

Report on Corporate Governance

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance is crucial to improve the efficiency and performance of the Group and to safeguard the interests of the shareholders. Throughout the year ended 31 December 2006, the Company has applied the principles of the Code on Corporate Governance Practices (the "Code") 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") and complied with all the applicable code provisions of the Code, except the following:

- (a) Under the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2006, the Company did not have any chief executive officer. The executive directors collectively oversaw the strategic development of the Group, monitored and controlled the financial performance and day-to-day operations of the Group.

However, further to the resignation of Mr. Qian Yong Wei as the non-executive director and non-executive chairman of the Company, the Company had appointed Mr. Guan Guoxing ("Mr. Guan") as the executive director of the Company and Mr. Guan was appointed as the chairman of the Board on 12 December 2006 and 12 January 2007 respectively. Mr. Chiu Yeung, executive director of the Company, had also been appointed as the chief executive officer of the Company on 12 January 2007.

- (b) Under the Code Provision B.1.1, the Company should establish a remuneration committee. The Company established a remuneration committee on 18 May 2006 with specific written terms of reference which deal clearly with its authority and duties.

DIRECTORS' SECURITIES TRANSACTIONS

For the year ended 31 December 2006, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year ended 31 December 2006, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has a separate chairman and chief executive officer. The two positions are assumed by different persons, in order to ensure that their independence, accountability and power are clear. Mr. Guan Guoxing, the chairman of the Board, is responsible for the operation of the Board and the formulation of the Company's strategies and policies, Mr. Chiu Yeung, the chief executive officer, with the assistance of other members of the Board and senior management, is responsible for the management of the Company's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operating.

BOARD OF DIRECTORS

Composition

Directors during the year and up to the date of this report are as follows:

Executive Directors

Guan Guoxing	(appointed on 12 December 2006 and appointed as the Chairman on 12 January 2007)
Jin Jiu Xin	(appointed on 28 February 2006 and appointed as the Deputy Chairman on 12 January 2007)
Chiu Yeung	(appointed as the Chief Executive Officer on 12 January 2007)
Ren Jun Tao	
Xu Zhe Cheng	(resigned on 28 February 2006)
Ji Jian Xun	(appointed on 12 December 2006)

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BOARD OF DIRECTORS (Continued)

Non-Executive Director

Qian Yong Wei (former Non-Executive Chairman, retired on 17 November 2006)

Independent Non-Executive Directors

Mu Xiangming

Cheng Chak Ho

Lo Wa Kei Roy

Except that Ms. Xu Zhe Cheng is the spouse of Mr. Qian Yong Wei, there is no relationship between members of the Board.

During the year ended 31 December 2006, the Board had at all times at least one independent non-executive director who has appropriate professional qualifications or accounting or related financial management expertise.

The principal roles of the Board are to oversee the strategic development, to determine the objectives, strategies and policies of the Group, to monitor and control the financial performance and to ensure effective internal controls and risk management. Implementation of strategies and day-to-day operations are delegated to the management.

During the year, four Board meetings were held and the attendance records are as follows:

Name of Directors	Number of Board Meetings Attended	Attendance Rate
Guan Guoxing (appointed on 12 December 2006)	N/A	N/A
Jin Jiu Xin (appointed on 28 February 2006)	4	100%
Chiu Yeung	4	100%
Ren Jun Tao	4	100%
Ji Jian Xun (appointed on 12 December 2006)	N/A	N/A
Xu Zhe Cheng (resigned on 28 February 2006)	0	0
Qian Yong Wei (resigned on 17 November 2006)	0	0
Mu Xiangming	3	75%
Cheng Chak Ho	3	75%
Lo Wa Kei Roy	3	75%

NON-EXECUTIVE DIRECTORS

All the independent non-executive directors of the Company were appointed for an initial term of one year. All directors appointed to fill a casual vacancy are subject to re-election by shareholders at the next general meeting; and directors newly appointed during the year are subject to re-election by shareholders at the next annual general meeting after their appointment and every director (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the bye-laws of the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of their independency pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

Report on Corporate Governance (Continued)

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company does not have a nomination committee as the role and function of such committee are performed by the Board.

The Board is responsible for considering and approving the appointment of its members and making recommendations to shareholders on directors standing for re-election, providing sufficient biographical details of directors to enable shareholders to make an informed decision on the re-election, and where necessary, nominate and appoint directors to fill casual vacancies. The chairman may in conjunction with the other directors from time to time review the composition of the Board with particular regard to ensuring that there is an appropriate number of directors on the Board independent of management.

According to the bye-laws of the Company, any director appointed by the Board as an additional director shall hold office only until the next annual general meeting, and the next general meeting if appointed to fill a casual vacancy, but is eligible for re-appointment by the shareholders.

In addition, pursuant to the Company's bye-laws, all directors are subject to re-election by shareholders at the annual general meeting at least once every three years on a rotational basis. Details of those directors who are retiring by rotation and seeking re-election at the forthcoming annual general meeting are set out in the shareholders' circular dated 30 April 2007.

