

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

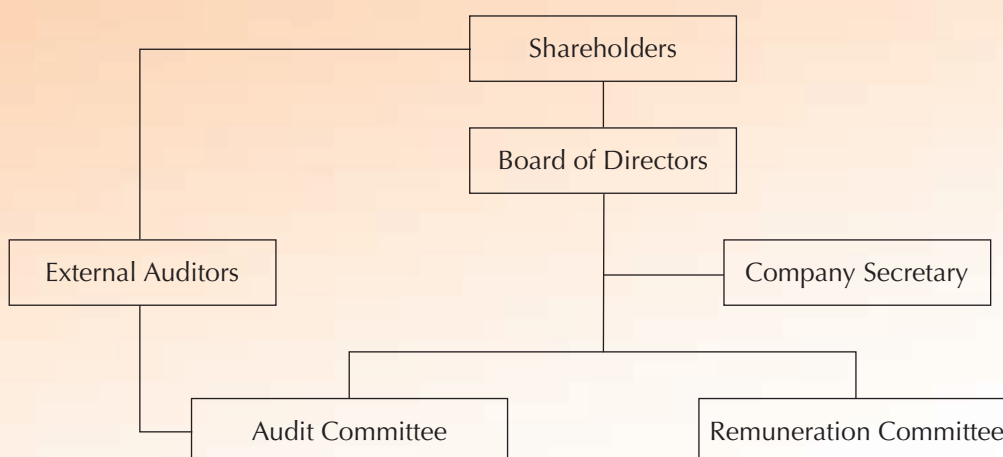
The Hong Kong Stock Exchange introduced an exposure draft of “Code on Corporate Governance Practices and Corporate Governance Report” on 11 December 2004. It would be effective for the accounting periods commencing on or after 1 January 2005. The exception was in respect of Code Provision C.2 on internal controls and the proposed disclosure requirements in the Corporate Governance Report relating to the internal control. The Board noted the changes and will apply them to the Company (as applicable).

On 21 March 2005, the Company adopted its own Corporate Governance Code and the Company’s Corporate Governance Code exceeds the Code Provisions set out in the Code on Corporate Governance Practices-Appendix 14 of Listing Rules.

The Company attaches great importance to the excellence, soundness and reasonableness of its corporate governance structure. Under strict compliance with the framework of governance standard provided for in the laws of Hong Kong, it is an inevitable outcome that the board of directors and management will endeavor to establish a set of internal code of corporate governance in compliance with and excelling the regulations set by the regulatory authorities in Hong Kong.

In order to indicate the commitment of the board of directors and management to comply with the corporate governance standard, this code of corporate governance is formulated, and every effort will be made to comply with the principles and practice contained herein in order to protect and enhance the benefits of shareholders. Following sustained development and growth of the Company, we will continue to monitor and revise the Company’s governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders.

Organization structure in relation to corporate governance



DIRECTORS' SECURITIES TRANSACTION

On 21 March 2005, the Company adopted its own Code of Conduct regarding Directors' Securities Transactions and the terms of the Company's Code of Conduct regarding Directors' Securities Transactions are no less exacting than the required standard set out in the Model Code-Appendix 10 of Listing Rules ("Model Code").

Having made specific enquiry of all directors, the directors of the Company have complied with the required standard set out in the Model Code and the Company's own Code of Conduct regarding Directors' Securities Transactions.

BOARD

a) Board Composition

The Board currently comprises two executive Directors and three independent non-executive Directors, serving the important function of guiding the management.

The Board members for the year ended 30 June 2005 were:–

Chairman

Mr. Zhang Yang

Executive directors

Mr. Zhang Yang

Mr. Lam Cheung Shing, Richard

Independent non-executive directors

Mr. Tam Sun Wing

Mr. Ko Ming Tung, Edward

Mr. Ng Ge Bun

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b) Role and function

The board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that board procedures, and all applicable rules and regulations, are followed.

