

Corporate Governance Report

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE

The Company has always recognized the importance of the shareholders' transparency and accountability. It is the belief of the Board of Directors that shareholders can maximize their benefits from good corporate governance.

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which became effective on 1st January, 2005 as its own code of corporate governance practices. The Directors consider that the Company has complied with the CG Code during the financial year ended 31st December, 2006 except for some deviation from code provision A.4.2 before 29th May, 2006.

In order to comply with the code provision A.4.2 of the CG Code, relevant articles of the Articles of Association of the Company were duly amended in the annual general meeting of the Company held on 29th May, 2006 (the "2006 AGM") with details listed as follows:

The code provision A.4.2 of the CG Code stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. According to Article 94 of the Articles of Association of the company then in effect prior to 29th May, 2006, any director appointed either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Article 94 of the Articles of Association was amended at the 2006 AGM to specify that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

Besides, the code provision A.4.2 of the CG Code stipulates that every director including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to article 103(A) of the Articles of Association then in effect prior to 29th May, 2006, it only specified that at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office.

Article 103(A) of the Articles of Association was amended at the 2006 AGM to specify that at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Except for the above mentioned, the directors consider that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

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THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. 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 Committee of Executive Directors, Audit Committee and Remuneration Committee. Further details of these committees are set out in this report.

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. During the financial year ended 31st December, 2006, the Board held five meetings. The attendance of the Directors at the Board meetings are as follows:

| Name of Directors | Position | Number of attendance |
|--|--|----------------------|
| <i>Executive Directors</i> | | |
| Tang To | Chairman | 5/5 |
| Zhao Zhuoying | Executive Director | 4/5 |
| Wong Yiu Ming | Executive Director and Chief Executive Officer | 5/5 |
| Yan Wing Fai, Richard | Executive Director | 5/5 |
| Li Tin Loi | Executive Director | 5/5 |
| <i>Non-Executive Directors</i> | | |
| Tang Kwan | Honorary Chairman | 5/5 |
| He Zhiqi | Vice Chairman | 4/5 |
| Kan Wai Wah | Non-Executive Director | 5/5 |
| Qu Jinping | Non-Executive Director | 2/5 |
| (appointed on 8th September, 2006) | | |
| <i>Independent Non-Executive Directors</i> | | |
| Liang Shangli | Independent Non-Executive Director | 4/5 |
| Yip Jeffery | Independent Non-Executive Director | 5/5 |
| Yeung Shuk Fan | Independent Non-Executive Director | 5/5 |

Board Minutes are kept by the Company Secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors.

The Directors are enabled, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board has resolved to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties to the Company.

Appropriate insurance cover has been arranged in respect of legal action against the Directors.

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER (“CEO”)

In order to preserve independence and to have balanced judgment of views, there is a clear separation of the roles and responsibilities of the Chairman and CEO and the two positions are held by two different members of the Board. The Board has appointed a Chairman, Mr. Tang To, who is an Executive Director and is responsible for the Company's overall strategic planning and provides leadership to the Board so that the Board works effectively and all important issues are discussed in a timely manner. The CEO, Mr. Wong Yiu Ming, is an Executive Director and is responsible for the daily operation and business directions of the Group.

BOARD COMPOSITION

As at the date of this report, the Board comprises five Executive Directors, being Tang To, Zhao Zhuoying, Wong Yiu Ming, Yan Wing Fai, Richard and Li Tin Loi, four Non-Executive Directors, being Tang Kwan, He Zhiqi, Kan Wai Wah and Qu Jinping and three Independent Non-Executive Directors, being Yip Jeffery, Yeung Shuk Fan and Cheng Tak Yin.

Except Mr. Tang To, the Chairman and Executive Director, who is the son of Mr. Tang Kwan, the Honorary Chairman and Non-Executive Director, the other Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board. The biographies of the Directors are set out in pages 13 to 15 to the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications.

The Company has received annual confirmation of independence from the three Independent Non-Executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

APPOINTMENTS, RE-ELECTION, REMOVAL AND NOMINATION OF DIRECTORS

Every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and that any Director appointed to fill a casual vacancy on the Board shall be subject to re-election by shareholders at the first general meeting after the appointment and any Director appointed as an addition to the board shall hold office until the next following annual general meeting of the Company.

Each of the Non-Executive Director has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company for a term of three years, subject to the rotational retirement provision of the Articles of Association of the Company.

