

Corporate Governance Report

INTRODUCTION

The Company is firmly committed to the overall standards of corporate governance and has always recognised the importance of accountability, transparency and protection of shareholders' interest in general. Following the issue of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company adopted the code provisions of the Code as its own corporate governance code in 2005.

COMPLIANCE WITH THE CODE PROVISIONS OF THE CODE

In the opinion of the directors, the Company has applied the principles in the Code through the adoption of the code provisions of the Code and has complied with the code provisions of the Code throughout the year ended 31 December 2006, except for those deviations detailed below.

BOARD OF DIRECTORS

The board of directors of the Company (the "Board") currently comprises thirteen directors, including seven executive directors (Mr Ko Chun Shun, Johnson (Chairman), Mr Lui Pan, Terry (President), Mr Luo Ning, Mr Qiu Yiyong, Mr Jin Wei, Mr Wang Daoyi and Mr Hu Qinggang (Chief Financial Officer)), three non-executive directors (Mr Shaw Sun Kan, Gordon, Mr Jerry Sze and Mr Itzhak Shenberg) and three independent non-executive directors (Mr Chu Hon Pong, Mr Liu Tsun Kie and Mr Yap Fat Suan, Henry). The roles of the Chairman and the President (equivalent to Chief Executive Officer) are segregated and are not exercised by the same individual. One of the three independent non-executive directors is professional accountant, which is in compliance with the requirement of the Listing Rules. There are also two board committees under the Board, which are the Audit Committee and the Remuneration Committee.

The key responsibilities of the Board include, among other things, formulating the Group's overall strategies, setting management targets, regulating internal controls, formulating the Company's corporate governance practices, and supervising the management's performance while the day-to-day operations and management of the Group are delegated by the Board to the management. The Company has received acknowledgements from the directors of their responsibility for preparing the financial statements and a statement by the external auditors of the Company about their reporting responsibilities.

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The Board held four board meetings during the year ended 31 December 2006. The attendance of the directors at the board meetings is as follows:

Director	Attended/Eligible to attend
Mr Ko Chun Shun, Johnson	4/4
Mr Lui Pan, Terry	4/4
Mr Luo Ning	0/1
Mr Qiu Yiyong	0/1
Mr Jin Wei	1/1
Mr Wang Daoyi	0/1
Mr Hu Qinggang	1/1
Mr Shaw Sun Kan, Gordon	4/4
Mr Jerry Sze	4/4
Mr Itzhak Shenberg	2/4
Ms Cheung Sum Yu, Fiona	2/2
Mr Chu Hon Pong	3/4
Mr Liu Tsun Kie	3/4
Mr Yap Fat Suan, Henry	4/4

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. Board minutes are kept by the Company Secretary of the Company and are sent to the directors for endorsement.

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and be subject to re-election. Not all of the existing non-executive directors (including independent non-executive directors) of the Company was appointed for a specific term when they were appointed, which constitutes a deviation from code provision A.4.1 of the Code. However, they are subject to retirement by rotation according to the Bye-laws of the Company.

Under code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, according to the Bye-law 98 of the Bye-laws of the Company, at the annual general meeting in each year, 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 to but not exceeding one-third, shall retire from office, which may in some cases constitute a deviation from code provision A.4.2 of the Code. To comply with code provision A.4.2 of the Code, relevant amendments to the Bye-laws of the Company will be proposed to the shareholders of the Company for approval in the next general meeting.

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REMUNERATION COMMITTEE

Under code provision B.1.1 of the Code, a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties. To comply with code provision B.1.1 of the Code, the Company established a Remuneration Committee and adopted its terms of reference in 2005.

The Remuneration Committee currently comprises three independent non-executive directors, namely Mr Liu Tsun Kie (Chairman), Mr Chu Hon Pong and Mr Yap Fat Suan, Henry. The primary responsibilities of the Remuneration Committee include, among other things, determining the remuneration packages of all executive directors of the Company, reviewing and approving performance-based remuneration, and ensuring that no director or any of his associates is involved in deciding his own remuneration.

During the year ended 31 December 2006, the Remuneration Committee met once to discuss the remuneration package of an executive director of the Company. The attendance of the members of the Remuneration Committee at the meeting is as follows:

Committee member	Attended/Eligible to attend
Mr Liu Tsun Kie	1/1
Mr Chu Hon Pong	1/1
Mr Yap Fat Suan, Henry	1/1

AUDIT COMMITTEE

The Company has established an Audit Committee in 1998. The Audit Committee currently comprises three independent non-executive directors, namely Mr Liu Tsun Kie (Chairman), Mr Chu Hon Pong and Mr Yap Fat Suan, Henry.

