

Corporate Governance Report

The Company acknowledges the importance of good corporate governance practices and believes that maintaining high standard of corporate governance practices is crucial to the development of the Company.

The Company has complied with all the code provisions of the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the annual report, save for the few exceptions mentioned below.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and overseeing the Group's affairs. The Board formulates the overall strategic direction and review and approves major transaction of the Group, while the management is delegated with the power to implement policies and strategies as set out by the Board. The Board also acknowledges its responsibilities for preparing the financial statements of the Company.

The Board has a balanced composition of executive and non-executive directors. Currently, the Board comprises five Executive Directors, being Mr. Or Wai Sheun (Chairman of the Board), Mr. Yeung Kwok Kwong (Managing Director), Ms. Wong Yuk Ching, Mr. Lam Chi Chung, Tommy and Ms. Chio Koc Ieng, one Non-executive Director, being Mr. Lai Ka Fai, and three Independent Non-executive Directors, being Mr. Anthony Francis Martin Conway, Mr. Siu Leung Yau and Mr. Liu Kwong Sang. The Directors have no financial, business, family or other material/ relevant relationship. The profiles of the Directors, which are set out on pages 16 to 17, demonstrate a balance of skills and experience of the Board.

To ensure the compliance of Code Provisions D.1.1 and D.1.2, an executive committee has been established for the management and administration functions. The Board has also formalised the function reserved by the Board and those delegated to the management and clear direction has been given as to the power of the management.

Code Provision A.1.8 stipulates that, if a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board, the matter should not be dealt with by way of circulation, but a board meeting should be held. During the year, the Group acquired the entire issued capital of a company from a substantial shareholder of the Company. During the year, the Company also issued 2.8 billion ordinary shares of the Company at HK\$1.98 per share and 123 million units of warrants in the Company totalling HK\$243.5 million, both transactions in which involved issue of securities to another substantial shareholder of the Company as one of the participants of the transactions. These two substantial shareholders are controlled by a Director. The management had fully informed all the Directors and had discussed with each of the Directors the details of these transactions. All the Directors had verbally confirmed their support to the management's decisions on these transactions without any queries. Taking into consideration of such verbal confirmations made by all the Directors, the management considered that these transactions could be approved by the Board by way of resolutions in writing and that no Board meeting was needed.

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BOARD OF DIRECTORS *(Continued)*

During the year, the Board has held seven board meetings. The attendance of the Directors at the board meetings was as follows:

Directors	Number of attendance
Mr. Or Wai Sheun (<i>Chairman of the Board</i>) (appointed on 1 April 2006)	5/5
Mr. Yeung Kwok Kwong	7/7
Ms. Wong Yuk Ching	7/7
Mr. Lam Chi Chung, Tommy	7/7
Ms. Chio Koc Ieng (appointed on 1 April 2006)	4/5
Mr. Lai Ka Fai	7/7
Mr. Anthony Francis Martin Conway	7/7
Mr. Siu Leung Yau	6/7
Mr. Liu Kwong Sang	7/7

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. Yeung Kwok Kwong was the Chairman of the Board and the Managing Director of the Company during the period from 1 January 2006 to 31 March 2006. With effect from 1 April 2006, Mr. Or Wai Sheun replaced Mr. Yeung Kwok Kwong to act as the Chairman of the Board and Mr. Yeung Kwok Kwong remained to act as the Managing Director. The responsibility of the Chairman of the Board is to lead the Board to provide high-level guidance and oversight to the Group, while the Managing Director is delegated with the power to implement policies and strategies as set out by the Board.

AUDIT COMMITTEE

The present members of the Audit Committee are two Independent Non-executive Directors, being Mr. Liu Kwong Sang (Chairman) and Mr. Siu Leung Yau and one Non-executive Director, being Mr. Lai Ka Fai. During the year, the Audit Committee has held three meetings. The attendance of the Audit Committee members at the audit committee meetings was as follows:

Directors	Number of attendance
Mr. Liu Kwong Sang (<i>Chairman of the Audit Committee</i>)	3/3
Mr. Siu Leung Yau	3/3
Mr. Lai Ka Fai	3/3

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AUDIT COMMITTEE *(Continued)*

The responsibility of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting and internal control system. The roles of the Audit Committee include maintaining a close relationship with the external auditors, reviewing of financial information of the Company and overseeing of the Company's financial reporting system and internal control procedure.

