

CORPORATE GOVERNANCE REPORT

The Company puts great emphasis on corporate governance and committed to maintain the high standard of corporate governance which is reviewed and strengthened from time to time. The board believes that shareholders can derive maximum benefits from good corporate governance.

The Company has adopted all the provision under the “Code on Corporate Governance Practice” (the “Code”) as set out in Appendix 14 of the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”) provisions of the Code as its own code on corporate governance practice. During the year, the Company has complied with all provisions under the Code.

GOVERNANCE STRUCTURE

The Company’s corporate governance structure includes the board and two committees under the board, namely audit committee and remuneration committee. The board stipulates the terms of reference of all committees in writing and specifies clearly the power and responsibilities of the committees.

BOARD MEMBERS

The board comprises seven directors, including four executive directors, namely Mr. Leung Siu Fai, Mr. You Guang Wu, Mr. Kam Hung Chung and Mr. Wang Jin Yuan, and three independent non-executive directors, namely Mr. Chan Kwok Wai, Mr. Chen Da Cheng and Mr. Deng Hong Ping. All independent non-executive directors of the Company have complied with the requirements of the Listing Rules and have presented annual confirmations of independence issued pursuant to Rule 3.13 of the Listing Rules to the Company. The board has assessed their independence and confirms that all independent non-executive directors are independent parties as defined in the Listing Rules. The term of office of Mr. Chan Kwok Wai and Mr. Chen Da Cheng is two years and will expire on 21 September 2008. The term of office of Mr. Deng Hong Ping is two years and will expire on 5 April 2008. They are subject to the retirement and re-election requirements of the bye-laws of the Company.

THE BOARD

Information of all directors are contained in this annual report on pages 16 and 17.

There are no business, financial, family and other relevant interests among directors and between them and the Company or its subsidiaries.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The board convenes at least four regular meetings each year (approximately one each quarter) and will convene meetings when necessary. When a regular board meeting is convened, the board documents will be sent to directors for review before the meeting pursuant to the Listing Rules and the Code Provisions so that directors can keep abreast of the information to perform their duties and responsibilities.

The board convened 10 meetings in 2006. The attendance of directors is as follows:

Director Name	Attendance	Attendance Rate
<i>Executive directors</i>		
Leung Siu Fai (<i>Chairman</i>)	10	100%
You Guang Wu (<i>Vice Chairman</i>) ¹	10	100%
Kam Hung Chung (<i>Managing Director</i>)	10	100%
Wang Jin Yuan	10	100%
<i>Independent non-executive directors</i>		
Chan Kwok Wai	9	90%
Chen Da Cheng	9	90%
Deng Hong Ping ²	5	50%

- Notes:*
1. Mr. You Guang Wu was an independent non-executive director of the Company. On 6 April 2006, he has been redesignated as an executive director and was appointed as Vice Chairman of the Company.
 2. On 6 April 2006, Mr. Deng Hong Ping has been appointed as an independent non-executive director of the Company.

The remuneration of directors is determined with reference to their functions and responsibilities in the Company, the performance of the Company and current market conditions. Any director is not allowed to participate in determining his own remuneration. The remuneration received by directors from the Company during the year is set out in note 10 of the financial statements.

The board has set up an independent professional consulting procedure and upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

CORPORATE GOVERNANCE REPORT (CONTINUED)

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors with extensive experience in accounting or legal matters. The audit committee is mainly responsible for reviewing the financial statements and annual reports and accounts of the Company, submitting relevant reports and recommendations to the board, and making recommendations on the appointment and remuneration of the auditors of the Company and any matters related to the termination of appointment. Mr. Chan Kwok Wai is chairman of the audit committee and is responsible for reporting the meeting results and recommendations of the audit committee to the board after each meeting.

In 2006, the audit committee convened three meetings. Members and their attendance are as follows:

Member Name	Attendance	Attendance Rate
Chan Kwok Wai (<i>Chairman of audit committee</i>)	3	100%
Chan Da Cheng	3	100%
Deng Hong Ping ¹	2	67%
You Guang Wu ²	2	67%

Notes: 1. On 6 April 2006, Mr. Deng Hong Ping has been appointed as an independent non-executive director of the Company and replaced Mr. You Guang Wu as the member of the audit committee.

