

CORPORATE GOVERNANCE REPORT

The board of directors of the Company ("Board") believes corporate governance is important to ensure transparency and accountability and is committed to maintain good corporate governance standard. The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices ("CCGP") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the accounting year ended 31 December 2005 except for code provision A.2.1, which requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group's overall businesses, strategic decisions and performances. The Board has delegated power to the management for the daily management and operations of the Group. In addition, the Board has also delegated its powers to the Board committees. The Board currently has two committees namely the remuneration committee and the audit committee, each of which discharges its functions and duties in accordance with the respective terms of reference proposed with reference to the relevant provisions under the CCGP.

The Board currently consists of two executive directors, four non-executive directors and three independent non-executive directors.

Executive directors

Chin Wai Leung, Samuel (*Chairman and Chief Executive Officer*)

Dai Feng Shuh (*Chief Operating Officer*)

Non-executive directors

Chang Ban Ja, Jimmy

Gou Hsiao Ling

Lee Jin Ming

Lu Fang Ming

Independent non-executive directors

Lau Siu Ki (*chairman of the remuneration committee and the audit committee*)

Edward Fredrick Pensei

Mao Yu Lang

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During the year, five board meetings were held and the attendance of each director is set out below:

| Name of director | Number of board meetings attended in 2005 |
|-------------------------|--|
| Chin Wai Leung, Samuel | 3/5 |
| Dai Feng Shuh | 5/5 |
| Chang Ban Ja, Jimmy | 2/5 |
| Gou Hsiao Ling | 2/5 |
| Lee Jin Ming | 5/5 |
| Lu Fang Ming | 3/5 |
| Lau Siu Ki | 5/5 |
| Edward Fredrick Pensel | 4/5 |
| Mao Yu Lang | 5/5 |

The Board meets regularly and the board meetings are held at least four times a year. At least fourteen days notice is given to all directors and they can include matters for discussion in the agenda. An agenda and accompanying board papers are sent to all directors at least three days before the intended date of a board meeting. Every board member is entitled to have access to board papers and related materials and has access to the advice and services of the Company Secretary. They can also request to seek independent professional advice. The minutes books are kept by the company secretary.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CCGP, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Chin Wai Leung, Samuel currently holds both positions. Given that the Company only became a listed company on The Stock Exchange of Hong Kong Limited ("Stock Exchange") in February 2005 and taking into account the continuation in the implementation of business plan and formulation of business strategies, the Board considers that the present arrangement for Mr. Chin, the Chairman, to hold the office of chief executive officer of the Company is beneficial and in the interests of the Company and its shareholders as a whole. However, in the spirit of corporate governance, the Board will continue to review in the current year the roles of chairman and chief executive officer and, if considered appropriate, separate the two roles in compliance with code provision A.2.1 of the CCGP.

The Chairman is responsible for leadership and for ensuring that directors receive adequate information in a timely manner and are briefed on issues arising at board meetings.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTOR

The Company entered into a letter of appointment with each of the non-executive directors for a term of three years commencing from 1 December 2004 subject to re-election at each annual general meeting of the Company in accordance with article 112 of the articles of association of the Company. All the directors of the Company are subject to retirement by rotation at least once every three years.

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REMUNERATION COMMITTEE

The Company established a remuneration committee with written terms of reference by reference to the provisions of the CCGP.

The remuneration committee consists of one non-executive director and two independent non-executive directors. The members are:

Lau Siu Ki (*chairman*)
Edward Fredrick Pensei
Lee Jin Ming

The principal duties of the remuneration committee are to make recommendation on the policy and structure for the remuneration of the directors and senior management, and to consider and approve remuneration for the directors and senior management by reference to corporate goals and objectives. The committee shall meet at least once a year if necessary. During the year, by a way of written resolutions, the remuneration committee considered and approved the proposed grant of award shares to beneficiaries under the share scheme of the Company.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference by reference to the provisions of the CCGP.