During the year, the Audit Committee reviewed the audited financial statements for 2005 and the interim financial statements for 2006 and met with the external auditors and the management of the Company to discuss issues arising from the audit of the financial statements. The Audit Committee also reviewed the effectiveness of the system of internal control of the Group and the resignation of the external auditors and made recommendation to the Board on the appointment of the external auditors.

REMUNERATION OF DIRECTORS

The present members of the Remuneration Committee are one Executive Director, Mr. Yeung Kwok Kwong (Chairman) and three Independent Non-executive Directors, Mr. Anthony Francis Martin Conway, Mr. Siu Leung Yau and Mr. Liu Kwong Sang. During the year, the Remuneration Committee has held three committee meetings. The attendance of the Remuneration Committee members at the Remuneration Committee meeting was as follows:

Directors	Number of attendance
Mr. Yeung Kwok Kwong (<i>Chairman of the Remuneration Committee</i>)	3/3
Mr. Anthony Francis Martin Conway	2/3
Mr. Siu Leung Yau	3/3
Mr. Liu Kwong Sang	3/3

The roles of the Remuneration Committee include formulating remuneration policy for approval by the Board, which shall take into consideration factors such as salaries paid by comparable companies, employment conditions, time commitment and responsibilities, desirability of performance based remuneration, and individual performance of the Directors and Senior Management, and implement the remuneration policy laid down by the Board.

During the year, the Remuneration Committee has reviewed the remuneration policy of the Company, the directors' fees to the Non-executive Directors and the remuneration package of the Executive Directors, including two Executive Directors who joined the Company during the year.

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NOMINATION OF DIRECTORS

The Company currently does not have a nomination committee. To maintain high quality of the Board with a balance of skills and experience, the Board will identify individuals suitably qualified to become Directors when necessary. The Board will consider the experience, qualification and other relevant factors, including the standards set out in rules 3.08 and 3.09 of the Listing Rules and rule 3.13 of the Listing Rules in case of Independent Non-executive Directors, of the eligible candidates. During the year, the Board considered and approved the appointment of two additional Executive Directors.

NON-EXECUTIVE DIRECTORS

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Non-executive Directors do not have a specific term of appointment, but subject to rotation in accordance with article 108(A) of the articles of association of the Company. As the Non-executive Directors are subject to rotation in accordance with the articles of association of the Company, the Board considers that the Non-executive Directors so appointed with no specific term will not impair the quality of corporate governance of the Company as required by the principle of good governance laid down in A.4 of the Code on Corporate Governance Practices.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

The first sentence of 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. In accordance with article 112 of the articles of association of the Company, any Director appointed to fill a casual vacancy shall hold office until the next following annual general meeting of the Company.

As the Director appointed to fill a casual vacancy shall subject to re-election in the next following annual general meeting of the Company in accordance with the articles of association of the Company which complies with paragraph 4(2) of the Appendix 3 of the Listing Rules, the Board considers that the Directors so appointed subject to election by shareholders at the next following annual general meeting of the Company after their appointment will not impair the quality of corporate governance of the Company as required by the principle of good governance laid down in A.4 of the Code on Corporate Governance Practices.

The Company did not have any deviation from the first sentence of Code Provision A.4.2 during the year.

The last sentence of Code Provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In accordance with article 108(A) of the articles of association of the Company (before amendments mentioned below) at every annual general meeting, one-third of the Directors for the time being, other than Chairman, Deputy Chairman, Managing Director or Joint Managing Director, or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third should retire from office.

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APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS *(Continued)*

In order to ensure compliance with the last sentence of Code Provision A.4.2, the relevant articles of articles of association of the Company were amended at the annual general meeting held on 8 May 2006.

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 (the "Model Code") as set out in Appendix 10 of the Listing Rules. On specific enquiries made, all Directors have confirmed that, in relation to the accounting period covered by the annual report, they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

INTERNAL CONTROLS

The Board has the overall responsibilities of maintaining a sound and effective internal control system for the Group. The Group's system of internal control includes a defined management structure with limits of authority. The system is designed to help the Group to achieve business objectives, safeguard assets against unauthorized use, ensure the maintenance of proper accounting records for the provision of reliable financial information, and ensure compliance with relevant legislation and regulations. The system is designed to manage risks of failure in operational systems and foster achievement of corporate objectives. The internal control system is subject to the review of the Audit Committee.

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors are set out below:

	KPMG <i>HK\$'000</i>	Deloitte Touche Tohmatsu* <i>HK\$'000</i>
Services rendered		
— audit services	790	—
— other non-audit services (preparation of circular in respect of the proposed acquisition of a subsidiary)	—	598
	790	598

* Former auditors of the Company