

## Corporate Governance Report

The Board is committed to maintaining a high standard of corporate governance.

### CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions of the “Code on Corporate Governance Practices” (the “Code”), as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 December 2006, except with the deviation from code provision A.4.1 in respect of the requirement for all non-executive directors be appointed for a specific term.

### BOARD OF DIRECTORS

The Board is chaired by Mr Wong Ching Ping, Alex, who was appointed by the Board as Chairman and executive Director of the Company with effect from 9 August 2006. There are two executive Directors (including Mr. Alex Wong) and three independent non-executive Directors. Names and biographies of the Directors are set out in “Biographies of Directors” section of this annual report. All Directors are able to take independent professional advice in furtherance of their duties, if necessary, in accordance with the procedures adopted by the Company on 20 September 2006. The independent non-executive Directors are high calibre professionals with diversified industry expertise to discharge directors’ duties and safeguarding the interests of shareholders and the Company as a whole. Each independent non-executive Directors has confirmed that he/she has satisfied the criteria of independence as set out in the Listing Rules and the Directors has assessed and affirmed their independence.

### Directors’ Securities Transactions

All Directors disclose to the Board on their first appointment their interests as director and such declarations of interests are updated annually. The Directors’ interests as at 31 December 2006 in shares of the Company and its associated corporations are set out in the “Directors’ and Chief Executives’ Interests in Securities” section of the Directors’ report. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules as its code of conduct (“Model Code”) regarding Directors’ and relevant employees’ securities trading. Having made specific enquiry to all Directors of the Company, all of them have confirmed that they have complied with the required standard of dealings as set out in the Model Code.

The Board is accountable to the shareholders for leading the Company in a responsible and effective manner. It formulates overall directions and strategies of the Group, monitors its financial performance and maintains effective oversight over the management. Specific Board committees are set up with delegated powers and clear terms of reference. Daily operations and administration are led by Mr. Wong Tak Chung, Andrew. Matters reserved to the Board are those affecting the Company’s overall strategic policies, finances and shareholders. The Board is also responsible for presenting a balanced, clear and understandable of the financial and other information contained in the Company’s accounts and have an effective internal control system.

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The Board of Directors held six meetings during 2006. A least 14 days' notice of all regular Board meetings is given to all Directors and they are provided with the opportunity to include matters for discussion in the agenda if the need arise. The agenda and the accompanying Board papers are sent to all Directors at least 3 days before the date of every regular Board meeting. Minutes of every Board meeting are circulated to all Directors for their perusal and comment. All the signed Board minutes are kept by the Company Secretary.

The following tables summarizes the attendance of individual Director and committee member in 2006:

	Meetings held/attended in 2006		
	Board	Audit Committee	Remuneration Committee
<b>Number of meetings held during the year</b>	6	4	1
<i>Independent non-executive Directors</i>			
Kwok Chi Sun, Vincent <sup>1</sup>	4/5	3/3	0/0
Tso Hon Sai, Bosco	5/6	3/4	1/1
Cheng Wing Keung, Raymond <sup>2</sup>	4/5	4/4	1/1
Hui Wai Man, Shirley <sup>3</sup>	2/3	1/2	1/1
Tang Yiu Wing <sup>4</sup>	1/1	0/0	0/0
<i>Executive Directors</i>			
Kwok Ying Chuen <sup>5</sup>	1/2		
Yu Won Kong, Dennis <sup>5</sup>	1/2		
Wong Tak Chung, Andrew	6/6		
Wong Ching Ping, Alex <sup>6</sup>	3/3		

*Notes:*

1. Mr. Kwok Chi Sun, Vincent resigned as an independent non-executive Director, the chairman of remuneration committee and a member of audit committee effective 19 June 2006.
2. Mr. Cheng Wing Keung, Raymond was appointed as the chairman of remuneration committee on 19 June 2006. He resigned as an independent non-executive Director, the chairman of remuneration committee and a member of audit committee effective 20 September 2006.
3. Ms. Hui Wai Man, Shirley was appointed as an independent non-executive Director, a member of the audit committee and remuneration committee effective 16 June 2006.
4. Mr. Tang Yiu Wing was appointed as an independent non-executive Director, the chairman of remuneration committee and a member of the audit committee effective 20 September 2006.
5. Mr. Kwok Ying Chuen and Mr. Yu Won Kong, Dennis both resigned as an executive Director effective 1 June 2006.
6. Mr. Wong Ching Ping, Alex was appointed as an executive Director and the Chairman of the Company effective 9 August 2006.

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### CHAIRMAN AND CHIEF EXECUTIVE

To avoid concentration of power and control, the Board appointed Mr. Wong Ching Ping, Alex as the Chairman of the Company effective 9 August 2006. Mr. Wong has assumed the responsibility to manage the Board, ensuring all Directors receive adequate information and properly briefed on issues arising at Board meetings. Mr. Wong Tak Chung, Andrew, an executive Director of the Company, is responsible to lead the day to day management of the Company's operation, ensuring the decisions of the Board are properly implemented.

