

Corporate Governance Report

The Board of Directors (the “Board”) of the Company is pleased to present this Corporate Governance Report in the Group’s annual report for the year ended 31 December 2006.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Group also strives to attain and maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The Group’s corporate governance principles emphasise a quality Board, effective internal control and accountability to shareholders.



The Company has applied the principles, code provisions and certain recommended best practices as set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The CG Code contained in Appendix 14 of the Listing Rules sets out the principles of good corporate governance and two levels of corporate governance practices:

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

Throughout the year 2006, the Company has complied with the code provisions as set out in the CG Code. It also put in place certain recommended best practices as set out in the CG Code.

The Company periodically reviews and improves its corporate governance practices to ensure that these continue to meet the requirements of the CG Code, and acknowledges the important role of the Board in providing effective leadership and direction to Company’s business, and ensuring transparency and accountability of Company’s operations.

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

DIRECTORS

The Company is headed by an effective Board which assumes responsibility for leadership and control of the Group and be collectively responsible for promoting the success of the Company by directing and supervising the Company’s affairs. All Directors of the Company take decisions objectively in the interests of the Company.

1. Responsibilities

Every Director is required to keep abreast of his/her responsibilities as a Director of the Company and of its conduct, business activities and development. Given the essential unitary nature of the Board, non-executive Directors have the same duties of care and skill and fiduciary duties as executive Directors.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit and Remuneration Committees of the Company.

The Directors are aware that they shall give sufficient time and attention to the affairs of the Company and there is satisfactory attendance of Board meetings and Board committees meetings for the year ended 31 December 2006 (*please refer to “Number of Meetings and Directors’ Attendance” on page 13*).

The day-to-day management, administration and operation of the Company are delegated to the Managing Director/Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed by the Board. 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 Managing Director/Chief Executive Officer and the senior management to discharge its responsibilities.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Every newly appointed Director receives comprehensive, formal and tailored induction compliance manual on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Such induction is also supplemented with meetings with senior management of the Company.

Continuing briefings and professional development to Directors will be arranged whenever necessary.

2. Chairman and Chief Executive Officer

There are two key aspects of the management of the Company – the management of the Board and the day-to-day management of the Company's business. There is a clear division of responsibilities at the Company's Board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

The roles and duties of the Chairman and the Managing Director/Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing.

The Chairman of the Board is Mr. WANG Chien Kuo, Robert, who provides leadership for the Board and is also responsible for chairing the meetings and managing the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. The Managing Director/Chief Executive Officer is Mr. CHANG Kang Lung, Jason, who is responsible for running the Company's businesses and implementing the Group's strategic plans and business goals.

The Chairman is responsible for the effective functioning of the Board in accordance with good corporate governance practice and ensuring that the Directors receive appropriate briefing on issues arising at Board meetings. To facilitate discussion of all key and appropriate issues by the Board in a timely manner, the Chairman co-ordinate with the senior management to supply and provide adequate, complete and reliable information to all Directors for consideration and review.

The Managing Director/Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. He is also responsible for developing strategic plans and formulating the company practices and procedures, business objectives, and risk assessment for the Board's approval.

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3. Composition

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Board includes a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

The Board currently comprises nine members, consisting of four executive Directors, two non-executive Directors and three independent non-executive Directors.

The Board of the Company comprises the following Directors:

Executive Directors:

WANG Chien Kuo, Robert (*Chairman*)
LAN Jen Kuei, Konrad (*Vice Chairman*)
CHANG Kang Lung, Jason (*Managing Director/Chief Executive Officer*)
WANG Li Shin, Elizabeth

Non-executive Directors:

CHANG An Ping, Nelson (*Member of Remuneration Committee*)
FU Ching Chuan

Independent non-executive Directors:

Davin A. MACKENZIE (*Chairman of Audit Committee and Remuneration Committee*)
ZHUGE Pei Zhi (*Member of Audit Committee and Remuneration Committee*)
WU Chun Ming (*Member of Audit Committee*)

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

The relationships among the members of the Board are disclosed under "Directors and Senior Management" on pages 6 to 9.

During the year ended 31 December 2006, the Board at all times 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.

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.

