

Corporate Governance Report

The Board of directors ("Board") of the Company is pleased to present this report in the Group's annual report for the year ended 31 December 2006.

The key corporate governance principles and practices of the Company are summarised as follows:

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") sets out the principles of good corporate governance ("Principles") and two levels of corporate governance practices:

- (a) code provisions ("Code Provisions") which listed issuers are expected to comply with and to give considered reasons for any deviation; and
- (b) recommended best practices ("Recommended Best Practices") for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with most of the Code Provisions save for certain deviations from the Code Provisions in respect of A.2.1, A.4.1 and A.4.2, details of which will be explained below.

The Company reviews regularly its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

The Company acknowledges the important role of its Board in providing effective leadership and direction to Company's business, and ensuring transparency and accountability of Company's operations.

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent advice in appropriate circumstances at the Company's expense, upon making request to the Board.

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The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the senior management to discharge its responsibilities.

Composition

The Composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board of the Company during the year comprises the following directors:

Executive Directors

Mr. Lee Shing (Chairman)	(Appointed on 22 June 2006)
Ms. Liu Yaling	(Appointed on 22 June 2006)
Mr. Wang Shaohua	(Appointed on 3 August 2006)
Mr. Pei Qingrong	(Appointed on 3 August 2006)
Mr. Lim Teong Leong	(Resigned on 13 July 2006)
Mr. Tam Cheok Wing	(Resigned on 13 July 2006)
Mr. Ooi Sin Heng	(Resigned on 13 July 2006)
Mr. Chan Hon Ming	(Resigned on 13 July 2006)

Independent Non-Executive Directors

Mr. Yu Xiumin	(Appointed on 22 June 2006)
Mr. Zuo Duofu	(Appointed on 22 June 2006)
Mr. Cheng Kin Wah, Thomas	(Appointed on 22 June 2006)
Mr. Lim Eng Ho	(Resigned on 13 July 2006)
Mr. Wong Ming Shiang	(Resigned on 13 July 2006)
Mr. Soo Tho Him Yip	(Resigned on 2 March 2006)

The list of directors (by category) is also disclosed in this annual report and all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

None of the members of the Board is related to one another.

During the year ended 31 December 2006, upon the director resignation of Mr. Soo Tho Him Yip, with effect from 2 March 2006, the Company was not able to meet the requirements of Rule 3.10(1) (of having at least 3 independent non-executive directors) and Rule 3.21 (of having a minimum of 3 audit committee members) of the Listing Rules. This deviation was resolved upon the appointments of Messrs Yu Xiumin, Zuo Duofu and Cheng Kin Wah, Thomas as independent non-executive directors of the Company on 22 June 2006.

Save as aforementioned, the Board met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise. In addition, the Company fulfilled the requirements of Rule 3.10(2) and second part of Rule 3.21 in which one of the independent non-executive directors have the professional qualifications as required under Rule 3.10(2) of the Listing Rules throughout the year.

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The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

Appointment and Re-election of Directors

The Company has established formal, considered and transparent procedures for the appointment and re-election of directors.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

During the year, the terms of appointment of the independent non-executive directors are such that their terms of office will expire when they are required to retire by rotation in accordance with the Company's Bye-laws.

To ensure compliance with Code Provision A.4.1, the Company will enter into service contracts with the independent non-executive directors for a specific term of three years following their re-election in the forthcoming 2007 Annual General Meeting of the Company.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Bye-laws deviate from Code Provision A.4.2 of the CG Code which provides that one-third of the directors for the time being (save for the Chairman/Managing Director), or if their number is not three or a multiple of three, then the number nearest to one-third, shall retire from office and being eligible, offer themselves for re-election at annual general meetings and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

The Board is of the opinion that the members of the Company give the power to the Board to fill up the casual vacancy is to enable the Board to run the Company more efficiently. It is adequate for the person filling up the casual vacancy be retired and to be elected at the next annual general meeting because should there be any special general meeting other than annual general meeting, the Board should be focusing on the issue at hand for the special general meeting instead of diverting its attention to academic issue i.e. the election of the person appointed for the casual vacancy.

Nevertheless, in order to ensure compliance with Code Provision A.4.2, a special resolution will be proposed at the forthcoming 2007 Annual General Meeting of the Company to amend its Bye-laws so that all directors will be subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

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In accordance with the Company's Bye-laws, Messrs Lee Shing, Liu Yaling, Pei Qingrong, Wang Shaohua, Yu Xiumin, Zuo Duofu and Cheng Kin Wah, Thomas, all have been appointed as directors of the Company during the year, shall retire and being eligible, offer themselves for re-election at the forthcoming 2007 Annual General Meeting of the Company.

The Board recommended the re-appointment of the directors standing for re-election at the forthcoming 2007 Annual General Meeting of the Company.

The Company's circular dated 27 April 2007 contains the detailed information of the directors standing for re-election.

Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to the directors whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximate quarterly interval for reviewing and approving financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2006, a total number of 8 regular and ad hoc Board meetings and 2 Audit Committee meetings were held.

The individual attendance records of each director at the meetings of the Board and Audit Committee during the year ended 31 December 2006 are set out below:

Name of Directors	Date of Appointment and Resignation	Attendance/Number of Meetings entitled to attend	
		Board	Audit Committee
Lee Shing	Appointed on 22 June 2006	4/4	1/1
Liu Yaling	Appointed on 22 June 2006	4/4	NA
Wang Shaohua	Appointed on 3 August 2006	2/2	NA
Pei Qingrong	Appointed on 3 August 2006	2/2	NA
Yu Xiumin	Appointed on 22 June 2006	4/4	1/1
Zuo Duofu	Appointed on 22 June 2006	4/4	1/1
Cheng Kin Wah, Thomas	Appointed on 22 June 2006	4/4	1/1
Lim Teong Leong	Resigned on 13 July 2006	4/4	NA
Tam Cheok Wing	Resigned on 13 July 2006	4/4	NA
Ooi Sin Heng	Resigned on 13 July 2006	4/4	NA
Chan Hon Ming	Resigned on 13 July 2006	4/4	NA
Lim Eng Ho	Resigned on 13 July 2006	4/4	1/1
Wong Ming Shiang	Resigned on 13 July 2006	4/4	1/1
Soo Tho Him Yip	Resigned on 2 March 2006	0/0	NA

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Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to the directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The senior management attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The senior management or company secretary of the Company take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to the directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the role of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The former Chairman of the Company, Mr Lim Teong Leong shared the role of the Chief Executive Officer of the Company whereas the present Chairman of the Company, Mr Lee Shing also acts as the Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board also considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

BOARD COMMITTEES

The Board has established 2 committees, namely, the Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of each Board committees are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

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Remuneration Committee

Under Code Provision B. 1. 1, the Board re-established the Remuneration Committee with the approved terms of reference during the year.

The Remuneration Committee currently comprises three independent non-executive directors including Mr. Zuo Duofu (Chairman of the Remuneration Committee), Mr. Yu Xiumin and Mr. Cheng Kin Wah, Thomas.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets at least once a year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior executives and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

A meeting of the newly formed Remuneration Committee has been held subsequent to the year end date to consider and approve the remuneration packages offered to the executive directors.

Audit Committee

Before the resignation of Mr Soo Tho Him Yip on 2 March 2006, the Audit Committee comprised 3 independent non-executive directors namely Messrs Soo Tho Him Yip, Wong Ming Shiang and Lim Eng Ho. Subsequent to Mr Soo Tho's resignation, the Audit Committee comprised the remaining 2 independent non-executive directors until they were replaced by the newly appointed executive and independent non-executive directors during the year.

The Audit Committee currently comprises three independent non-executive directors including Mr. Cheng Kin Wah, Thomas (Chairman of the Audit Committee), Mr. Yu Xiumin and Mr. Zuo Duofu, among them one independent non-executive director possesses the appropriate professional qualifications and accounting and related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 December 2006 to review the financial results and reports, financial reporting and compliance procedures, the Company's internal control and risk management review and processes and the re-appointment of the external auditors. The attendance records of the Audit Committee are set under "Board Meetings" on page 12 .

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MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made to all the directors and the directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2006.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by relevant employees of the Company who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guideline by the employees was noted by the Company.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

The Board received from the senior management the management accounts, explanation and relevant information which enable the Board to make an informed assessment for approving the financial statements.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 26 and 27.

An analysis of the services provided by the external auditors of the Company, Ernst & Young and the associated fees thereof for the year ended 31 December 2006, were as follows:

	2006 HK\$	2005 HK\$
Audit	768,000	750,000
Taxation	107,875	103,900
Others	<u>695,000</u>	<u>-</u>
Total	<u>1,570,875</u>	<u>853,900</u>

The Board is satisfied with the audit fees, process and effectiveness of Ernst & Young and has recommended their reappointment as the Company's external auditors at the forthcoming 2007 Annual General Meeting.

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INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company's assets, and reviewing the effectiveness of such on an annual basis through the Audit Committee.

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

During the year under review, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Company in compliance with the relevant Code Provisions as set out in the CG Code.

Based on the review of the internal control system of the Company, the Board is of the view that there are adequate internal controls in the Company.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The general meetings of the Company provide a forum for communication between the Board and the shareholders. Code Provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting and arrange for the chairman of Remuneration Committee and Audit Committee, or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Mr. Lee Shing, newly appointed director and chairman of the Board during the year will use his endeavours to attend all future shareholders' meetings of the Company.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

SHAREHOLDER RIGHTS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting at which voting is taken on a poll and posted on the website of the Stock Exchange.