

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board of Directors of the Company (the "Board") believes that good corporate governance is essential for the effective management, a healthy corporate culture and balancing of business risk. And it is also essential to the success of the Company and the enhancement of shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2006, except for deviations from Code Provision A.4.1 (tenure of non-executive directors), Code A.4 (retirement of directors by rotation) and Code A.2.1 (segregation of function of Chairman and the Chief Executive Officer) for a limited period of time during the year as explained in the relevant paragraphs in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard as set out in Model Code during the year ended 31 December 2006.

THE BOARD OF DIRECTORS

The Board currently comprises seven Directors, including four Executive Directors and three Independent Non-Executive Directors. All three Non-Executive Directors are Independent Non-Executive Directors which represent more than one-third of the Board. And its composition of the Board is set out as follows:

Executive Directors:

So Pang Gen (*Chairman and Managing Director*)

Lam Hon Keung, Keith (*Deputy Chairman*)

Choi Dun Woo

Su Bangyuan

Independent Non-Executive Directors ("INED"):

Hui Yip Wing, David

Kee Wah Sze

Ku Siu Fung, Stephen

The brief biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" section in the Directors' Report on pages 8 to 9. There is no financial, business, family or other material/relevant relationship amongst the Directors.

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BOARD PRACTICE

The Board formulates the overall policies and strategies, monitors the financial performance, oversees the management, and ensures good corporate governance practices of the Group. Daily operations and administration are delegated to the management.

The Chairman, assisted by the Company Secretary, has ensured that the Board adheres strictly to all rules and requirements for its meetings and the maintenance of full and proper records. Procedures are established for every director to have access to board papers and related information, to have the services of the Company Secretary, and to seek independent professional advice at the Company's expense upon reasonable request.

The Board acknowledges their responsibilities for the preparation of the financial statements of the Company and ensures that they are prepared in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publications of such financial statements.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the year, seven Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

Director at the Board meetings is set out as follows:

	Number of Board meetings Attend/held
Executive Directors:	
So Pang Gen (<i>Chairman and Managing Director</i>)	6/7
Lam Hon Keung, Keith (<i>Deputy Chairman</i>)	5/7
Choi Dun Woo	1/7
Su Bangyuan	7/7
INEDS:	
Hui Yip Wing, David	2/7
Kee Wah Sze	3/7
Ku Siu Fung, Stephen	3/7

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. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established in writing.

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER *(Continued)*

In place with the business development and growth of the Group, the Group currently maintains a small but efficient team in the daily operations of the Group. Due to the small size of the team, both the roles of the Chairman and Managing Director of the Company are currently played by Mr. So Pang Gen. The Board considers the currently simple but efficient team serves sufficiently enough the need of the Group. The Board will, nonetheless, review into business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the day-to-day management team to ensure a proper balance of power and authority within the Company.

The Board currently comprises four Executive Directors (one of whom is the Chairman and Managing Director and another is the Deputy Chairman) and three Non-Executive Directors. Mr. So Pang Gen, being the Chairman and Managing Director, is primarily responsible for leadership of the Board, ensuring the effectiveness in all aspects of its role and for setting its agenda, whereas clearly established executive responsibilities for running of the business of the Group lie with difference designated senior executives. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board and a clear division of responsibility for the running of the business of the Group. The Board believes that the structure outlined above is beneficial to the Company and its business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-Executive Directors provide the Group with a wide range of expertise and experience. Their active participation in Board and committee meetings brings independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders.

The Company has three INEDs representing more than one-third of the Board. And one of the INEDs has appropriate accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Code Provision A.4.1 stipulates that Non-Executive Directors should be appointed for a specific term, subject for re-election. None of the existing Non-Executive Directors are appointed for a specific term. However, all the Non-Executive Directors shall be subject to retirement by rotation under "Appointment and Re-election of Directors" in accordance with the Company's Bye-Laws mentioned as below paragraph. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

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APPOINTMENT AND RE-ELECTION OF DIRECTORS

In June 2005, the Board has established and adopted a written nomination procedure (the "Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Nomination Committee shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills and time commitment etc.), identify and recommend the proposed candidate to the Board for approval of an appointment.

New Directors, on appointment, will be given an induction package containing all key legal and Listing Rules' requirements as well as guidelines on the responsibilities and obligations to be observed by a director. The package will also include the latest published financial reports of the Company and the documentation for the corporate governance practices adopted by the Board. The senior management will subsequently conduct such briefing as is necessary to give the new Directors more detailed information on the Group's business and activities.

The Non-Executive Directors of the Company had no fixed term of office, but retired from office on a rotational basis in accordance with the relevant provisions of the Company's Bye-laws. According to Provision 99 of the Bye-Laws of the Company, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation save any Director holding office as Chairman or Managing Director. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election. The Company at any general meeting at which any Directors retire may fill the vacated offices. Further, any Director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following annual general meeting and should then be eligible for re-election at the meeting.

BOARD COMMITTEES

The Board has established various committees, including a Remuneration Committee, an Audit Committee and an Nomination Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolution of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on page 16 in the section "The Board Practice" above, have been adopted for the committee meetings so far as practicable.

Remuneration Committee

The Remuneration Committee currently consists of three members, including Mr. Kee Wah Sze (Chairman), Mr. Hui Yip Wing, David and Mr. Ku Siu Fung, Stephen, all of whom are INEDs. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The major roles and functions of the Remuneration Committee are:

- (i) to review and recommend to the Board the remuneration policy and packages of the Directors and, where appropriate, to consult the Chairman and/or the Managing Director about the committee's proposals relating to the remuneration of other Executive Directors;

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BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

- (ii) to review and recommend performance-based remuneration by reference to corporate goals and objectives approved by the Board from time to time;
- (iii) to review and recommend the compensation payable to Executive Directors relating to any loss or termination of their office or appointment;
- (iv) to review and recommend compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- (v) to ensure that no Director is involved in deciding his own remuneration.

