

CORPORATE GOVERNANCE REPORT

CODE OF BEST PRACTICE AND CODE ON CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the “Board”) is committed to maintaining high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, maintain high standards of accountability and protect shareholders’ interests in general.

The Company has complied with the Code on Corporate Governance Practices (the “Code”) throughout the year ended 31 December 2006 except the following:

Under the Code Provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. However, according to the Company’s original Articles of Association, not exceeding one-third of the Directors shall retire from office by rotation at each annual general meeting and the Directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. The original Articles of Association do not comply fully with the Code.

The Company has therefore passed a special resolution at the last annual general meeting held on 8 May 2006 for amendments of the Articles of Association in order to comply with the Code.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 of the Rules Governing the Listing of Securities (“Listing Rules”) as its own code of conduct regarding Directors’ securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

The Board comprises eleven members, including Chairman, Deputy Chairman (who is also the Chief Executive Officer), five Executive Directors, one Non-executive Director and three Independent Non-executive Directors. Biographical details of the Directors are set out in the section of Directors and Senior Management Profiles on pages 18 to 20.

The Board is responsible for approving and monitoring the Group’s strategies and policies, approval of annual budgets and business plans, revaluating the performance of the Group and supervising the work of management. The management is responsible for the daily operations of the Group under the leadership of the Chief Executive Officer.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. The Board follows the requirements set out in the Listing Rules to determine the independence of Directors. The Company has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and considers the Independent Non-executive Directors to be independent.

The roles of the Chairman and the Chief Executive Officer are segregated in order to reinforce their independence and accountability. Mr. Xu Da Zuo, an Executive Director, is a cousin of Mr. Hui Lin Chit, the Chief Executive Officer and a substantial shareholder. Save as disclosed above, the Directors are not otherwise related to each other.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Remuneration Committee consists of a majority of Independent Non-executive Directors and its members are:

Mr. Hui Lin Chit (*Chief Executive Officer*)

Mr. Chan Henry (*Independent Non-executive Director*) – *Chairman of the Committee*

Mr. Chu Cheng Chung (*Independent Non-executive Director*)

Ms. Ada Ying Kay Wong (*Independent Non-executive Director*)

The Remuneration Committee is charged with the responsibility of determining the specific remuneration packages of all Executive Directors and senior management, including benefits-in-kind, pension rights, and compensation payments, and to advise the Board on the remuneration of the Non-executive Directors. In developing remuneration policies and making recommendations as to the remuneration of the Directors and senior management, the Remuneration Committee takes into account the performance of the Group as well as individual Directors and key executives.

No Directors can determine their own remuneration package. The Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference which are set out in accordance with the requirements of the Listing Rules. The detail terms of reference of the Committee are published on the Company's website.

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director of the Company for 2006 are showed in Note 13 to the accounts.

AUDIT COMMITTEE

The Audit Committee was formed to review and supervise the financial reporting process and internal controls of the Company. The Audit Committee comprises three Independent Non-executive Directors and one of whom possesses the appropriate business and financial experience and skills to understand the accounts of the Group. The Committee is chaired by Ms. Ada Ying Kay Wong and other members are Mr. Chu Cheng Chung and Mr. Chan Henry.

Under its terms of reference, which were prepared and adopted with reference to the Code and "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's interim and annual results, to review the scope, extent and effectiveness of internal controls of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determines is necessary and to perform investigations. The detail terms of reference of the Audit Committee is published on the Company's website.

CORPORATE GOVERNANCE REPORT

Directors' Attendance at Board, Remuneration Committee and Audit Committee Meetings in 2006

Directors	Attendance/Number of Meetings Held		
	Full Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting
Executive Directors			
Mr. Sze Man Bok (<i>Chairman</i>)	4/4	N/A	N/A
Mr. Hui Lin Chit (<i>Vice-chairman and Chief Executive Officer</i>)	4/4	N/A	1/1
Mr. Yeung Wing Chun	4/4	N/A	N/A
Mr. Hung Ching Shan	4/4	N/A	N/A
Mr. Xu Da Zuo	4/4	N/A	N/A
Mr. Xu Chun Man	4/4	N/A	N/A
Mr. Loo Hong Shing Vincent	4/4	2/2*	1/1*
Non-executive Director			
Mr. Zhang Shi Pao	2/4	N/A	N/A
Independent Non-executive Directors			
Mr. Chan, Henry	4/4	2/2	1/1
Ms. Ada Ying Kay Wong	3/4	2/2	0/1
Mr. Chu Cheng Chung	4/4	2/2	1/1

* Being the secretary of the meetings.

NOMINATION OF DIRECTORS

The Board has established formal and transparent procedures for the appointments of new Directors and re-nomination and re-election of Directors at regular intervals. In accordance with the Company's Articles of Association, one-third of the Directors will retire from office at the Company's annual general meeting. Mr. Sze Man Bok, Mr. Yeung Wing Chun, Mr. Hung Ching Shan and Mr. Xu Chun Man retire, and being eligible, offer themselves for re-election.

AUDITORS' REMUNERATION

The amount of audit fee for the year ended 31 December 2006 was approximately HK\$3,500,000. The auditors also provided professional services in accordance with the Hong Kong Standard on Investment Circular Reporting Engagement 400 "Comfort Letters and Due Diligence Meetings on Financial and Non-Financial Information" in connection with the issuance of convertible bonds and charged a fee of HK\$650,000 during the year. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the accounts of the Group. With the assistance of the accounting department, which is under the supervision of the Qualified Accountant of the Company, the Directors ensure that the accounts of the Group have been properly prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure that the publication of the accounts of the Group is in a timely manner.

A report of the independent auditors on the Group's accounts is set out in this annual report.

INTERNAL CONTROLS

Management had implemented a system of internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purposes, investment and business risks affecting the Group are identified and managed.

The Group has an independent and subjective internal audit department which critically reviews and monitors all critical aspects of the Group's authorities and its internal controls. The head of internal audit reports to the Board and the Audit Committee on a quarterly basis.

In addition, an independent international professional accounting firm was appointed by the Group to conduct a review on its systems of internal controls and to provide recommendations on areas of improvement. The report was reviewed by the Audit Committee during the year. Management has followed up or is following up the recommendations in the report in order to enhance internal control policies, procedures and practices.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with shareholders and investors: (i) dispatching printed copies of corporate communication documents to shareholders; (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) latest and key information of the Group are available on the website of the Company, (iv) regular press conferences and briefing meetings with investors, shareholders and analysts are set up from time to time on updated information of the Group, and (v) the Company's Registrars serve the shareholders respecting all share registration matters.