

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board is committed to ensuring high standards of corporate governance in the interests of the shareholders of the Company. Since it was listed on the Main Board of the Stock Exchange on 15 July 2005, the Company has applied the principles and complied with all applicable code provisions, of the Code on Corporate Governance Practices (the "Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, except as mentioned below, that the Company does not have a separate Chairman and Chief Executive per Provision A.2.1 of the Code. The Board will review and update the current practices regularly to ensure compliance with the latest practices in corporate governance, so as to protect and maximize the interests of shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding Directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2006. The relevant employees who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

THE BOARD OF DIRECTORS AND BOARD MEETINGS

The Board's primary responsibilities are to formulate the Group's long-term corporate strategy; to oversee the management of the Group; and to evaluate the performance of the Group. The Board is also responsible for the approval of annual and interim results, risk management, major acquisitions, and other significant operational and financial matters. Matters not specifically reserved to the Board, and which necessarily relate to the daily operations of the Group, are delegated to executive management under the supervision of the respective Directors and the leadership of the Chairman.

During the year ended 31 December 2006, there was no change in the composition of the Board. On 1 January 2007, an executive Director, Mr. William Peter Shelley, resigned from the Board, to take early retirement and has permanently relocated to Australia. The Board currently comprises three executive Directors, one non-executive Director and three independent non-executive Directors, as follows:

Executive Directors	:	Mr. Lam Yin Kee, Chairman and Chief Executive Ms. Yeung Po Wah Mr. Toshio Daikai
Non-executive Director	:	Mr. Fan, William Chung Yue
Independent Non-executive Directors	:	Mr. Barry John Buttifant Mr. Leung Kam Wah Ms. Yeung Chi Ying

Mr. Lam Yin Kee is the Chairman and Chief Executive of the Group. Ms. Yeung Po Wah is an executive Director of the Group and the wife of Mr. Lam Yin Kee. Apart from this, there is no other direct family relationship amongst members of the Board.

The background and qualification of the Chairman of the Company and the other Directors are set out on pages 11 and 12. All Directors have sufficient experience to hold their positions so as to carry out their duties effectively and efficiently, and all of them have given sufficient time and attention to the affairs of the Group.

The non-executive Director and the three independent non-executive Directors are persons of high calibre with academic and professional qualifications in the fields of accounting, law and business management. They bring a broad range of financial, regulatory and commercial experience and skills to the Board, which contribute to the effective strategic management of the Group. The non-executive Director and independent non-executive Directors were appointed for a term of one year commencing from 17 June 2005, and such appointments shall continue thereafter from year to year until terminated by either party with one month's written notice served to the other party.

Each of the independent non-executive Directors has given a written confirmation to the Company confirming that he/she has met the criteria set out in Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of independence of Directors.

The Board schedules to hold at least four full board meetings a year at approximately quarterly intervals but other board meetings, as necessitated by business, on an ad-hoc basis. During the year ended 31 December 2006, four full board meetings were held and it is very pleasing to record that the attendance of the Board of Directors was full attendance at all meetings as set out hereafter:

Name of Director	Number of board meetings attended	Attendance rate
Mr. Lam Yin Kee	4/4	100%
Ms. Yeung Po Wah	4/4	100%
Mr. Toshio Daikai	4/4	100%
Mr. William Peter Shelley	4/4	100%
Mr. Fan, William Chung Yue	4/4	100%
Mr. Barry John Buttifant	4/4	100%
Mr. Leung Kam Wah	4/4	100%
Ms. Yeung Chi Ying	4/4	100%

Every Board member has a duty to act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Apart from the above regular meetings of the year, the Board will meet on other occasions when board-level decision on a particular matter is required. Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. No request was made by any Director for such independent professional advice in 2006. The Company Secretary shall prepare minutes and keep record of matters discussed and decisions resolved at all Board meetings, which will be subsequently circulated and confirmed by Directors and then be available for inspection by Directors upon request.

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CHAIRMAN AND CHIEF EXECUTIVE

Under Code Provision A.2.1 of the Code, the role of Chairman and Chief Executive should be separated and ought not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive and Mr. Lam Yin Kee currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. However, the Board will review the roles of Mr. Lam Yin Kee acting as the Chairman and Chief Executive regularly, and may segregate the roles into two Directors in the future, if the Board believes that it is in the best interest of the Company and the shareholders.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Company's Bye-laws, at each annual general meeting, one-third of the Directors for the time being (or, if the number is not a multiple of three, the number nearest to not less than one-third) shall retire from office by rotation.