The board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the Group. The board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

For the year ended 30 June 2005, the Board:–

- i. reviewed the performance of the Group and formulated business strategy of the Group;
- ii. reviewed and approved the annual and interim results of the Group for the year ended 30 June 2004 and for the period ended 31 December 2004 respectively;
- iii. reviewed and approved the change of auditor of the Group;
- iv. reviewed and approved the change of principal place of address of the Company in Hong Kong;
- v. reviewed and approved the change of company secretary of the Company;
- vi. reviewed and approved the appointment of independent non-executive director of the Company;
- vii. reviewed and approved connected transactions of the Group;
- viii. reviewed and approved the issuance of convertible note by the Company;
- ix. reviewed effective internal controls taken by the Group;
- x. reviewed the amendments to the Bye-laws and general mandates to issue and repurchase shares of the Company;

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- xi. reviewed and approved the discloseable transaction/very substantial acquisition/major transaction of the Group as herein below:–

Date of Announcement	Type of Transaction	Description
13 Aug 2004	Discloseable Transaction	Acquisition of a piece of land in Shanghai, PRC.
20 December 2004	Very Substantial Acquisition	The Group entered into the agreement with Mr. Benny Ki to acquire 60% of the issued share capital of Gainnew for the marketing and introducing of customers to the Omar III, and provision of settlement service in the Casino.
15 April 2005	Major Transaction	Acquisitions of properties in Beijing, PRC.

To the best knowledge of the Company, there is no financial, business and family relationship among our directors between the chairman and the chief executive officers. All of them are free to exercise their independent judgment.

c) Meeting Records

There were two board meetings held for the year ended 30 June 2005.

The following was an attendance record of the board meetings held by the board during the year:

Board Members	Attendance at meetings held for the year ended 30 June 2005
Mr. Zhang Yang	0/2
Mr. Lam Cheung Shing, Richard	2/2
Mr. Tam Sun Wing	2/2
Mr. Ko Ming Tung, Edward	2/2
Mr. Ng Ge Bun	2/2

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d) Independent Non-executive Directors

All independent non-executive directors are financially independent from the Company and any of its subsidiaries.

The Company confirmed with all non-executive directors as to their independence with reference to the factors as set out in Listing Rules 3.13.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman and chief executive officer of the Company are Mr. Zhang Yang and Mr. Lam Cheung Shing, Richard respectively.

The chairman's responsibility is to manage the board and the chief executive officer's responsibility is to manage the Company's business. The division of responsibilities between the chairman and chief executive officer is clearly established and set out in the Code of Corporate Governance of the Company.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:–

- Audit Committee
- Remuneration Committee

Each Board Committee makes decisions on matters within its term of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

a) Audit Committee

On 14 December 2001, the audit committee had been established. It currently consists of three independent non-executive directors.

Composition of audit committee members

Mr. Tam Sun Wing (chairman of audit committee)
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

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Role and function

The audit committee is mainly responsible for:

- i. to discuss with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved;
- ii. to review the draft Company's annual report and accounts and half yearly before submission to, and providing advice and comments thereon to the Board of Directors;
- iii. to consider the appointment of external auditors, their audit fees and questions of resignation or dismissal; and
- iv. to discuss problems and reservations arising from the interim and annual audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary).

Meeting Record

The audit committee met twice during the year, particular in reviewing the interim and annual results of the Group.

The following was an attendance record of the of the audit committee meetings for the year ended 30 June 2005:

Committee member	Attendance at meetings held for the year ended 30 June 2005
Mr. Tam Sun Wing	2/2
Mr. Ko Ming Tung, Edward	2/2
Mr. Ng Ge Bun	2/2

During the meetings, the audit committee would discuss the following matters:-

1) Financial Reporting

The audit committee met with the external auditors to discuss the interim and annual financial statements and system of control of the Group. The auditors, the chief executive officer and the company secretary, and the financial controller of the Company were also in attendance to answer questions on the financial results.

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Where there were questions on the financial statements and system of control of the Group reviewed by the audit committee, the management of the Company would provide breakdown, analysis and supporting documents to the audit committee members in order to ensure that the audit committee members were fully satisfied and make proper recommendation to the board.

2) External Auditors

The appointment of the external auditors and the audit fee were considered by the audit committee and recommendations were made to the board on the selection of external auditors of the Company.

b) Remuneration Committee

The Remuneration Committee was established on 21 March 2005. It currently consists of one executive director and two independent non-executive directors.

