales, performance reports and cash flow of each branch rotationally. The Group has also strengthened its network connections between the Head Office in Guangzhou with all branches in the country to achieve more secure and stable level of information communication due to the Group's fast expansion of branches.

The internal control system is reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of materials assets and identification of business risks. The Board has conducted review of the effectiveness of the system of internal control and is of the view that the system of internal control adopted for the year ended 31 December 2006 is sound and is effective to safeguard the interests of the shareholders' investment and the Company's assets. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system, such as control over expenditures and payroll, certain risk assessment controls and periodic review of the Group's performance by the Audit Committee and the Board.

Corporate Governance Report

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises the three independent non-executive directors. Mr. LAM King Pui, the chairman of the Audit Committee, has professional qualifications and in-depth experience in accounting and related financial management expertise. No member of the Audit Committee is a member of the former or existing auditors of the Company.

According to the existing terms of reference of the Audit Committee, its major roles and functions are, amongst others, to consider the appointment of the external auditors, the audit fee, and any questions of resignation or dismissal of the external auditors; to review the half-year and annual financial statements before submission to the Board and to consider major findings of internal investigations and management's response.

The Audit Committee held six meetings in 2006, which were attended by all audit committee members.

At the meetings held during the year, in performing its duties in accordance with its terms of reference, the work performed by the Audit Committee included reviewing and supervising the financial reporting process and review of the management letter of the auditors, the audit fee for the Group accounts and internal control system of the Company and its subsidiaries and reviewing the financial statements for the relevant period with reference to the scope of the terms of reference. Representatives from the auditors were invited to attend one of the above meetings and they discussed various accounting issues with the Audit Committee.

AUDITORS' REMUNERATION

During the financial year ended 31 December 2006, the remuneration paid to the Company's joint auditors, Deloitte Touche Tohmatsu and Zhong Yi (Hong Kong) C.P.A. Company Limited, is set out as follows:

Services rendered	Fees paid/payable (HK\$'000)
Audit services	1,350
Non-audit services	20
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	1,370
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SHAREHOLDERS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at www.hopefluent.com.