All of the Directors of the Company were re-appointed at the last Annual General Meeting held on 24 May 2006. Pursuant to Article 86(3) of the Company's Articles of Association, Ms. Yeung Po Wah, Mr. Leung Kam Wah and Ms. Yeung Chi Ying shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. The Chairman is responsible for identifying suitable candidates for members of the Board, when there is a vacancy or an additional director may be considered necessary. The Chairman will propose the appointment of such candidates to each member of the Board for consideration and each member of the Board will review the qualifications of the relevant candidates to determine the suitability to the Group on the basis of their qualifications, experience and background. The decision of appointing a director must be approved unanimously by the members of the Board and make recommendation at the shareholders' meeting for approval.

All Directors (including executive, non-executive and independent non-executive Directors) are subject to election for appointment by shareholders at the annual general meeting at least once every three years. None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within three years without payment of compensation (other than statutory compensation).

The notice period for the termination of the service contracts with executive Directors by either party is not less than three months. The notice period for the termination of appointment of non-executive Directors and independent non-executive Directors by either party is not less than one month.

REMUNERATION COMMITTEE

According to the Code, the Company established a Remuneration Committee on 22 June 2005. The Remuneration Committee shall have a minimum of five members, comprising a majority of independent non-executive Directors. The Chairman of the Remuneration Committee is Mr. Lam Yin Kee and other current members include Ms. Yeung Po Wah, Mr. Barry John Buttifant, Mr. Leung Kam Wah and Ms. Yeung Chi Ying. The Remuneration Committee schedules to meet at least once every year and the quorum necessary for the transaction of business is two.

The duties of the Remuneration Committee include:

- (a) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- (b) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors. The Remuneration Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;
- (c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (d) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
- (e) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
- (f) to ensure that no Director or any of his associates is involved in deciding his own remuneration;
- (g) to advise shareholders on how to vote with respect to any service contracts of Directors that required shareholders' approval under rule 13.68 of the Listing Rules; and
- (h) to consider other relevant remuneration topics, as defined by the Board.

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The Remuneration Committee had one meeting in 2006 which was attended by all members of the Remuneration Committee to discuss and review the bonus payment policy and the pay trend of the Group in 2007.

The Company has adopted a share option scheme on 22 June 2005, which serves as an incentive to attract, retain and motivate talented eligible staff, including Directors. Details of the share option scheme are set out in the Report of the Directors on pages 23 to 25. The emoluments payable to Directors will depend on their respective contractual terms under employment contracts. Details of the Directors' emoluments are set out in note 10 to the financial statements.

AUDIT COMMITTEE

The Company established an Audit Committee on 22 June 2005 with written terms of reference in compliance with the Code. The Audit Committee must comprise of independent non-executive Directors only, namely Mr. Barry John Buttifant, Mr. Leung Kam Wah and Ms. Yeung Chi Ying. Mr. Barry John Buttifant is the Chairman of the Audit Committee.

The Audit Committee shall meet at least twice every year and the quorum necessary for the transaction of business is two. Three meetings were held during the year under review. Details of the attendance of the Audit Committee meetings are as follows:

Name of Member	Number of meetings attended	Attendance rate
Mr. Barry John Buttifant	3/3	100%
Mr. Leung Kam Wah	3/3	100%
Ms. Yeung Chi Ying	3/3	100%

The primary duties of the Audit Committee are as follows:

Relationship with the Company's independent auditor

- (a) to be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the independent auditor, and to approve the remuneration and terms of engagement of the independent auditor, and any questions of resignation or dismissal of that auditor;
- (b) to review and monitor the independent auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the independent auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on the engagement of the independent auditor to supply non-audit services. The Audit Committee shall ensure that the provision by the independent auditor of non-audit services does not impair the independent auditor's independence or objectivity;