Regarding the nomination of directors, the Board will review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations regarding any proposed changes. The Directors identified suitable individual qualified to become board members and makes recommendation on relevant matters relating to the appointment or re-appointment of directors if necessary, in particular, to those candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result in the constitution of strong and diverse Board.

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APPOINTMENTS, RE-ELECTION, REMOVAL AND NOMINATION OF DIRECTORS (Continued)

Meeting of the Board regarding the nomination of directors shall be held when necessary. During the year of 2006, one meeting in relation to nomination of directors is held with the attendance of the directors setting out as follows:

| Directors | Number of attendance |
|-------------------|----------------------|
| Mr. Tang To | 1/1 |
| Mr. Wong Yiu Ming | 1/1 |

The Board is of the opinion that the current size and composition of the Board is adequate to facilitate effective decision-making. The Board is also satisfied that the existing composition of Board, which as a group, provides the core competencies necessary to guide the Group.

RESPONSIBILITIES OF DIRECTORS

The Directors are continually updated with statute, common law, the Listing Rules, legal and regulatory developments, business and market changes and the strategic development of the Group to facilitate the discharge of their responsibilities.

The Independent Non-Executive Directors take an active role in board meetings, contribute to the development of strategies and policies and make sound judgment on issues of strategy, policy, performance, key appointments and standard of conduct. They will take lead where potential conflicts of interests arise. They are also members of various committees and examine the overall performance of the Group in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

DELEGATION BY THE BOARD

The day-to-day management of the Company is delegated to the senior management, with division heads responsible for different aspects of the business.

Major corporate matters that are specifically delegated by the Board to the senior management include execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct (the "Model Code") regarding securities transactions by Directors 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 Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Company confirms that all the Directors have complied with the Model Code and its code of conduct regarding directors' securities transactions.

SUPPLY OF AND ACCESS TO INFORMATION

All the Directors are supplied with board papers and relevant materials within a reasonable period of time in advance of the intended meeting date. All Directors have unrestricted access to the management for enquiries and are entitled to have unlimited access to the board papers and relevant materials when required. Such information is prepared to enable the Board to make an informed decision on matters placed before it.

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REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company established a Remuneration Committee in June 2005. When determining the remuneration packages the Remuneration Committee will consider factors such as the salaries paid by comparable companies, time commitment of Directors and senior management, job responsibilities, performance of the individual and performance of the Company. The Remuneration Committee will also review and approve performance-based remuneration by reference to the corporate goals and objectives resolved by the Board from time to time. Its scope of work is summarized as follows:

- (i) To determine the policy for remuneration of Directors and to make recommendations with respect to the remuneration of the Executive Directors and the senior management of the Company for approval by the Board;
- (ii) To oversee performance of the Executive Directors;
- (iii) To review the remuneration package and recommend salaries, bonuses, including the incentive awards for both Executive and Non-Executive Directors and the senior management; and
- (iv) To administer and make determinations with regard to the Company's share option scheme.

During the year under review and up to date of this report, the chairman of the Remuneration Committee is an Independent Non-Executive Director, Mr. Yip Jeffery and the remaining members are Miss Yeung Shuk Fan, Mr. Cheng Tak Yin (appointed on 30th January, 2007) and Mr. Liang Shangli (resigned on 30th January, 2007), being Independent Non-Executive Directors and the Chairman of the Board of the Company, Mr. Tang To.

The Remuneration Committee annually sets out its recommendation on the remuneration package of the Executive Directors. For the financial year ended 31st December, 2006, the Remuneration Committee has reviewed and recommended to the Board the salaries and bonuses of the Executive Directors and the senior management of the Company.

The Remuneration Committee held one meeting during the financial year ended 31st December, 2006 and the attendance of each member's attendance at this meeting is set out as follows:

| Directors | Number of attendance |
|---------------------|-----------------------------|
| Mr. Yip Jeffery | 1/1 |
| Mr. Liang Shangli | 1/1 |
| Miss Yeung Shuk Fan | 1/1 |
| Mr. Tang To | 1/1 |

In order to attract, retain, and motivate executives and key employees serving for the Group, the Company has adopted a share option scheme in 2005. Such incentive scheme enable the eligible persons to obtain an ownership interest in the Company and thus to reward the participants who contribute to the success of the Group's business and operations.