The terms of reference of the Remuneration Committee of the Company were adopted in June 2005 to comply with the Code Provision B.1.3, but with a deviation from the code provision of the remuneration committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of Executive Directors only and not senior management for the following reasons:

- (i) The Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior management and that this evaluation process is more effectively carried out by the Executive Directors;
- (ii) The Remuneration Committee members only consist of INEDs who may not be industry skilled and come from differing professions and backgrounds and they are not involved in the daily operation of the Company. They may have little direct knowledge of industry practice and standard compensation packages. The Remuneration Committee is thus not in a position to properly determine the remuneration of the Executive Directors;
- (iii) The Executive Directors must be in a position to supervise and control senior management and thus must be able to control their compensation; and
- (iv) There is no reason for Executive Directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

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BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The Remuneration Committee shall meet at least once a year. One committee meeting was held in 2006 to review and discuss the existing policy and structure for the remuneration of Directors, the remuneration packages of both the Executive and Non-Executive Directors and the attendance of each member is set out as follows:

Committee member	Number of Committee meeting Attended/held
Kee Wah Sze <i>(Chairman)</i>	1/1
Hui Yip Wing, David	1/1
Ku Siu Fung, Stephen	1/1

Details of the Directors' remuneration are set out in note 14 to the financial statements.

In order to attract, retain and motivate the senior executives and key employees of the Group, including the Executive Directors, the Company has adopted a share option scheme in May 2002. Details of the share option scheme are set out in the Directors' Report on page 12 and note 34 to the financial statements.

Audit Committee

The Audit Committee has been established since May 2002 and currently consists of three Independent Non-Executive Directors. To retain independence and objectivity, the Audit Committee is chaired by an INED with appropriate professional qualifications or accounting or related financial management expertise. The current members of the Audit Committee are Mr. Hui Yip Wing, David (Chairman), Mr. Kee Wah Sze and Mr. Ku Siu Fung, Stephen. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

The major roles and functions of the Audit committee are:

- (i) to consider and recommend to the Board on the appointment, re-appointment and removal the external auditors;
- (ii) to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditors;
- (iii) to discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commencement;
- (iv) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

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BOARD COMMITTEES (Continued)

Audit Committee (Continued)

- (v) to review the interim and annual financial statements, interim and annual reports before submission to the Board;
- (vi) to develop and implement policy on the engagement of the external auditor to supply non-audit services;
- (vii) to review the Group's financial and accounting policies and practices;
- (viii) to review the external auditors' management letters, any material queries raised by the auditor to management in respect of accounting records, financial accounts or system of control and management's response and to ensure the Board will provide a timely response to the issue raised;
- (ix) to review the Groups' financial controls, internal control and risk management systems; and ensure that the management has discharged its duty to have an effective internal control system;
- (x) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to monitor the effectiveness of the internal audit function; and
- (xi) to consider any findings of major investigations of internal control matters as delegated by the Board and or on its own initiative and management's response.

The Audit Committee has explicit authority to investigate into any matter under the scope of its duties and the authority to obtain independent professional advice. It is given full access and assistance from management and reasonable resources to discharge its duties properly. At least once annually, the Audit Committee will meet the external auditors.

The Audit Committee will meet at least twice each year. In 2006, the Audit Committee met twice considering the annual results of the Group for the financial year ended 31st December 2005 and the interim results of the Group for the 6 month ended 30th June 2006, discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and the scope of work in relation to the annual audit and reviewing the continuing connected transactions of the Group. Attendance records of the Audit Committee members in 2006 are as follows:

Committee member	Number of Committee meetings	
	Attended/held	
Hui Yip Wing, David (<i>Chairman</i>)	2/2	
Kee Wah Sze	2/2	
Ku Siu Fung, Stephen	2/2	

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ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing, with the support from finance department, the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group. The Directors also confirm that, to the best of their knowledge, information and belief, having made all reasonable enquires, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as going concern.

The statement of the Company's external auditors, Messrs. Grant Thornton and their reporting responsibilities on the financial statements of the Group are set out in the Auditors' Report on pages 24 and 25.

External Auditors' Remuneration

During the year, the remuneration paid/payable to the Company's external auditors, Messrs. Grant Thornton is set out as follows:

	Fee paid/payable
Services rendered for the Group	<i>HK'000</i>
Audit services	650,000

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal controls includes a defined management structure with limit 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 provisions 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 operational systems and achievement of the Group's objectives. The Board has started to conduct review of the system of internal control of the Group during the year ended 31 December 2006.

Nomination Committee

The Nomination Committee has been established in June 2005. It's currently consists of three members, including Mr. Ku Siu Fung, Stephen (Chairman), Mr. Hui Yip Wing, David and Mr. Kee Wah Sze, all of whom are INEDs. The Nomination Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The major roles and function of the Nomination Committee are:

- (i) to review the structure, size and composition of the Board on a regular basis; and
- (ii) to review and recommend the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the chief executive officer.

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COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The Company's annual general meeting (the "AGM") is a valuable forum for the Board to communicate directly with the shareholders. The Chairman actively participates in the AGM and personally chairs the meeting to answer any questions from the shareholders. A separate resolution is proposed by the Chairman in respect of each issue to be considered at the AGM. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the AGM, and (except where a poll is demanded) reveals how many proxies for and against have been received in respect of each resolution.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders are also welcome to promote our transparency.

On behalf of the Board

So Pang Gen

Chairman

Hong Kong, 25 April 2007