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company deviates from Code Provision A.4.1 as the independent non-executive Directors were appointed without a specific term. However, the Bye-laws of the Company has been amended to effect that one-third of the Directors for the time being shall retire by rotation from office, subject to re-election. The Board is of the opinion that the current arrangement is fair and reasonable but will review the structure from time to time and will make appropriate changes when necessary.

### REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises three independent non-executive Directors, namely . Mr. Tang Yiu Wing (Chairman), Mr. Tso Hon Sai, Bosco and Ms. Hui Wai Man, Shirley.

The Remuneration Committee was established on 7 July 2005 with specific written terms of reference. One meeting was held in 2006, the attendance of which was set out on page 16 of this annual report.

The Remuneration Committee has reviewed and approved the remuneration package for Mr. Wong Ching Ping, Alex, the newly appointed executive Director.

The Company has adopted a share option scheme on 28 January 2004, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out in note 31 to the financial statements. The structure of the emolument payable to executive Directors comprises basic salary and pension. Details of the Directors' remuneration are set out in note 10 to the financial statements.

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The major roles and functions of the Remuneration Committee are as follows:

1. To review annually and recommend to the Board the overall remuneration policy for the Directors, and key senior management officers.
2. To review annually the performance of the Executive Directors and key senior management officers and recommend to the Board specific adjustments in remuneration and/or reward payments.
3. To ensure that the level of remuneration of non-executive directors and independent non-executive Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board of the respective companies in the Group.
4. To review and approve the compensation payable to executive Directors and key senior management officers in connection with any loss or termination of their office or appointment.
5. To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct.
6. To ensure that no Director is involved in deciding his own remuneration.

### ACCOUNTABILITY AND AUDIT

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 selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards, which also include the Hong Kong Accounting Standards and Interpretations, which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

### AUDIT COMMITTEE

The Audit Committee of the Company was established in September, 2004 with specific written terms of reference. The committee comprises three independent non-executive Directors, namely. Mr. Tso Hon Sai, Bosco (Chairman), Ms. Hui Wai Man, Shirley and Mr. Tang Yiu Wing.

The Audit Committee had convened four meetings in 2006, the attendance of which is set out on page 16 of this annual report.

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During the meetings held in 2006, the Audit Committee had performed the following works:

- (i) reviewed the financial reports for the year ended 31 December 2005 and for the six months ended 30 June 2006;
- (ii) reviewed the recommendation from the external auditors in relation to the audit of the Group for the year ended 31 December 2005; and
- (iii) approved external auditors to perform non-audit services and appointment of independent financial advisor to advise the independent shareholders on an open offer.

The major roles and functions of the Audit Committee are as follows:

1. To consider the appointment of the external auditors, the audit fees, and any questions of resignation or dismissal of the external auditors of the Group.
2. To discuss with the external auditors the nature and scope of the audit.
3. To review the interim and annual financial statements before submission to the Board of Directors.
4. To discuss problems and reservations arising from the interim review and final audit, and any matters the auditors may wish to discuss.
5. To review the external auditors' management letters and management's response.
6. To review the Group's internal control systems.
7. To consider the major findings of internal investigations and management's response.

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### INTERNAL CONTROL

The internal control system has been designed to safeguard the assets of the Company, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

The management has carried out an annual review of the implemented system and procedures, including areas covered accounting, business and legal compliance. The scope of review was discussed with and agreed by the audit committee. A report after the review has been submitted to the audit committee and the Board. In addition to the annual review, the management will conduct any special review as required.

The Board is responsible for the system of internal control and reviewing its effectiveness. For the year under review, the Board considered that the Company's internal control system is adequate and effective and the Company has complied with the code provisions on internal control of the Code.

### AUDITOR'S REMUNERATION

During the year under review, the remuneration paid to the Company's auditor, CCIF CPA Limited, is set out as follows:

<b>Services rendered</b>	<b>fees paid/payable HK\$'000</b>
Audit services	830
Non-audit services (preparation of accountant's report for the acquisition of shares in State Empire Limited and sale of property and acted as the reporting accountants of the Company in relation to an open offer)	293
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	1,123
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### NOMINATION OF DIRECTORS

No nomination committee has been established by the Company. The appointment of a new Director is a matter for consideration and approval by the Board. The Board would consider a number of criterion, including the past experience, qualifications and overall integrity of the potential candidate.

### COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company communicated with the shareholders by the following modes of communication: (1) convening annual general meeting and special general meetings; and (2) providing information on the Company's performance and activities in the annual report and interim report. In addition to the annual general meeting, the Company has held one special general meeting in 2006. During the general meetings, each substantial separate issues was proposed by a separate resolution. The rights of shareholders to demand a poll were disclosed in all circulars sent to the shareholders and the procedures for demanding a poll by shareholders were explained at the commencement of the meeting. All shareholders are encouraged to attend the general meetings.