Details of the amount of Directors emoluments are set out in note 10 to the accounts and details of the 2005 Share Option Scheme are set out in the Report of the Directors.

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FINANCIAL REPORTING

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the approval by the Board.

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statement, and announcements to shareholders. The responsibilities of the directors in relation to the financial statement, should be read in conjunction with, but distinguished from, the Report of the Auditors on page 32 which acknowledges the reporting responsibilities of the Group's auditors. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the accounts.

The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators.

INTERNAL CONTROLS

Through the Company's internal audit functions, the directors conduct a review of the effectiveness of the system of internal control of the Company which covers all material controls, including financial, operational and compliance controls and risks management functions.

The Board monitors its internal control systems through a programme of internal audits. The internal audit functions set up by the Company reviews the major operational and financial control of the Group on a continuing basis and aims to cover all major operations of the Group on a rotational basis. The internal audit function reports to the Chairman of the Audit Committee.

AUDIT COMMITTEE

During the year under review and up to the date of this report, the Audit Committee comprises all three Independent Non-Executive Directors namely, Miss Yeung Shuk Fan (being the chairman of the Audit Committee), Mr. Yip Jeffery, Mr. Cheng Tak Yin (appointed on 30th January, 2007) and Mr. Liang Shangli (resigned on 30th January, 2007), who among themselves possess a great deal of management experience in the accounting profession and commercial sectors.

The Audit Committee meets the external auditors at least once a year to discuss any areas of concerns during the audits. As considered necessary and requested by any one or more of the Independent Non-Executive Directors, the Audit Committee shall meet with the external auditors without the presence of the executive Board members. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

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AUDIT COMMITTEE (Continued)

For the financial year ended 31st December, 2006, the Audit Committee has performed the following duties:

1. reviewed with the management the accounting principles and practices adopted by the Group;
2. reviewed the audited financial statement for the year ended 31st December, 2005 and the unaudited interim financial statement for the six months ended 30th June, 2006 with recommendation to the Board for approval; and
3. reviewed principles and procedures on internal control system covering financial, operational and risk management functions

The Audit Committee held two meetings during the financial year ended 31st December, 2006. The attendance of each member's attendance at such meetings is set out as follows:

| Directors | Number of attendance |
|---|----------------------|
| Miss Yeung Shuk Fan (Chairman of the Audit Committee) | 2/2 |
| Mr. Liang Shangli | 1/2 |
| Mr. Yip Jeffery | 2/2 |

Full minutes of Audit Committee meetings are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Audit Committee for their comment and records respectively. First version should be sent out to all members for comment within approximately 30 days and final version will be used for minutes recording purpose.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's auditors, Messrs. Ting Ho Kwan & Chan, is set out as follows:

| | Fee paid/payable <i>HK\$'000</i> |
|--------------------|--|
| Services rendered | |
| Audit services | 2,032 |
| Non-audit services | — |
| | <hr style="border-top: 1px solid black;"/> |
| | 2,032 |
| | <hr style="border-top: 1px solid black;"/> |

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COMMITTEE OF EXECUTIVE DIRECTORS

The Company has established the Committee of Executive Directors which includes all the five Executive Directors of the Board and meets frequently as when necessary and is responsible for the management and day to day operations of the Group.

COMMUNICATIONS WITH SHAREHOLDERS

In respect of each substantially separate issue at a general meeting, a separate resolution has been proposed by the Chairman of that meeting.

The Chairman of the Board has attended at the annual general meeting to be available to answer questions at the meeting.

VOTING BY POLL

During 2006, the Company had informed the shareholders (in its circulars convening a general meeting) the procedures for voting by poll and the rights of shareholders to demand a poll to ensure compliance with the requirements on the poll voting procedures. Pursuant to Article 74 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the Chairman of the Meeting; or
- (ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll is to taken as required under the Listing Rules or any other applicable laws, rules or regulations or unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

The chairman of a general meeting had at the commencement of the meeting ensures that an explanation is provided of:

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

In addition to the amendments to the Articles of Association of the Company as mentioned in the section "Compliance with Code on Corporate Governance", a special resolution had been passed in the 2006 AGM to amend Article 74 of the Articles of Association of the Company to include the provision that the Chairman and/ or any director or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at the meeting shall 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, in order to be consistent with the requirement of code provision E.2.1 of the CG Code.