

REPORT OF CORPORATE GOVERNANCE PRACTICES

The Board acknowledges the importance and benefits of fostering a high ethical and responsible culture at all levels within the organization and its responsibility in ensuring that good corporate governance practices and procedures are in place.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES (“CG CODE”)

The Group applied the principles and complied with all the code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules throughout the review period ended 31 December 2006. The Group also complied with most of the recommended best practices as set out in the CG Code throughout the review period ended 31 December 2006.

DIRECTORS’ SECURITIES TRANSACTIONS

The Board has adopted the terms of the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules (the “Model Code”) during the accounting year ended 31 December 2006. None of the Directors is aware of any information that would reasonably indicate that the Company or any of its Directors is not or was not in compliance with the Model Code for any part of the period ended 31 December 2006. Upon specific enquiry of all Directors, the Directors confirmed that they have complied with the Model Code for any part of the period ended 31 December 2006.

THE BOARD

Roles of Directors

The Board assumes responsibility for leadership and control of the Group. The principal roles of the Board are:

- to lay down the Group’s objectives, strategies, policies and business plan;
- to monitor and control operating and financial performance through the determination of the annual budget in particular the capital expenditure budget; and
- to set appropriate policies to manage risks in pursuit of the Group’s strategic objectives.

The Board has delegated the day-to-day responsibility to the executive management under the instruction/supervision of the chief executive officer and various Board committees.

Composition

As at the date of this annual report, the Board consists of 7 members with 2 executive Directors, 2 non-executive Directors and 3 independent non-executive Directors. The chairman and the chief executive officer positions are split and each of them plays a distinctive role.

- The chairman, Mr. Kazuhiro Asano, is responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner.
- The chief executive officer, Ms. Wong Kuen Ling, Karene, is delegated with the authority and is responsible for running the Group's business, and the implementation of the approved strategies in achieving the overall commercial objectives.

The Board held 7 meetings during the year with attendance record as follows:-

Attendance at Board Meeting	Number of Meetings Attended (7 Meetings in total)
Executive Directors:	
Kazuhiro Asano (<i>Chairman</i>)	6
Wong Kuen Ling, Karene (<i>Chief Executive Officer</i>)	7
Guy Bindels (<i>formerly Chief Executive Officer</i>) (resigned on 7 July 2006)	2
Non-executive Directors:	
Koo Ming Kown	6
Li Shi Yuen, Joseph (resigned on 1 March 2006)	1
Lee Wa Lun, Warren*	6
Independent Non-executive Directors:	
Chan Tit Hee, Charles	7
Thaddeus Thomas Beczak	7
Roger Simon Pyrke (appointed on 13 February 2006)	6

* *re-designated as a non-executive Director from an independent non-executive Director on 13 February 2006*

The Board will assess and affirm annually that all independent non-executive Directors satisfy the criteria of independence, as set out in the Listing Rules. Save as disclosed in this annual report, Board members are totally unrelated in every aspect including financial, business or family. Biographies of the Directors, and their respective roles in the Board and committees are set out on pages 26 to 28 of this annual report. Directors, committee members and the Company's senior management officers will be indemnified against liabilities that may be incurred by them in the execution and discharge of their duties or in relation thereto. A Directors and Officers Liability Insurance policy has been arranged for providing the indemnity.

NOMINATION, APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board considers the determination of the appointment and removal of Directors to be the Board's collective decision and thus does not intend to adopt the recommended best practice of the CG Code to set up a Nomination Committee of the Company. The rules governing the appointment, re-election and removal of Directors are laid down in the Articles of Association and details of the procedures for nominating candidates to stand for election at the annual general meeting for year 2006 are set out in the circular to the Shareholders sent together with this annual report. Criteria adopted by the Board in considering the suitability of a candidate for directorship includes his/her qualifications, experience, expertise and knowledge as well as the requirements under the Listing Rules.

The terms of appointment of executive and non-executive Directors are set out in the Report of the Directors on page 12 of this annual report.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs of the results and cash flow for the year. In preparing the accounts for the year ended 31 December 2006, the Directors have:

- approved adoption of all Hong Kong Financial Reporting Standards ("HKFRSs") which are in conformity to the International Financial Reporting Standards in all material respects;
- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are prudent and reasonable; and
- ensured that the accounts are prepared on a going concern basis.

