

# Report on Corporate Governance Practices

The Company has, throughout the year ended 31 December 2006, complied with the Code of Corporate Governance Practices ("CG Code") set out in Appendix 14 of the Listing Rules.

The following summarizes the Company's corporate governance practices and explains deviations, if any, from the CG Code.

## 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. During the year ended 31 December 2006, six board meetings were held and the attendance was as follows:

Name of Director	Attendance
<b>Executive Director</b>	
Mr. Au Pak Yin	2/6
Mr. Au Kwok Lun	6/6
Mr. Ou Guo Liang	2/6
Mr. Ng Shu Kai	6/6
<b>Independent Non Executive Director</b>	
Mr. Lai Ming, Joseph	6/6
Mr. Meng Yan	6/6
Mr. Xu Guangmao	6/6

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 was 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 12 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.

## **A.2 Chairman and Chief Executive Officer**

The Board appointed Mr. Au Pak Yin 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. Au Kwok Lun as the Chief Executive Officer, who was delegated with the responsibilities of investor relations and public relations 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.

## **A.3 Board Composition**

The Board comprises four Executive Directors, being Mr. Au Pak Yin, Mr. Au Kwok Lun, Mr. Ou Guo Liang, Mr. Ng Shu Kai and three Independent Non-Executive Directors, being Mr. Lai Ming, Joseph, Mr. Meng Yan and Mr. Xu Guangmao. 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 19 to 20 under the section of Directors and Senior Management.

All Directors are expressly identified by categories of Executive Directors and Independent Non-Executive Directors, in all corporate communications that disclose the names of Directors of the Company.

## **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.

According to the Articles of Association, Mr. Lai Ming Joseph, Mr. Au Kwok Lun and Mr. Ou Guo Liang will retire from office as Directors at the forthcoming annual general meeting and being eligible offer themselves for re-election.

Every Director, including those appointed for a specific term, was 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 June 2005, the Board had nominated and appointed Mr. Lai Ming, Joseph, Mr. Meng Yan and Mr. Xu Guangmao as Independent Non-Executive Directors. Before they were nominated for election, the Board had assessed their independence.

## **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 Board has adopted a new 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 was 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. The Board also confirmed receiving of each Independent Non-Executive Director an annual confirmation of his independence as at 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 1 day 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.

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 ("RC"), chaired by Mr. Lai Ming Joseph and with committee members of Mr. Meng Yan and Mr. Xu Guangmao, all of them are Independent Non Executive Directors appointed by the Board. As at 31 December 2006, RC had reviewed the remuneration policy and remuneration packages.

The principal responsibility of Remuneration Committee has been the determination of the remuneration of the Executive Director and members of the senior management.

The functions specified in Code Provision B1.3 (a) to (f) of the CG Code had included in the Terms of Reference of the Remuneration Committee and these will be implemented progressively or when occurred as the case might be.

### 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.

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 28 of the 2006 Annual Report under the section Report of the Auditors.

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.

### C.2 Internal Controls and Internal Audit

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control system and reviewing their effectiveness. The Group's internal control system has been designed for safeguarding assets, maintaining proper accounting records and ensuring reliability of the financial information. The Board has conducted a review of the effectiveness of the internal control system of the Group which covers all material controls, including operational, financial and compliance controls and risk management functions. The internal audit department of the Company is implementing a procedure to review the major operational, financial and compliance controls and risk management functions of the Group on a continuing basis and aim at cover all major operations of the Group on a rotational basis. The reports and findings prepared by the internal audit team of the Company will be circulated to the CEO, the Financial Controller and the Audit Committee for review.

### C.3 Audit Committee

The Board establishes a formal and transparent arrangement 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 has clear terms of reference.

All the members of the Audit Committee are Independent Non-Executive Directors. The Audit Committee is chaired by Mr. Lai Ming, Joseph who is a certificated public accountant and the committee members are Mr. Meng Yan and Mr. Xu Guangmao.

The functions specified in Code Provision C3.3 (a) to (n) of the CG Code had 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.

Four meetings were convened by the Audit Committee during the year ended 2006 and the attendance list is as follows:

Name of Director	Attendance
Mr. Lai Ming Joseph ( <i>Chairman of Audit Committee</i> )	4/4
Mr. Meng Yan	4/4
Mr. Xu Guangmao	4/4
<b>In attendance:</b>	
Mr. Au Kwok Lun	4/4
Mr. Ng Shu Kai	4/4
Mr. Wong Kwok Kuen	4/4
Finance Team	4/4

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 14 business days after the meeting.

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

PricewaterhouseCoopers had been appointed to be the auditor of the Group. During the year ended 31 December 2006, total fee of HK\$1,380,000 paid/payable to PricewaterhouseCoopers were all related to audit services.

The Audit Committee recommended the re-appointment of PricewaterhouseCoopers to be the auditor of the Group in 2006.

#### 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 term 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 Company held an Annual General Meeting ("AGM") and an Extraordinary General Meeting ("EGM") in 2006. At the AGM convened on 15 May 2006, separate resolutions were proposed for the ordinary business of the Company. At the EGM held on 8 September 2006, an ordinary resolution was passed in regard to the connected transaction of the Company. Details of the major transaction are disclosed in the circular dated 21 August 2006 of the Company.

The chairman of the Board will attend the AGM and arrange for the chairman of the Audit Committee 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.