Review of financial information of the Company

- (d) to monitor the integrity of financial statements of the Company and the Company's annual reports and accounts, the interim reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained therein, before submission to the Board;
- (e) in regard to (d) above:
 - (i) members of the Audit Committee must liaise with the Company's Board, senior management and the person appointed as the Company's qualified accountant and the Audit Committee must meet, at least once a year, with the Company's independent auditor;
 - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or independent auditor; and
 - (iii) the Audit Committee should discuss problems and reservations arising from the financial statements, annual reports and accounts, interim reports and quarterly reports (if applicable) and any other matters the independent auditor may wish to discuss (with or in the absence of management of the Company, as appropriate);

Oversight of the Company's financial reporting system and internal control procedures

- (f) to review the Company's financial controls, internal control and risk management systems, and its statement in relation thereto prior to endorsement by the Board;
- (g) to discuss with the management, the systems of internal control and ensure that management has discharged its duty to have effective internal control systems;
- (h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (i) to review the Company and its subsidiaries' financial and accounting policies and practices;
- (j) to review the independent auditor's management letter, any material queries raised by the independent auditor to management in respect of the accounting records, financial accounts or systems of control and management's response thereon;
- (k) to ensure that the Board will provide a timely response to the issues raised in the independent auditor's management letter;
- (l) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;

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- (m) to act as the key representative body for overseeing the Company's relations with the independent auditor;
- (n) to report to the Board on the matters set out in this term of reference; and
- (o) to consider other topics, as defined by the Board.

The Group's unaudited interim results and audited annual results for the year ended 31 December 2006 have been reviewed by the Audit Committee, who are of the opinion that the preparation of such results, and as supported by the independent auditor in regard to the results announced, complied with applicable accounting standards and requirements and that adequate disclosures have been made.

During the year ended 31 December 2006, the Audit Committee has met with the independent auditor with no executive Directors present.

INDEPENDENT AUDITOR

The Group's independent auditor is PricewaterhouseCoopers ("PwC"). PwC is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements. Apart from the statutory audit of the annual consolidated financial statements, PwC was also engaged to advise the Group on tax compliance and related matters.

The fees paid and payable by the Group to PwC in respect of audit and non-audit services for the year ended 31 December 2006 are HK\$1,152,000 and HK\$590,000 respectively.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2006, the Directors have selected suitable accounting policies and have applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") which are pertinent to its operations and relevant to the financial statements; made judgements and estimates that are prudent and reasonable; and have prepared the financial statements on the going concern basis.

The Directors' responsibilities for the financial statements and the responsibilities of the independent auditor to the shareholders; are set out in the Independent Auditor's Report on pages 32 and 33.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, 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 a going concern.

INTERNAL CONTROLS

Internal control systems have been designed to allow Directors to monitor the Group's overall financial position, safeguard its assets, provide reasonable assurance against fraud and errors, and to manage the risks in failing to achieve the Group's objectives. Executive Directors monitor the business activities closely and review monthly financial results operations. The Group from time to time updates and improves the internal controls.

The Group conducts a review of its system of internal control periodically to ensure the effective and adequate internal control systems. The Group convenes management meetings periodically to discuss financial, operational and risk management control. The Audit Committee also reviews the internal control systems and evaluates their adequacy, effectiveness and compliance on a regular basis.

The Board conducted a review of the Group's internal control system for the year ended 31 December 2006, including financial, operational and compliance control, and risk management functions. The Board assessed the effectiveness of internal control by considering reviews performed by the Audit Committee.

INVESTOR RELATIONS

The Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules and uses a number of formal communication channels to account to shareholders and investors for the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to make comments and exchange views with the Board; (iii) meetings are held with media and investors periodically; (iv) the Company replying to appropriate enquiries from shareholders in a timely manner; and (v) the Company's share registrar in Hong Kong serves the shareholders regarding all share registration matters.

The Company's annual general meeting provides a suitable forum for communications between the Board and its shareholders. Shareholders are encouraged to attend the annual general meeting. Notice of the annual general meeting and related papers are sent to shareholders at least 21 days before the meeting and the said notice is also published in at least one English newspaper and one Chinese newspaper in Hong Kong and will also be available on the Stock Exchange's website. The Chairman and Directors will answer questions on the Group business at the meeting.

LOOKING FORWARD

The Company's shareholders' rights are at all times highly regarded by the Group. The Group will make sure the Company's shareholders know how to exercise their rights.

The Group will keep reviewing its corporate governance standards on a timely basis and the Board endeavours to take necessary actions to ensure compliance with the required practices and standards including the provisions of the Code introduced by the Stock Exchange.