The annual, interim and quarterly results of the Company are announced in a timely manner after the end of the relevant periods. The Group has set up an Audit Committee and a Remuneration Committee under the Board. The Audit Committee is provided with sufficient resources to discharge its responsibilities and is supported by the Internal Audit Department of the Company. The Audit Committee is accountable to the Board. In 2006, the Board, through the Audit Committee, reviewed the effectiveness of the Group's system of internal control over financial, operational and compliance issues, broad-based risk management processes, and physical and information systems security. To formalise the annual review of internal control system, the Audit Committee made reference to the globally recognised framework with modifications to include some controls which are specific to the Group's operation. The Audit Committee concluded that, in general, the Group has set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance. The Board, through the review of the Audit Committee, is satisfied that the Group in 2006, fully complied with the code provisions on internal controls as set forth in the CG Code.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three non-executive Directors, Mr. Thaddeus Thomas Beczak, Mr. Koo Ming Kown and Mr. Roger Simon Pyrke. Mr. Beczak is the chairman of the Remuneration Committee. The Remuneration Committee has adopted terms of reference which are in line with the CG Code. The Remuneration Committee met once at the end of the year to review the remuneration policy and remuneration packages of the executive Directors and members of the senior management. All the committee members attended the meeting.

AUDIT COMMITTEE

The Company set up an Audit Committee in 2004. The Audit Committee comprises three independent non-executive Directors, Mr. Chan Tit Hee, Charles, Mr. Thaddeus Thomas Beczak and Mr. Roger Simon Pyrke. Mr. Chan is the chairman of the Audit Committee. The Audit Committee has adopted terms of reference which are in line with the CG Code. The Audit Committee met 4 times in 2006 with attendance record as follows:

Name of Member	Meetings attended/eligible to attend
Chan Tit Hee, Charles	4/4
Thaddeus Thomas Beczak	4/4
Roger Simon Pyrke (appointed on 13 February 2006)	3/3
Lee Wa Lun, Warren*	1/4

* ceased to be a member of the Audit Committee on 13 February 2006

During the year, the main duties of the Audit Committee are:

- (i) to make recommendations to the Board on the appointment, reappointment and removal of the external auditors (the "Auditors") and approving the audit fees and terms of engagement of the Auditors, and any questions of resignation or dismissal of the Auditors.
- (ii) to review the quarterly and annual financial statements prior to recommending them to the Board for approval.
- (iii) to review the Auditors' management letter and the management's response thereto, and to ensure that recommendations made by the Auditors are carried out.
- (iv) to review the operation and effectiveness of the Company's financial control, internal control and risk management systems.
- (v) to review the appropriateness of reporting and accounting policies and disclosure practices.
- (vi) to review the work of the Internal Audit Department, ensuring coordination between the Internal Audit Department and Auditors, and reviewing and monitoring the effectiveness of the internal audit function.

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The Group's financial statements for the year ended 31 December 2006 have been reviewed by the Audit Committee, who is of the opinion that such statements comply with applicable accounting standard and legal requirements, and that adequate disclosures have been made.

SARBANES-OXLEY ACT

The Company's holding company, NTE Inc., is a New York Stock Exchange listed company. In this respect, NTE Inc. is working towards full compliance with the relevant sections of the Sarbanes-Oxley Act (the "Act") in accordance with the timetable set out by the relevant regulations. The Act mainly focuses on the effectiveness of internal control and essentially requires the management of NTE Inc. to annually state its responsibilities in establishing and maintaining an adequate internal control structure and procedure for financial reporting; and to conduct an assessment of the effectiveness of NTE Inc.'s internal controls and procedures for financial reporting, followed by an attestation of management's assertions by external auditors of NTE Inc.

In order for the management of NTE Inc. to comply with the Act, each of its subsidiary companies will have to comply with the same stringent requirements under the Act. To this end, the Company has set up a task force which follows the methodology and time schedule of NTE Inc. to ensure that the internal control requirements under the Act can be fully complied with in year 2007.

We believe that upon full implementation of the internal control procedures under the Act, the Company's corporate governance and business practices will be even better enhanced.

QUARTERLY REVIEW BY AUDITORS

The Company engaged external auditors to review its quarterly results in 2006 prior to publication.

AUDITORS' REMUNERATION

(fees for audit and audit related services, and non-audit services)

During the year, the Group engaged DTT to perform audit and audit related services, and non-audit services and incurred audit and audit related service fees of approximately US\$189,000 (2005: US\$154,000) and non-audit service fees of approximately US\$22,000 (2005: US\$57,000). The audit and audit related service fees included approximately US\$15,000 (2005: US\$13,000) for reviewing the Group's 2006 interim financial statements, and approximately US\$25,000 (US\$20,000) for reviewing the Group's first and third quarters' financial results.

The Audit Committee acknowledges the delegation of responsibilities from the Board to oversee the effectiveness of the system of internal controls, including financial and operational. In view of the above measures, the Audit Committee has fully complied with and fulfilled its responsibilities as stated under the Code Provisions C.2 on Internal Controls and C.3 on the Audit Committee of the CG Code.

On behalf of the Board

Kazuhiro Asano

Chairman

Hong Kong, 12 February 2007