The audit committee consists of one non-executive director and two independent non-executive directors. The members are:

Lau Siu Ki (*chairman*)
Edward Fredrick Pensei
Lee Jin Ming

The principal duties of the audit committee are to review the Group's financial reporting and accounting policies and practices as well as financial controls, internal control and risk management systems. It also makes recommendation on the appointment, re-appointment and removal of external auditor, and approves the remuneration and terms of engagement of the external auditor. It will also review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process.

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For the year ended 31 December 2005, the audit committee met twice, in particular, to review and discuss the auditing and financial reporting, and to review the unaudited interim results and the audited financial statements. The attendance of each member of the audit committee is shown below:

| Name of director | Number of audit committee meetings attended in 2005 |
|-------------------------|--|
| Lau Siu Ki | 2/2 |
| Edward Fredrick Pensel | 2/2 |
| Lee Jin Ming | 2/2 |

Full minutes of the audit committee are kept by the Company Secretary. Draft and final versions of minutes of the audit committee are sent to all members of the committee for their comment and records respectively within a reasonable time after the meeting.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The Board is responsible for the appointment of its members and for considering appropriate candidates for re-election by shareholders at annual general meeting.

The Board in accordance with the articles of the association of the Company consider candidates for directorship. A board meeting was held at which the directors considered and approved, among other things, noting and considering the re-election of directors at the forthcoming annual general meeting.

AUDITORS' REMUNERATION

The responsibility of the auditors is to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, and for no other purpose.

During the year, the following remuneration paid to the Company's auditors, Deloitte Touche Tohmatsu, is set out below:

| Services rendered | Fee paid <i>US\$000</i> |
|---------------------------|-----------------------------------|
| Audit services | 550 |
| Non-audit services | – |

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards.

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ACCOUNTABILITY AND AUDIT

The directors are responsible for overseeing the preparation of accounts of each financial period, which gives a true and fair view of the financial position and operating results of the Group. In preparing the 2005 financial statements, the directors have selected suitable accounting policies and have applied them in a consistent manner, and made reasonable judgments and estimates, and have prepared the accounts on the going concern basis.

The Board is responsible for ensuring effectiveness of the system of internal control within the Group so that objectives of the Group can be achieved. The internal control system, which includes a defined management structure with well-defined level of authority and proper segregation of duty and physical control, is designed to provide reasonable assurance regarding the achievement of objectives including effectiveness and efficiency of operations, reliable of financial reporting, safeguarding of assets and compliance with applicable laws and regulations. As the system is designed to manage the Group's risks within an acceptable risk profile, there is no absolute assurance against material misstatement or loss. The Group has established an on-going process of monitoring the system of controls.

Risk management is a central part of the Group's strategic management and is the process whereby the Group methodically identifies and manages key risks to the achievement of the Group's overall objectives. It marshals the understanding of the potential upside and downside of all those factors which can affect the organization. The process include strategic planning, budgetary control, appointment of senior management, performance measurement and reward, assigning responsibility throughout the Group, control over capital expenditure and proper treasury management.

The Board is of the view that the system of internal controls in place for the year under review is sound and is sufficient to safeguard the interests of shareholders, customers, creditors and employees.

DIRECTORS' SECURITIES TRANSACTIONS

The Company 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 Companies ("Model Code") as set out in Appendix 10 of the Listing Rules. The Company made specific enquiry of all directors and all the directors confirm that they have complied with the Model Code and the Company's code of conduct.

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EFFECTIVE COMMUNICATION

At the 2005 annual general meeting, separate resolutions were proposed for shareholders' consideration and approval in respect of each of the key matters, including the re-election of directors, which required approval by the shareholders.

The chairman of the Board, the chairman of the audit committee and the remuneration committee attended the 2005 annual general meeting to answer questions from the shareholders at the meeting.

VOTING BY POLL

At the 2005 annual general meeting, the procedures for demanding a poll by the shareholders were incorporated in the annual general meeting circular. The procedures for demanding a poll by shareholders and for conducting a poll were also explained by the chairman of the Board at the annual general meeting.