During the year, two Board meetings were held to identify and nominate qualified individuals for appointment as new directors of the Company. The attendance records are as follows:

Name of Directors	Number of Board Meetings Attended	Attendance Rate
Guan Guoxing (appointed on 12 December 2006)	N/A	N/A
Jin Jiu Xin (appointed on 28 February 2006)	1	50%
Chiu Yeung	2	100%
Ren Jun Tao	2	100%
Ji Jian Xun (appointed on 12 December 2006)	N/A	N/A
Xu Zhe Cheng (resigned on 28 February 2006)	0	0
Qian Yong Wei (resigned on 17 November 2006)	0	0
Mu Xiangming	2	100%
Cheng Chak Ho	2	100%
Lo Wa Kei Roy	2	100%

REMUNERATION OF DIRECTORS

The Company established the Remuneration Committee in May 2006. The current members of the Remuneration Committee are:

Lo Wa Kei Roy (*Chairman of the Committee*), *Independent Non-Executive Director*
Cheng Chak Ho, *Independent Non-Executive Director*
Chiu Yeung, *Executive Director*

The Remuneration Committee has adopted terms of reference which are in line with the Code.

The Remuneration Committee met once during the year to discuss the remuneration package of the newly appointed Directors. All members had attended the meeting.

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AUDITORS' REMUNERATION

An amount of approximately HK\$320,000 was charged to the Group's consolidated financial statement for the year ended 31 December 2006 for the auditing services provided by M.C. Ng & Co., the existing auditors who was appointed on 11 April 2007. There is no significant non-audit service assignment provided by M.C. Ng & Co. during the year.

During the year under review, no fee was payable to Messrs. HLB Hodgson Impey Cheng who subsequently resigned as auditors of the Group on 14 March 2007, in respect of any audit or non-audit services.

AUDIT COMMITTEE

Current members of the Audit Committee are:

Mu Xiangming (*Chairman of the Committee*), *Independent Non-executive Director*

Cheng Chak Ho, *Independent Non-executive Director*

Lo Wa Kei Roy, *Independent Non-executive Director*

The Audit Committee has adopted terms of reference which are in line with the Code.

The Audit Committee held three meetings during the year ended 31 December 2006. Details of the attendance of the Audit Committee meetings are as follows:

Name of Members	Attendance
Mr. Mu Xiangming (<i>Chairman</i>)	3/3
Dr. Cheng Chak Ho	3/3
Mr. Lo Wa Kei Roy	3/3

The financial statements for the year ended 31 December 2006 have been reviewed by the Audit Committee.

ESTABLISHMENT OF THE CORPORATE GOVERNANCE COMMITTEE AND FINANCIAL REPORTING COMMITTEE

In order to further strengthen the Company's corporate governance, the Company applied the Code as set out in the Listing Rules. On 12 January 2007, the Company formulated the following committees:

Corporate Governance Committee

Current members of the Corporate Governance Committee are:

Mr. Guan Guoxing, an Executive Director and the chairman of the Board

Mr. Jin Jiu Xin, an Executive Director and the deputy chairman of the Board

Mr. Cheng Chak Ho, an independent non-executive director of the Company

The major responsibility of the Corporate Governance Committee is to oversee the Company's corporate governance matters and to ensure the Company has complied with the Code as set out in the Listing Rules.

Report on Corporate Governance (Continued)

ESTABLISHMENT OF THE CORPORATE GOVERNANCE COMMITTEE AND FINANCIAL REPORTING COMMITTEE (Continued)

Financial Reporting Committee

Current members of the Financial Reporting Committee are:

Mr. Jin Jiu Xin, an Executive Director and the deputy chairman of the Board
Mr. Chiu Yeung, an Executive Director and the chief executive officer of the Company
Mr. Lo Wa Kei Roy, an independent non-executive director of the Company

The major responsibility of the Financial Reporting Committee is to oversee the preparation of financial statements of each financial period, which give a true and fair view of the state of affairs of the Company and its subsidiaries and of the results and cash flow for that year. The Financial Reporting Committee is also responsible to ensure the compliance of disclosure requirement under the Listing Rules in a timely manner.

Both committees has held a meeting on 20 April 2007 to discuss the relevant matters. All members had attend the meeting.

INTERNAL CONTROLS

The Board had conduct a review of the effectiveness of the system of internal control of the Group. The Group's internal control system includes a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operation systems and achievement of the Group's objectives. The Board throughout the Group maintains and monitors the internal control systems on an ongoing basis.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors acknowledge that it is their responsibility to prepare the accounts for each financial year which give a true and fair view of the state of affairs of the Group and to present a balanced, clear and understandable assessment of the financial results and disclosures of the Group under the Listing Rules and any other rules and statutory requirements. The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern.

On behalf of the Board

Chiu Yeung

Executive Director

Hong Kong, 20 April 2007