

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance. It is believed that high standards of corporate governance provide a framework and solid foundation for promoting high standards of accountability, transparency and responsibility to our shareholders.

The Board considers that the Company has complied throughout the year ended 31 December 2006 with the Code on Corporate Governance Practices (the “CG Code”) that was set out in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that (i) there is no division of roles of chairman and chief executive officer that both offices are held by Mr. Yang Zongwang; and (ii) the independent non-executive Directors are not appointed for specific terms.

## THE BOARD COMPOSITION AND BOARD PRACTICES

The Board is responsible for the oversight of the management of the Company’s business and affairs of the organization with the objective of enhancing shareholder value including setting and approving the Company’s strategic direction and planning, and all important matters such as financial results, dividends, annual financial budget, business and operation plan etc., while delegating day-to-day operations of the Group to management. Besides, each member of the Board is expected to make a full and active contribution to the Board’s affairs and ensure that the Board acts in the best interests of the Company and its shareholders as a whole.

The Board currently consists of seven Directors, of whom four are executive directors namely, Mr. Yang Zongwang (*Chairman and Chief Executive Officer*), Mr. Xue De Fa, Mr. Xie Xi and Mr. Liu Zhi Qiang, and three are independent non-executive directors namely, Mr. Tong Hing Wah, Mr. Chong Hoi Fung and Mr. Ng Wai Man.

The Board has maintained a balance of skills and experience appropriate for the requirements of the businesses of the Group. Its composition represents a mixture of management, accounts and finance, marketing, manufacturing and procurement with comprehensive experience in and exposure to diversified businesses. Each of Directors’ respective biographical details is set out in the “Biographical Details of Directors and Senior Management” of this annual report. It is the opinion of the Directors that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company.

In compliance of Rule 3.10(1) of the Listing Rules, the Board currently comprises three independent non-executive Directors, namely Mr. Tong Hing Wah, Mr. Chong Hoi Fung and Mr. Ng Wai Man, representing over one-third of the Board. Pursuant to paragraph 12B of Appendix 16 to the Listing Rules, each of the independent non-executive Directors has confirmed by an annual confirmation that he complied with the independence criteria set out in Rule 3.13. The Directors considers that all the three independent non-executive Directors to be independent under these independence criteria and are capable to effectively exercise independent judgement in order to ensure that the interests of all shareholders of the Company have been duly considered. Amongst them, Mr. Tong Hing Wah and Mr. Ng Wai Man have the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2). In addition, Mr. Li Yik Sang is a qualified accountant responsible for oversight of the Group's financial reporting procedures.

Moreover, the independent non-executive Directors take an active role in Board meetings, contribute to the development of strategies and policies and make sound judgement in various aspects. They will take lead when potential conflicts of interest arise. They are also members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company. Thus, the Board considers the current board size as adequate for its present operations.

Besides, to the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship between the Directors and each of Directors also does not have any direct or indirect material relationship with the Group.

A summary of attendance of the Board and Committee meetings in 2006 are detailed as follows:

Directors	Number of meeting attended/ Number of meeting held		
	Board	Remuneration Committee	Audit Committee
<i>Executive Directors</i>			
Mr. Yang Zongwang (Chairman and Chief Executive Officer)	15/15	—	—
Mr. Xue De Fa	15/15	—	—
Mr. Xie Xi	15/15	—	—
Mr. Ng Kin Sun (resigned on 8 January 2007)	15/15	—	—
Mr. Liu Zhi Qiang	15/15	—	—
<i>Independent non-Executive Directors</i>			
Mr. Tong Hing Wah	15/15	1/1	2/2
Mr. Chong Hoi Fung	14/15	1/1	2/2
Mr. Ng Wai Man	15/15	1/1	2/2

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Directors can attend meetings in person or through telephone pursuant to the article of association of the Company (“Articles”). The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director/committee member may request inclusion of items in the agenda.

Minutes of Board/committee meetings would be kept by the Company Secretary and shall open for inspection by Directors. Where Directors have a material or conflict of interests in any transaction discussed in the Board/committee meetings would not be dealt with by way of written resolutions. The Directors concerned could express views but would not be counted as part of the quorum shall abstain from voting on the relevant resolutions.

In addition, to facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information, when required. The Directors can also seek independent professional advice, in appropriate circumstances, at the Company’s expense in discharging their duties to the Company. All Directors have unrestricted access to the Company Secretary who responsible for ensuring that the Board/committee procedures are complied with, and for advising the Board/committee on compliance matters.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Since the full Board is involved in the appointment of new Directors, the Company has not established a Nomination Committee. The Board will take into consideration criteria such as expertise, experience, integrity and commitment when considering new director appointments.

In accordance with the Articles, all Directors are subject to retirement by rotation at least once in every three years.

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 2 June 2003 and renewable automatically for successive terms of one year.

The independent non-executive Directors were not appointed for a specific term but subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors (the “Model Code”). Having made specific enquiry with all Directors, the Company confirmed that all the Directors have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 December 2006.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same person. The Company does not have a separate Chairman and Chief Executive Officer and Mr. Yang Zongwang currently holds both position. Mr. Yang, is the founders and a substantial shareholder of the Group and has considerable industry experience, therefore, the Board is of the view that it is in the best interests of the Group to have an executive Chairman so that the Board, and in particular the independent non-executive Directors, can have the benefit of a Chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and management. He is also motivated to contribute to the growth and profitability of the Group. The Board also believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership, allows for more effective planning and execution of long-term business strategies and enhances the efficiency of decision-making process in response to the changing environment.