Under its terms of reference, the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's preliminary results, interim results and annual financial statements, to monitor compliance with statutory and listing requirements, to review the scope, extent and effectiveness of the internal control procedures of the Company, to engage independent legal or other advisers if necessary to perform investigations.

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The Audit Committee held three meetings during the year ended 31 December 2006. In these meetings, the Audit Committee reviewed reports from the external auditors regarding their audit on annual financial statements, review on interim financial results and review on non-exempt continuing connected transactions, discussed the internal control of the Group, and met with the external auditors. The attendance of each member of the Audit Committee at the meetings is as follows:

Committee member	Attended/Eligible to attend
Mr Liu Tsun Kie	3/3
Mr Chu Hon Pong	3/3
Mr Yap Fat Suan, Henry	2/3
Mr Shaw Sun Kan, Gordon (<i>resigned on 6 September 2006</i>)	3/3

NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee. The power to nominate or appoint additional directors is vested in the Board according to the Bye-laws of the Company, in addition to the power of the shareholders of the Company to nominate any person to become a director of the Company in accordance with the Bye-laws of the Company and all applicable laws.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the applicable laws and regulations. The nomination procedure basically follows Bye-law 104 of the Bye-laws of the Company, which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deem fit. The directors shall consider the candidate from a wide range of backgrounds, on his merits and against objective criteria set out by the Board and taking into consideration his time devoted to the position.

No meeting was held by the Board for the nomination of director during the year. However, pursuant to the Strategic Cooperation Agreement entered into between Easy Flow Investments Limited (the "Strategic Partner") and the Company on 13 June 2006 (as amended by a supplemental agreement dated 10 July 2006), the Strategic Partner nominated Mr Luo Ning, Mr Qiu Yiyong, Mr Jin Wei, Mr Wang Daoyi and Mr Hu Qinggang to be appointed as directors of the Company. Their appointments were approved by the shareholders of the Company in a special general meeting held on 18 October 2006.

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DIRECTORS' SECURITIES TRANSACTIONS

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

AUDITORS' REMUNERATION

The Company engaged PricewaterhouseCoopers as its statutory auditors for the year ended 31 December 2006. The principal services provided by PricewaterhouseCoopers in 2006 include the review of interim consolidated financial statements of the Group, the audit of annual consolidated financial statements of the Group, and the audit of the financial statements of certain subsidiaries of the Group. Apart from the aforementioned audit and financial statements review services, PricewaterhouseCoopers were also engaged as reporting accountants for the Group's unaudited proforma consolidated balance sheet included in a circular of the Company.

The remuneration in respect of audit and non-audit services provided by PricewaterhouseCoopers to the Group in 2006 is summarised as follows:

	<i>HK\$'000</i>
Audit fees	
Provision for the year	1,800
Under-provision for previous years	325
	2,125
Non-audit fees	
Financial statements review service	700
Reporting accountants	462
	1,162
Total	3,287

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INTERNAL CONTROLS

The Board is responsible for the Group's system of internal control and has the responsibility for reviewing its effectiveness. In 2006, the Board engaged ShineWing (HK) CPA Limited to conduct a review of the effectiveness of the internal control system of the Group. The review covers all material controls, including financial, operational and compliance controls and risk management functions. The review did not find any significant issues in the internal control system of the Group.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHT

The Company actively promotes investor relations and communications by setting up regular briefing meetings with the investment community when the Group's interim and annual financial results are announced. The Company, through its Investor Relations Department, responds to request for information and queries from the investment community.

The Board is committed to providing clear and full performance information of the Group to shareholders through various circulars, notices, and financial reports. Additional information is also available to shareholders through the Company's website.

Shareholders are encouraged to attend the annual general meeting for which notice of at least 21 days is given. The Chairman and other directors are available to answer questions on the Group's businesses at the meeting. All shareholders have statutory rights to call for special general meetings and put forward agenda items for consideration by shareholders. All major resolutions at the general meetings are decided on a poll.

The Group values feedback from shareholders on its effort to promote transparency and foster investor relationships. Comments and suggestions are welcome and can be addressed to the President by mail or by e-mail to the Company's website.