

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to adopting and maintaining a high standard of corporate governance practices and procedures. During the year ended 31 December 2006, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), except for the following deviations:

Code provision A.2.1

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. Both positions were held by Ms Lo Yuk Yee during the period from 1 January 2006 to 29 June 2006. Currently, the positions of chairman and chief executive officer are vacant and the Board is identifying suitable candidates to take up the posts.

Code provision A.4.1 and A.4.2

Under the code provision A.4.1, non-executive directors should be appointed for a specific term. Currently, non-executive directors are not appointed for a specific term. This constitutes a deviation from code provision A.4.1. However, they are subject to retirement by rotation at each annual general meeting under the bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the CG Code.

Under the code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. On 28 June 2006, the bye-laws of the Company were amended so as to comply with this provision.

Code provision B.1.1

Under the code provision B.1.1, a remuneration committee with specific written terms of reference should be established. On 20 September 2006, the Company has established the remuneration committee comprised of Mr Ha Sze Tung Sharp Stone (Chairman), Mr Wei Dong and Mr Yang Yue.

Code provision E.1.2

The former chairman of the Board, Ms Lo Yuk Yee, did not attend the annual general meeting held on 28 June 2006, this constitutes a deviation of the code provision E.1.2. However, other executive directors and independent non-executive director were present to answer questions from shareholders.

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This report also provides the status of the Company's compliance with the Corporate Governance Report as set out in Appendix 23 of the Listing Rules as follows:

BOARD OF DIRECTORS

The Board is responsible for formulating and reviewing business strategies and directions, overseeing the management and monitoring the performance of the Group. While the management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

The Board currently comprises of 5 directors, with 2 executive directors and 3 independent non-executive directors. The Board believes that the balance between executive and non-executive directors is reasonable and adequate to provide check and balance that safeguard the interests of shareholders and the Group.

The Company has received annual confirmation of independence from all independent non-executive directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors are independent and meet the independent guidelines set out in the Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. The Audit Committee is also responsible for the appointment of external auditors and assessment of their qualifications, independence and performance.

Currently, the Audit Committee consists of three independent non-executive directors namely, Ms So Tosi Wan, Winnie (Chairman), Mr Wei Dong and Mr Yang Yue. Ms So Tosi Wan, Winnie has appropriate professional qualifications as required by 3.10(2) of the Listing Rules.

The Audit Committee held two meetings during the year ended 31 December 2006 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The Audit Committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the annual financial statements.

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REMUNERATION COMMITTEE

The Company has established the Remuneration Committee on 20 September 2006 with written terms of reference. Currently, the Remuneration Committee is chaired by Mr Ha Sze Tung Sharp Stone with two independent non-executive directors namely, Mr Wei Dong and Mr Yang Yue as members.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all directors and senior management and reviewing specific remuneration package of all directors and senior management including any compensation payable for loss or termination of their office and appointment. The Remuneration Committee met once during the year to review the remuneration policy for all directors and senior management.

The remuneration of directors and senior management comprises salary, pensions and discretionary bonus. Details of the directors' emoluments for the year ended 31 December 2006 are set out in Note 12 to the financial statements.

NOMINATION COMMITTEE

The Company has not established a nomination committee. The Board is responsible for selecting suitable candidates to act as directors based on their qualification, experience and potential contribution to the Company.

Attendance record at Board, Audit and Remuneration Committee meetings

Directors	Meetings Attended/Held		
	Board	Audit Committee	Remuneration Committee
Ms He Jin Hong	8/8	N/A	N/A
Mr Ha Sze Tung Sharp Stone	8/8	N/A	1/1
Ms So Tosi Wan, Winnie	7/8	2/2	N/A
Mr Wei Dong (appointed on 20 September 2006)	1/2	1/1	1/1
Mr Yang Yue (appointed on 20 September 2006)	1/2	1/1	1/1
Mr Hu Min (resigned on 20 September 2006)	4/6	N/A	N/A
Ms Lo Yuk Yee (resigned on 29 June 2006)	3/4	N/A	N/A
Mr Siu Siu Ling, Robert (resigned on 29 June 2006)	3/4	N/A	N/A
Mr Wong Wai Kin (resigned on 29 June 2006)	2/4	1/1	N/A
Mr Ma Shiu Kin (resigned on 29 June 2006)	1/4	0/1	N/A

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AUDITORS' REMUNERATION

Audit fees for the year under review payable to the auditors of the Company, SHINEWING (HK) CPA Limited, amounted to HK\$420,000. The Company has also paid HK\$44,000 to the previous auditors, BDO McCabe Lo Limited, for underprovided audit fees in respect of the financial year 2005.

FINANCIAL REPORTING

The Board has overall responsibility for preparing the accounts of the Group. In preparing the accounts, the generally accepted accounting policies in Hong Kong have been adopted and the Group has complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been applied consistently.

INTERNAL CONTROL

The Board has the overall responsibility for maintaining an effective internal control system to 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 applicable legislation and regulations. The internal control system provides a reasonable but not absolute assurance against material errors, losses or fraud.

The Board has reviewed the effectiveness of the internal control system and will conduct an annual review on the system in order to make it effective and practical.

DIRECTORS' SECURITIES TRANSACTIONS

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 as the code of conduct for securities transactions by directors. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code during the year.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company establishes different communication channels with shareholders and investors. Printed copies of the annual and interim reports and circulars are sent to shareholders. Shareholders are encouraged to attend the annual general meeting of the Company which allows directors to meet and communicate with shareholders.