2. On 6 April 2006, Mr. You Guang Wu has been redesignated as an executive director and therefore resigned as member of the audit committee.

Tasks undertaken by the audit committee during the year included reviewing the 2005 audited financial statements and the annual results announcement, reviewing the interim report for the six months ended 30 June 2006 and the interim results announcement, considering the accounting standards adopted, overseeing the financial control, internal control and risk manage system, reviewing the management letter about audit submitted by the auditors to the management and the response of the management, the basis of opinion made by the auditors in their report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

REMUNERATION COMMITTEE

The remuneration committee comprises three independent non-executive directors and two executive directors. The remuneration committee is principally responsible for reviewing and approving remuneration plans for directors and senior management, determining the remuneration package of executive directors and senior management, including benefits, pension interests and the payment of compensation. Mr. Chen Da Cheng is chairman of the remuneration committee and is responsible for reporting the meeting results and recommendations of the remuneration committee to the board after each meeting.

In 2006, the remuneration committee convened one meeting. Members and their attendance are as follows:

Member Name	Attendance	Attendance Rate
Chen Da Cheng (<i>Chairman of the remuneration committee</i>) ¹	1	100%
Chan Kwok Wai	1	100%
Deng Hong Ping ¹	0	—
Leung Siu Fai	1	100%
Kam Hung Chung	1	100%
You Guang Wu ²	1	100%

Notes: 1. On 6 April 2006, Mr. Deng Hong Ping was appointed as a member of the remuneration committee and Mr. Chen Da Cheng was appointed and replaced Mr. You Guang Wu as chairman of the remuneration committee.

2. On 6 April 2006, Mr. You Guang Wu has been redesignated as an executive director and therefore he resigned as chairman and member of the remuneration committee.

Tasks undertaken by the remuneration committee during the year included reviewing the remuneration structure, remuneration policy and bonus system of the Group, considering the incentive payment for the year and making recommendations to the board. The remuneration committee also ensures that no director or senior management member determines his own remuneration.

The remuneration policy of the Group is to determine the remuneration based on the responsibilities, qualifications and working performance of staff (including directors). In addition, the Group has adopted the share option scheme on 20 May 2003. Currently, the Group has not granted any share options.

CORPORATE GOVERNANCE REPORT (CONTINUED)

ROLES OF THE BOARD AND MANAGEMENT

The board is principally responsible for establishing the development direction of the Group, formulating targets and business development plans, approving major agreements and matters, monitoring the performance of senior management and is responsible for corporate governance with a view to increasing shareholders' value. Led by the general manager, the management is responsible for implementing the strategies and plans developed by the board.

The Company has developed a schedule of matters reserved to the board for its decision and has separately identified those functions reserved to the board. The board will review those arrangements on a regular basis to ensure that the arrangements meet the needs of the Company.

ROLES AND DUTIES OF CHAIRMAN AND GENERAL MANAGER

The chairman and the general manager have different roles. The chairman is responsible for the operation of the board and the general manager is responsible for managing the operations of the Group. Their functions have been clearly divided to ensure a balanced distribution of power and authority not concentrating on a single individual.

Mr. Leung Siu Fai is chairman of the board and is principally responsible for leading the board and ensures the board acts in the best interests of the Company. The chairman shall ensure the board operates effectively and performs its proper duties and discusses all important and proper matters in a timely manner. The chairman is responsible for convening board meetings, consulting, determining and approving the agenda of each board meeting, and ensuring that directors are provided sufficient information on current matters in a timely manner. The chairman is also responsible for the structure, number of members and composition of the board and makes recommendations to the board on any intended changes. The chairman is also responsible for ensuring that the Company formulates good corporate governance practice and procedure.

