

# CORPORATE GOVERNANCE REPORT

## REPORT ON CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and complied with all requirements of the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules.

The following summarises the Company's corporate governance practices.

### Key Corporate Governance Principles and the Company's Practices

#### A.1 Board of directors

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic direction and performance. The Management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

Four board meeting was held for the year ended 31 December 2006 and the attendance was as follows:

Number of meeting	4	Attendance
Wu Qin	4/4	100%
Wu Zhihong	4/4	100%
Huang Chao	4/4	100%
Xie Yunfeng	4/4	100%
Sun Xinglai	4/4	100%
Wang Xian Jun	1/4	25%
Liu Zhiyong	3/4	75%
Qu Jiguang	3/4	75%
Leung Chong Shun	4/4	100%
Chow Kwok Wai	4/4	100%

All directors were given an opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting.

Notice of at least 14 days were given of a regular board meeting. For all other board meeting, reasonable notice will be given.

All minutes of Board meetings were recorded in sufficient detail the matters considered by the board and decisions reached. Draft and final versions of minutes of Board meetings were sent to all directors for their comment and record respectively within 3 business days after the board meeting was held.

The Company has established the Policy on obtaining independent professional advice by directors to enable the directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be discussed by a Board meeting actually hold.

All directors have 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. Minutes of board meetings and meetings of board committee are be kept by a duly appointed secretary of the meeting and such minutes are open for inspection at any reasonable time and on reasonable notice by any director.

# CORPORATE GOVERNANCE REPORT

## REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

### Key Corporate Governance Principles and the Company's Practices *(Continued)*

#### **A.2 Chairman and chief executive officer**

The Board appointed Mr. Wu Qin as the Chairman, who was responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues were discussed by the Board in a timely and constructive manner.

The Board appointed Mr. Wang Xian Jun as the Chief Executive Officer, who was delegated with the responsibilities of investor relation and public relation of the Group. The Board also comprises Independent Non-Executive Directors who bring strong independent judgment, knowledge and experience to the Board. As noted below, all the Audit Committee members are Independent Non-Executive Directors. This structure is to ensure a sufficient balance of power and authority in place within the Group.

The chairman is responsible for ensuring that directors receive adequate information, which is complete and reliable, in a timely manner.

#### **A.3 Board composition**

The Board comprises six executive Directors, being Mr. Wu Qin, Mr. Wu Zhihong, Mr. Huang Chao, Mr. Xie Yunfeng, Ms. Sun Xinglai and Mr. Wang Xian Jun, one non-executive Directors, being Mr. Liu Zhiyong, and three independent non-executive Directors, being Mr. Qu Jiguang, Mr. Leung Chong Shun and Mr. Chow Kwok Wai. The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the directors are shown on page 10 to 12 under the section of Directors and Senior Management.

There are sufficient numbers of independent non-executive directors in the Company, among which, Mr. Chow Kwok Wai is a certified public accountant and Mr. Leung Chong Shun is a qualified solicitor in Hong Kong.

All Directors are expressly identified by categories of executive directors, non-executive director and independent non-executive directors, in all corporate communications that disclose the names of Directors of the Company.

There are no financial, business, family and other material or relevant relationships among members of the board.

#### **A.4 Appointments, re-election and removal**

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

A special resolution had been proposed and passed by the shareholders in the annual general meeting held on 18 April 2006 to amend the articles of association of the Company, since then a Director appointed to fill a casual vacancy on the Board held office only until the next following general meeting rather than the next following annual general meeting and the relevant requirement under the CG Code had been fully complied with.

# CORPORATE GOVERNANCE REPORT

## REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

### Key Corporate Governance Principles and the Company's Practices *(Continued)*

#### **A.4** *Appointments, re-election and removal* *(Continued)*

Mr. Wang Xian Jun was appointed as an executive Director to the Board on 22 September 2006. Pursuant to Article 86(3) of the Articles of Association, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. Wang Xian Jun, will hold office only until the forthcoming annual general meeting and, being eligible, offer himself for re-election. Pursuant to Article 87 of the Articles of Association, Mr. Xie Yunfeng (an executive Director), Ms. Sun Xinglai (an executive Director) and Mr. Liu Zhiyong (a non-executive Director) will retire from office by rotation in the forthcoming annual general meeting. Mr. Xie Yunfeng, Ms. Sun Xinglai, Mr. Wang Xian Jun and Mr. Liu Zhiyong, being eligible, offer themselves for re-election at the AGM.

Every Director including non-executive director, including those appointed for a specific term, were subject to retirement by rotation at least once every three years.

The Company had not established a Nomination Committee and retained the functions to the Board. The Directors from time to time identify individual suitable to be a Board member and make recommendation to the Board. The main criteria in selecting a candidate are whether if he can add value to the management through his contributions in the relevant strategic business areas and if the appointment results a strong and diverse Board. In 2006, the Board had nominated and appointed Mr. Wang Xian Jun as executive Directors in addition to the Board.

