

Corporate Governance Report

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") sets out the principles of good corporate governance ("Principles") and two levels of corporate governance practices:

- (a) code provisions ("Code Provisions") which listed issuers are expected to comply with or to give considered reasons for any deviation; and
- (b) recommended best practices ("Recommended Best Practices") for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with most of the Code Provisions save for the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1st July 2005 pursuant to the CG Code and certain deviations from the Code Provisions in respect of A.2.1, A.4.1 and A.4.2, details of which will be explained below.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

The Company acknowledges the important role of its Board of Directors ("Board") in providing effective leadership and direction to Company business, and ensuring transparency and accountability of Company operations.

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The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the senior management to discharge its responsibilities.

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THE BOARD (continued)

Composition

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board of the Company comprises the following directors:

Executive directors:

Lim Teong Leong (*Chairman*)

Tam Cheok Wing

Ooi Sin Heng

Chan Hon Ming

Independent non-executive directors:

Lim Eng Ho

Wong Ming Shiang

Soo Tho Him Yip (resigned on 2nd March 2006)

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Members of the Board are unrelated to one another.

During the year ended 31st December 2005, the Board met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

Upon the director resignation of Mr Soo Tho Him Yip with effect from 2nd March 2006, the Company is not able to meet the requirements of Rules 3.10(1) (of having at least 3 independent non-executive directors) and 3.21 (of having a minimum of 3 audit committee members) of the Listing Rules. However, the Company does fulfill the requirements of 3.10(2) and second part of Rule 3.21 in which one of the independent non-executive directors have the professional qualifications as required under Rule 3.10(2) of the Listing Rules. The Company is trying every effort to identify a suitable candidate for the consideration by the Board and for the benefit of the shareholders.

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THE BOARD (continued)

Composition (continued)

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

The terms of appointment of the independent non-executive directors are such that their terms of office will expire when they are required to retire by rotation in accordance with the Company's bye-laws.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code Provision A.4.2 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. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Bye-laws deviate from Code Provision A.4.2 of the CG Code which provides that one-third of the directors for the time being (save for the Chairman/Managing Director), or if their number is not three nor a multiple of three, then the number nearest to one-third, shall retire from office and being eligible, offer themselves for re-election at annual general meetings and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

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THE BOARD (continued)

Appointment and Succession Planning of Directors (continued)

The Board is of the opinion that the members of the Company give the power to the Board to fill up the casual vacancy is to enable the Board to run the Company more efficiently. It is adequate for the person filling up the casual vacancy be retired and to be elected at the next Annual General Meeting because should there be any Special General Meeting other than Annual General Meeting, the Board should be focusing on the issue at hand for the Special General Meeting instead of diverting its attention to academic issue i.e. the election of the person appointed for the casual vacancy.

The Company is ultimately owned as to approximately 51.54% by Magnum Corporation Berhad ("MCB"). As such, MCB being the controlling shareholder of the Company can decide if the Chairman and Managing Director of the Company should continue in office irregardless of they are subject to retirement or not.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

In accordance with the Company's Bye-laws, Mr Chan Hon Ming and Mr Tam Cheok Wing, both having been appointed as executive directors of the Company during the year, shall retire and being eligible, offer themselves for re-election at the forthcoming 2006 annual general meeting.

The Board recommended the re-appointment of the directors standing for re-election at the forthcoming 2006 annual general meeting of the Company.

The Company's circular dated 28th April 2006 contains detailed information of the directors standing for re-election.

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THE BOARD (continued)

Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31st December 2005, 4 regular Board meetings were held.

The individual attendance record of each director at the meetings of the Board, Remuneration Committee and Audit Committee during the year ended 31st December 2005 is set out below:

<u>Name of Directors</u>	<u>Attendance/Number of Meetings</u>	
	<u>Board Meeting</u>	<u>Audit Committee</u>
Lim Teong Leong	4/4	-
Tam Cheek Wing	4/4	-
Ooi Sin Heng	4/4	2/2 (Attend by Invitation)
Chan Hon Ming	4/4	-
Lim Eng Ho	3/4	2/2
Wong Ming Shiang	3/4	2/2
Soo Tho Him Yip (resigned on 2nd March 2006)	3/4	2/2

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THE BOARD (continued)

Board Meetings (continued)

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Senior Management attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Senior Management take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr Lim Teong Leong is the Chairman of the Company. He also shares the role of the Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board also considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

BOARD COMMITTEES

The Board has established 2 committees, namely, the Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of each Board committees are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

Corporate Governance Report

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior executives and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

Audit Committee

For the year ended 31st December 2005, the Audit Committee comprised of 3 independent non-executive directors.

The Audit Committee currently comprises two independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise), immediately following the director resignation of Mr Soo Tho Him Yip with effect from 2nd March 2006. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

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BOARD COMMITTEES (continued)

Audit Committee (continued)

The Audit Committee held two meetings during the year ended 31st December 2005 to review the financial results and reports, financial reporting and compliance procedures, report of Internal Auditor on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code on no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with its own code and the Model Code throughout the year ended 31st December 2005.

The Company also has established written guidelines on no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by relevant employees of the Company who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31st December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 30.

An analysis of the remuneration paid to the external auditors of the Company is shown on note 8 of the "Notes to Financial Statements" on page 70.

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INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such on an annual basis through the Audit Committee.

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

During the year under review, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Company.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.