Mr. Kam Hung Chung, the managing director, is principally responsible for the daily operation and management of the Group's overall operations and implementing the board's operating strategy and policy and delegating tasks to all departments for implementation so as to realize the board's objectives and decisions. In addition, he is also responsible for coordinating close cooperation among all departments, uniting efforts of staff and encouraging the initiative of staff so as to ensure smooth and effective operation of the Company's operations and systems.

CORPORATE GOVERNANCE REPORT (CONTINUED)

DIRECTOR NOMINATION

Pursuant to the bye-laws of the Company, the board is entitled to appoint any person as director from time to time or at any time to fill a casual vacancy or add a new board member. For nomination, the nominee's qualifications, capabilities and potential to make contribution to the Company shall be taken into consideration. The board has not established the nomination committee at the moment. However, the board will assess from time to time whether there is a need to establish the nomination committee to deal with the appointment, re-election and retirement of directors.

Mr. You Guang Wu was formerly an independent non-executive director of the Company. On 6 April 2006, he has been redesignated as an executive director and was appointed as Vice Chairman of the Company. He resigned as members of the audit committee and the remuneration committee. At the same time, Mr. Deng Hong Ping was appointed as an independent non-executive director of the Company, a member of the audit committee and a member of the remuneration committee. The abovementioned change of directors and their duties were approved unanimously by all the directors at a board meeting.

INTERNAL CONTROL

The board is responsible for maintaining a stable and effective internal control system for the Group. The system includes a management structure with terms of reference to protect its assets from misappropriation, and ensures keeping appropriate accounting records so as to provide reliable financial information for internal use or for dissemination, as well as ensuring compliance with the laws and regulations. The system aims at providing reasonable (but not absolute) guarantees for the prevention of material untrue statements or losses, as well as management on the interruption of the Group's management system and risks existing in the course of arriving at the Group's objectives.

The management of the Group has reviewed whether the Group's internal control and risk management system for the year ended 31 December 2006 were effective, and had submitted the results of the review and its recommendations and opinions for consideration by the audit committee and the board. The audit committee and the board have discussed the relevant results of review, and agreed that internal control procedures and risk management systems have been implemented in the various major operation sectors.

CORPORATE GOVERNANCE REPORT (CONTINUED)

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listing Issuers (“Model Code”) in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by directors and has adopted written guidelines no less exacting than the Model Code for application to senior management and designated people who might have access to price sensitive information of the Group.

Following enquiries by the Company, all directors confirmed that they have complied with the Model Code during the year ended 31 December 2006.

ACCOUNTABILITY AND AUDIT

Directors acknowledge their responsibility in preparing financial statements of the Group.

The financial department of the Company is managed by a qualified accountant. With the assistance of the account department, the board will ensure the preparation of the financial statements of the Group complies with relevant regulations and applicable accounting standards.

For the year ended 31 December 2006, the audit fee was approximately HK\$1,000,000. There was no non-audit service fee for the year.

The statement of reporting responsibility issued by HLM & Co. , the auditors of the Company, in respect of the financial statements of the Group is set out in the auditor’s report on pages 23 to 24.

CORPORATE GOVERNANCE REPORT (CONTINUED)

COMMUNICATION WITH SHAREHOLDERS

The Company has maintained communication with shareholders through the annual general meeting or other general meetings and encourages them to participate in general meetings. Registered shareholders receive notices of general meetings by post. The notice of general meeting contains the agenda, the proposed resolutions and the voting form. Any registered shareholder is entitled to attend the annual general meeting and special general meetings provided that their shares must be registered in the register of members. Shareholders who are unable to attend the general meeting can fill in the proxy form attached with the notice of general meeting and return the same to the share registrar and transfer office of the Company so as to appoint their representatives or the chairman of the meeting as their proxies. The procedure for demanding voting by poll is set out in the circular to shareholders sent together with the notice of general meeting and will be read out by the chairman of the meeting at the general meeting.

At the annual general meeting held on 23 May 2006, the chairmen of the board, the audit committee and the remuneration committee were present to answer questions raised by shareholders and proposed separate resolutions in respect of each substantially separate issue.