## COMMITTEES OF THE BOARD

### **Nomination Committee**

According to the CG Code, the Company shall set up a nomination committee with a majority of the members thereof being independent non-executive directors. However, the Company did not establish a nomination committee.

The Company has established a formal and transparent process for the Company in the appointment of new Directors and re-nomination and re-election of Directors at regular intervals. The selection of individuals to become executive or non-executive Directors are based on assessment of their professional qualifications and experience. The Board is responsible for determining the independence of each independent non-executive Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board provided that Directors cannot vote on the matters in which they have interests.

In accordance with Article 108 of the Articles, Mr. Yang Zongwang, Mr. Xue De Fa and Mr. Xie Xi will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-elections.

### **Remuneration Committee**

The Remuneration Committee was established on 21 September 2005 with written terms of reference in compliance of the code provision in B.1 of the CG Code. The terms of reference of the Remuneration Committee are available from the Company Secretary at any time. The Remuneration Committee currently comprises three independent non-executive Directors, namely Mr. Tong Hing Wah, Mr. Chong Hoi Fung and Mr. Ng Wai Man. Mr. Ng Wai Man is the Chairman of the Remuneration Committee.

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The duties of the Remuneration Committee includes making recommendations to the Board on the remuneration policy and structure of the Directors and senior management, approving the remuneration, determining the remuneration packages of all Directors and senior management and approving the compensation to Directors and senior management on termination or dismissal. The remuneration packages including basic salary, annual discretionary bonus, pension scheme, share option scheme and other benefit-in-kind such as private medical cover are commensurate with their performance, job nature and experience level. No Director was involved in deciding his own remuneration.

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence. The emoluments of the Directors are determined with reference to the Company's operating results, individual performance and the prevailing market rates. The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of which are set out in note 31 to the financial statements of this annual report.

The Remuneration Committee meets at least once a year. During the year, the Remuneration Committee has reviewed the remuneration packages of each Directors and senior managements of the Company.

The attendance of each member of the Remuneration Committee, on named basis and by category, at committee meetings during the year is set out in the section "The Board Composition and Board Practices" of this report above.

## **Audit Committee**

The Audit Committee currently comprises of three members, all of whom are independent non-executive Directors. The members are Mr. Tong Hing Wah (*the chairman of the committee*), Mr. Chong Hoi Fung and Mr. Ng Wai Man, all of whom are not involved in the day-to-day management of the Company. In accordance with the requirements of the Code, the terms of reference of the Audit Committee were revised on 21 September 2005 in terms substantially the same as the provisions set out in the CG Code. The terms of reference of the Audit Committee are available from the Company Secretary at any time.

The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process. The Audit Committee is also responsible for reviewing the auditor's appointment, the auditor's remuneration and any matters relating to the termination of, the appointment of and the resignation of the auditors. In addition, the Audit Committee also examines the effectiveness of the Company's internal controls, which involve regular reviews of the internal controls of various corporate structures and business processes on a continuous basis, and takes into account their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations and the realization of its corporate objectives and strategies. The scope of such examinations and reviews include finance, operations, regulatory compliance and risk management. Each member of the Audit Committee has unrestricted access to the external auditors and all senior management of the Group in order to discharge its responsibilities. Save as disclosed above, the Audit Committee has reviewed the audited financial statements of the Company for the year ended 31 December 2006.

During the year ended 31 December 2006, the Audit Committee met two times together with the chief financial officer of the Company as well as with the external auditors. Please refer to the table set out in the section “The Board Composition and Board Practices” of this report for the attendance record of individual Audit Committee members.

The Audit Committee has recommended to the Board that Deloitte Touche Tohmatsu, *Certified Public Accountants* (“Deloitte”), be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

### **DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2006, the Directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

### **AUDITORS AND THEIR REMUNERATION**

Deloitte has been appointed as the auditors of the Company for the year ended 31 December 2006 by shareholders at the annual general meeting and they will hold office until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statement for the year ended 31 December 2006 has been audited by Deloitte.

An amount of HK\$1.1 million (2005: HK\$1.0 million) was charged to the financial statements of the Company and subsidiaries for the year ended 31 December 2006 for Deloitte’s statutory audit. The amount for other services, mainly related to the performance of review of the Group’s financial statements and are not reported under audit fees, provided by Deloitte for the Company during the year was HK\$0.4 million (2005: HK\$0.4 million).

### **INTERNAL CONTROL AND RISK MANAGEMENT**

The Board is responsible for the effectiveness of the Group’s internal control systems. The internal control systems are designed to meet the Group’s particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

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The Board and the audit committee have delegated an external independent professional body to conduct an annual review of the effectiveness of the internal control systems of the Company and its subsidiaries, covering all material controls, including financial, operation, compliance controls, etc.

Based on the assessment made by the external independent professional body, the Board considered that the internal control systems of the Company and its subsidiaries are effective and the audit committee have found no material deficiencies on the internal control systems.

### SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company encourages two-way communications with both its institutional and private investors. Extensive information about the Company's activities is provided in its annual reports and interim reports, which are sent to shareholders of the Company. Press conferences were held on results announcement to explain the Company's activities, performance and future plans and to enable better understanding of the Group by the public. The annual general meeting provides a forum for direct communication between the Board and the Company's shareholders. The Company maintains regular communication with media to disseminate financial and other information relating to the Group and its business to the public in order to foster effective communication.