#### **A.5** *Responsibilities of directors*

Every newly appointed Director of the Company received an information package from the Company on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and ongoing obligations to be observed by a director. In addition, the package includes materials on the operations and business of the Company. The management of the Company conducted briefing on their responsibilities and obligations under the laws and applicable regulations such as Listing Rules and Company Ordinance as was necessary.

The functions of non-executive directors include but not limited to the following:

- (a) participating in board meetings of the Company to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;
- (b) taking the lead where potential conflicts of interests arise;
- (c) serving on the audit and remuneration committees; and
- (d) scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

Every director ensure that he can give sufficient time and attention to the affairs of the Company.

# CORPORATE GOVERNANCE REPORT

## REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

### Key Corporate Governance Principles and the Company's Practices *(Continued)*

#### A.5 **Responsibilities of directors** *(Continued)*

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Model Code. The Directors confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2006.

#### A.6 **Supply of and access to information**

In respect of regular board and committee meetings, agendas and accompanying board papers were sent in full to all directors at least 3 days before the intended date of meetings.

The management and the Company Secretary assists the Chairman in establishing the meeting agenda and board papers, providing with adequate information in a timely manner to enable the board and committees in making decision to the matter being discussed in the meetings. Each Director may request inclusion of items in the agenda. The Board and each Director may separately and independently access to the issuer's senior management and shall receive prompt response.

Minutes of the Board/committees meetings are kept by the Company Secretary and are open for inspection by Directors.

#### B.1 **Remuneration of directors and senior management**

The Board has established a Remuneration Committee, chaired by Mr. Leung Chong Shun and with committee members of Mr. Qu Jiguang and Mr. Chow Kwok Wai, all of them are independent non-executive directors appointed by the Board.

The principal responsibilities of Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the executive Director and members of the Senior Management. The overriding objective of the remuneration policy is to ensure that the Group is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Group.

One meeting had been held for the Remuneration Committee during the year ended 31 December 2006 and the attendance was as follows:

Number of meeting	1	Attendance
Leung Chong Shun	1	100%
Qu Jiguang	0	0%
Chow Kwok Wai	1	100%

The functions specified in Code Provision B1.3 (a) to (f) of the CG Code had been included in the Terms of Reference of the Remuneration Committee, which also explains the role and the authority delegated by the Board.

# CORPORATE GOVERNANCE REPORT

## REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

### Key Corporate Governance Principles and the Company's Practices *(Continued)*

#### **B.1 Remuneration of directors and senior management** *(Continued)*

The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.

The remuneration committee will make available on request, its terms of reference, explaining its role and the authority delegated to it by the board.

The terms of reference of the remuneration committee include the following specific duties: -

- (a) to make recommendations to the board on the issuer'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;
- (b) to have the delegated responsibility to determine the specific remuneration packages of 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, and make recommendations to the board of the remuneration of non-executive directors. The remuneration 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 remuneration;
- (c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;
- (d) 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 issuer;
- (e) to review and approve compensation arrangements 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; and
- (f) to ensure that no director or any of his associates is involved in deciding his own remuneration. The remuneration committee shall advise shareholders on how to vote with respect to any service contracts of directors that require shareholders' approval under rule 13.68 of the Listing Rules.

The Remuneration Committee will be provided with sufficient resources to discharge its duties.

# CORPORATE GOVERNANCE REPORT

## REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

### Key Corporate Governance Principles and the Company's Practices *(Continued)*

#### **B.1 Remuneration of directors and senior management** *(Continued)*

The following is a summary of the work of the Remuneration Committee during 2006 regarding the remuneration of Directors:

- (i) review the terms of executive director's service contract; and
- (ii) review the remuneration of Directors;

The objective of remunerating non-executive Directors is to ensure that they are remunerated sufficiently but not excessively for their efforts and time dedicated to the Company. Every of the non-executive Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date. The annual emolument is HK\$180,000 for each of the independence non-executive directors, namely Mr. Qu Jiguang, Mr. Leung Chong Shun and Mr. Chow Kwok Wai and is HK\$60,000 for Mr. Liu Zhiyang, a non-executive Director.

Remuneration packages of executive Directors comprise fixed and variable components:

- (1) Fixed component — base salary; and
- (2) Variable component — annual performance bonus.

Fringe benefits include the provident fund, medical insurance and other miscellaneous benefits.

All the Directors are entitled to participate in the share option scheme.

Emoluments of the Directors are determined by the Board with reference to the prevailing market practice, his duties and responsibilities within the Group and his contribution to the Group.

Details of the remuneration of Directors for the year ended 31 December 2006 are set out in the page 76 of the Annual Report.

#### **C.1 Accountability and audit**

The Board presents a balanced, clear, and comprehensible assessment of the Company's performance, position, and prospects

Management of the Company provides such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2006, the Directors have:

- 1. selected suitable accounting policies and applied them consistently;
- 2. approved adoption of all HKFRSs;
- 3. made judgments and estimates that are prudent and reasonable; and
- 4. have prepared the accounts on the going concern basis.