4. Appointments, re-election and removal

There is a formal, considered and transparent procedure for the appointment of new Directors to the Board of the Company. There are also plans in place for orderly succession for appointments to the Board. All Directors are subject to re-election at regular intervals.

Each of the executive Directors of the Company is engaged on a service contract for a term commencing from 12 December 2006 until the earlier of the third anniversary thereof or the date of the 2009 annual general meeting of the Company unless terminated by not less than three months' written notice.

Each of the non-executive (including independent non-executive) Directors of the Company is appointed for a term of one year until the conclusion of next annual general meeting. The appointment may be terminated by not less than one months' written notice.

In accordance with the Company's Articles of Association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy or as an addition to the Board shall be eligible for re-election by shareholders at the first general meeting after his appointment.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Board as a whole is responsible for reviewing the Board structure, monitoring the appointment and nomination 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 a 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.

In accordance with the Company's Articles of Association, Mr. CHANG An Ping, Nelson, Mr. Davin A. MACKENZIE, Mr. ZHUGE Pei Zhi and Mr. WU Chung Ming shall retire from office by rotation at the Annual General Meeting ("AGM") of the Company to be held on 22 May 2007 whereas Mr. FU Ching Chuan shall hold office until the AGM. All of the above five Directors shall retire and being eligible, offer themselves for re-election at the AGM.

The Board recommended the re-appointment of the Directors standing for re-election at the AGM.

The Company's circular dated 13 April 2007 contains detailed information of the Directors standing for re-election.

5. Board Meetings

Number of Meetings and Directors' Attendance

Directors are provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

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

During the year ended 31 December 2006, five Board meetings were held and all meetings were regular Board meetings.

Details of the individual attendance records of each Director at the meetings of the Board, Audit Committee and Remuneration Committee during the year ended 31 December 2006 are set out below:

Name of Directors	Board	Attendance / Number of Meetings	
		Audit Committee	Remuneration Committee
WANG Chien Kuo, Robert	5/5	Not applicable	Not applicable
LAN Jen Kuei, Konrad	4/5	Not applicable	Not applicable
CHANG Kang Lung, Jason	3/5	Not applicable	Not applicable
WANG Li Shin, Elizabeth	5/5	Not applicable	Not applicable
CHANG Yung Ping, Johnny*	4/4	Not applicable	Not applicable
CHANG An Ping, Nelson	4/5	Not applicable	1/2
Davin A. MACKENZIE	4/5	3/3	2/2
ZHUGE Pei Zhi	5/5	3/3	2/2
WU Chun Ming	5/5	3/3	Not applicable

* Mr. CHANG Yung Ping, Johnny, a non-executive Director, resigned from the office as Director of the Company with effective from 8 December 2006. During the period from 1 January 2006 to 7 December 2006, four Board meetings were held.

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance and they are given reasonable time to include relevant matters for discussion at the Board meetings.

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.

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The Company Secretary of the Company is responsible for keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final versions are open for Directors' inspection.

The Board and each Director shall have separate and independent access to the advice and services of the Company Secretary and the senior management of the Company, whenever necessary. Directors are also able to seek independent professional advice upon reasonable request, at the Company's expense.

According to current Board practice, any transaction which involves a conflict of interests for a substantial shareholder or a Director and is determined by the Board to be material, will be considered and dealt with by a duly convened Board meeting at which any Director or any of their associates have a material interest shall abstain from voting and not to be counted in the quorum at such meeting.

6. Model Code for Securities Transactions

Since 19 August 2004, 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 required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

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

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

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company should disclose information relating to Director's remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive Directors' remuneration and for fixing remuneration packages for all Directors. Levels of remuneration are sufficient to attract and retain the Directors needed to run the Company successfully. No Director should be involved in deciding his/her own remuneration.

The Company has established a Remuneration Committee with specific terms of reference. The Remuneration Committee comprises three members, the majority of them are independent non-executive Directors.

The roles and functions of the Remuneration Committee are set out in its terms of reference, which is available on the Company's website at <http://www.chcgc.com>. The primary functions include the following:

- (a) To make recommendations on and approve the remuneration policy and structure and remuneration packages of the Directors and the senior management;
- (b) To establish 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; and
- (c) To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the Directors and the senior management 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 and/or the Managing Director/Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee shall have separate and independent access to the advice and services of the senior management of the Company, and are able to seek independent professional advice at the Company's expense upon reasonable request.