# CORPORATE GOVERNANCE REPORT

## REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

### Key Corporate Governance Principles and the Company's Practices *(Continued)*

#### **C.1 Accountability and audit** *(Continued)*

Acknowledgement from the Directors of their responsibility for preparing the accounts has been received.

A statement by the auditors about their reporting responsibilities is included in the page 35-36 of the 2006 Annual Report under the section Report of the Auditors.

During the year, the Company has announced its annual results in a timely manner after the end of the relevant period, as laid down in the Listing Rules; and during the year, the Company has issued annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Exchange Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

#### **C.2 Internal controls**

The directors had conducted a review of the effectiveness of the system of internal control of the Group which covered all material controls, including financial, operational and compliance controls and risk management functions.

#### **C.3 Audit committee**

The Board establishes formal and transparent arrangements for considering how it applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. The audit committee established by the Company have clear terms of reference.

All the members of the Audit Committee are independent non-executive Directors. The Audit Committee is chaired by Mr. Chow Kwok Wai who is a certificated public accountant and the committee members are Mr. Qu Jiguang and Mr. Leung Chong Shun.

The functions specified in Code Provision C3.3 (a) to (n) of the CG Code had been included in the Terms of Reference of the Audit Committee. The Terms of Reference of the Audit Committee also explains the role and the authority delegated by the Board.

Two meetings had been convened by the Audit Committee during the year ended 31 December 2006 and the attendance was as follows:

Number of meeting		Attendance
Chow Kwok Wai	2	100%
Qu Jiguang	1	50%
Leung Chong Shun	2	100%

Full minutes of audit committee meetings will be kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings will be sent to all members of the committee for their comment and records respectively, within 3 business days after the meeting.

The Audit Committee of the Company does not have a former partner of the Company's existing audit firm.

# CORPORATE GOVERNANCE REPORT

## REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

### Key Corporate Governance Principles and the Company's Practices *(Continued)*

#### C.3 Audit committee *(Continued)*

The terms of reference of the audit committee includes the following duties:

- (a) to be primarily responsible for making recommendation to the board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The audit committee should report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- (d) to monitor integrity of financial statements of an issuer and the issuer's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In this regard, in reviewing the issuer's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the board, the committee should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting;



# CORPORATE GOVERNANCE REPORT

## REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

### Key Corporate Governance Principles and the Company's Practices *(Continued)*

#### C.3 Audit committee *(Continued)*

- (e) In regard to (d) above:
  - (i) members of the committee must liaise with the issuer's board of directors, senior management and the person appointed as the issuer's qualified accountant and the committee must meet, at least once a year, with the issuer's auditors; and
  - (ii) the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the issuer's qualified accountant, compliance officer or auditors;
- (f) to review the issuer's financial controls, internal control and risk management systems;
- (g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- (h) to consider any findings of major investigations of internal control matters as delegated by the board or on its own initiative and management's response;
- (i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the issuer, and to review and monitor the effectiveness of the internal audit function;
- (j) to review the group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that the board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the board on the matters set out in this code provision; and
- (n) to consider other topics, as defined by the board.

The audit committee shall make available on request its terms of reference, explaining its role and the authority delegated to it by the board.

The audit committee has been provided with sufficient resources to discharge its duties.

PricewaterhouseCoopers had been appointed to be the auditor of the Group. During 2006, total fees amounted HK\$2,300,000 paid/payable to PricewaterhouseCoopers were wholly related to audit services.

The Audit Committee recommended the re-appointment of PricewaterhouseCoopers to be the auditor of the Group in 2007.

# CORPORATE GOVERNANCE REPORT

## REPORT ON CORPORATE GOVERNANCE PRACTICES *(Continued)*

### Key Corporate Governance Principles and the Company's Practices *(Continued)*

#### **D.1 Delegation by the board**

The Company has a formal schedule of matters specifically reserved to the Board and those delegated to management. There should be a clear division of responsibilities amongst committees and each of them should have a specific terms of reference.

The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorised, undertaken and monitored. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

The Board has delegated the day-to-day responsibility to the executive management.

#### **D.2 Board committees**

The Board has prescribed sufficiently clear terms of reference for the Audit Committee and the Remuneration Committee.

The terms of reference of the Audit Committee and the Remuneration Committee require the committees to report back to the board on their decisions or recommendations.

#### **E.1 Effective communication**

In respect of each substantially separate issue at a general meeting, a separate resolution will be proposed by the chairman of the meeting.

The chairman of the Board will attend the annual general meeting and arrange for the chairman of the Audit and Remuneration Committees or members to be available to answer questions at the annual general meeting.

#### **E.2 Voting by poll**

The chairman of a meeting will ensure disclosure in the Company's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll in compliance with the requirements about voting by poll contained in the Listing Rules.

The chairman of a meeting and/or Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting will demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting will disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.

The Company will count all proxy votes and, except where a poll is required, the chairman of a meeting will indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company will ensure that votes cast are properly counted and recorded.

The chairman of a meeting will at the commencement of the meeting ensure that an explanation is provided of:

- (a) the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and
- (b) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.