The Remuneration Committee held two meetings during the year ended 31 December 2006 and has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the Directors and senior management.

ACCOUNTABILITY AND AUDIT

1. Financial reporting

The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

The Board received from the senior management the management accounts, explanation and relevant

Types of Services

Audit Services

1. Annual Audit
2. Review on interim financial statements
3. Agreed-upon procedures on connected transactions
4. Reporting Accountants in connection with the acquisition of Yonica (BVI) Pte. Ltd.

Total

Amount of Fees Payable/Paid (HK\$)

945,000

270,000

105,000

1,050,000

2,370,000

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.

2. Internal Controls

The Board should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment and the Company's assets and reviewing the effectiveness of such on an annual basis through the Audit Committee.

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. Such review covered the financial, operational, compliance and risk management aspects of the Group.

information which enable the Board to make an informed assessment for approving the financial statements.

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

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 42.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2006 amounted to HK\$945,000 and HK\$1,425,000 respectively.

An analysis of the remuneration paid to the external auditors of the Company, Messrs Deloitte Touche Tohmatsu, is set out below:

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group.

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

The internal audit department is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.

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The internal audit department also formulates the annual internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the Audit Committee on any key findings and progress of the internal audit process. The Audit Committee, in turn, reports to the Board on any material issues and makes recommendations to the Board.

3. Audit Committee

The Board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the auditors. The Audit Committee has been established by the Company pursuant to the Listing Rules with clear terms of reference.

The Audit Committee comprises three independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The roles and functions of the Audit Committee are set out in its terms of reference, which is available on the Company's website at <http://www.chcgc.com>. The primary functions 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, 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; and
- (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 three meetings in year 2006 and has reviewed the Group's annual results and report for the year ended 31 December 2005 and interim results and report for six months ended 30 June 2006, the financial reporting and compliance procedures, the report of internal auditor on the Company's internal control and risk management review and processes and the re-appointment of the external auditors, subject to approval by the shareholders at the AGM.

Draft minutes of the Audit Committee of the Company were sent to all members for comment and records within a reasonable time after the meeting. Full minutes are kept by the Company Secretary of the Company.

The Audit Committee shall have separate and independent access to the advice and services of the senior management of the Company, and are able to seek independent professional advice at the Company's expense upon reasonable request.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Audit Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2006 has been reviewed by the Audit Committee.

DELEGATION BY THE BOARD

1. Management Functions

There is a formal schedule of matters specifically reserved to the Board for decision. Clear directions have been given by the Board to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company.

The organization structure clearly defines the responsibilities and authority of each divisional function. The management is responsible for the day-to-day management, administration and operation of the Company, and shall report to the Directors on the progress and operations regularly and obtain prior approval from the Board in respect of any significant transactions.

The Board reserves for its decisions 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.

2. Board Committee

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

The Board has established two 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 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 "Directors' Report" on page 36.

All Board committees shall report to the Board on their work, findings, recommendations and decisions pursuant to their terms of reference. The terms of reference are available on the Company's website at <http://www.chcgc.com>.

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.

COMMUNICATION WITH SHAREHOLDERS

1. Effective Communication

The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meeting or other general meetings to communicate with shareholders and encourage their participation.

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue. For instance, separate resolutions were proposed at the 2006 annual general meeting of the Company for the election of Directors.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairman of the Audit Committee and Remuneration Committee or their representatives attended the 2006 annual general meeting of the Company. The chairman of the independent Board committee attended the extraordinary general meeting of the Company held on 26 October 2006 for approving the connected transaction and continuing connected transactions.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains 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.

To promote effective communication, the Company also maintains a website at <http://www.chcgc.com>, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

2. Voting by Poll

The Company regularly informs the shareholders of the procedure for voting by poll and ensures compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings at which voting is taken on a poll are contained in the Company's Articles of Association. Details of such rights to demand a poll were included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll procedures were explained by the chairman of shareholders' meetings at the commencement of the meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Stock Exchange and the Company.

Scrutineer would be appointed to ensure all votes cast on resolutions at the shareholders' meetings are properly counted and recorded.