Composition of remuneration committee members

Mr. Lam Cheung Shing, Richard (chairman of the remuneration committee)

Mr. Tam Sun Wing

Mr. Ko Ming Tung, Edward

Role and function

The remuneration committee is mainly responsible for:

1. reviewing any significant changes in human resources policies and structure made in line with the then prevailing trend and business requirements;
2. making 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;
3. determining 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;
4. considering 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;
5. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

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6. reviewing 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;
7. reviewing 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;
8. ensuring that no director or any of his associates is involved in deciding his own remuneration; and
9. advising the shareholders on how to vote in respect of any service contract of director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

Where circumstances are considered appropriate, some remuneration committee decisions are approved by way of written resolutions passed by all the committee members.

For the year ended 30 June 2005, there was one meeting held. The following was an attendance record of the remuneration committee meeting for the year ended 30 June 2005:

Committee member	Attendance at meeting held for the year ended 30 June 2005
Mr. Lam Cheung Shing, Richard	1/1
Mr. Tam Sun Wing	1/1
Mr. Ko Ming Tung, Edward	1/1

During the meeting, the remuneration committee approved the annual remuneration for each of the Directors was fixed to HK\$200,000, payable semi-annually in June and December.

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholders' interest. To do so, the Company maintains on-going dialogue with shareholders – to communicate with them and encourage their participation – through annual general meetings or other general meetings.

Registered shareholders are notified by post for the shareholders' meetings. The notice of meeting contains the agenda, the proposed resolutions and a postal voting form.

Any registered shareholder is entitled to attend the annual and extraordinary general meetings, provided that their shares have been recorded in the Register of Shareholders.

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Shareholders who are unable to attend a general meeting may complete and return to the Share Registrar the proxy form enclosed with the notice of meeting to give proxy to their representatives, another shareholder or chairman of the meetings.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:-

Hotline no.: 2804-2221

By post: 12/F, 18 Cheong Lok Street, Jordan, Kowloon, Hong Kong.

EXTERNAL AUDITORS

It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditors' report.

Apart from the provision of annual audit services, the Group's external auditors also carried out review of the Group's results, taxation advisory service and the due diligence review of the Group.

For the year ended 30 June 2005, Deloitte Touche Tohmatsu and KLL Associates CPA Limited, the external auditors provided the following services to the Group:-

	Deloitte Touche Tohmatsu	KLL Associates CPA Limited
	HK\$'000	HK\$'000
Annual audit services	–	280
Taxation advisory services	29	–
Other advisory services	323	53

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INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual Reports, which are sent to shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media.

For the year ended 30 June 2005, the following shareholder meeting was held by the Company:–

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
26 November 2004	4101, 41st Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong	Annual General Meeting	<ol style="list-style-type: none">1. To re-elect directors;2. To re-appoint Deloitte Touche Tohmatsu as auditors and authorize the board of directors to fix their remuneration;3. To approve the amendment of Bye-laws of the Company; and4. To approve the general mandate to issue and repurchase shares of the Company.	By show hands
23 February 2005	12/F, 18 Cheong Lok Street, Jordon, Kowloon, Hong Kong	Special General Meeting	<ol style="list-style-type: none">1. To approve the acquisition of 60% issued share capital of Gainnew Group Limited;2. To approve the subcontracting agreement with HK Power Limited; and3. To approve the service agreement with Keygold Group Limited.	By poll

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Change to Bye-laws

To align with changes of the Listing Rules, the Bye-laws were amended accordingly and approved by shareholders at 2004 Annual General Meeting held on 26 November 2004. The relevant amendments of the changes of the Bye-laws can be found on the circular dated 29 October 2004.

Capital Structure and Shareholder Base

As at 30 June 2005, the market capitalization of the Company was approximately HK\$130,056,000 and 4,484,683,140 shares were in issue, each with a par value of HK\$0.10. The following table summarized the existing shareholding structure of the Company:–

By Category	No. of Shares	% of issued share capital of the Company
Sourcebase Developments Limited (a company beneficially and wholly owned by Mr. Zhang Yang)	750,000,000	16.72%
Public Shareholders	3,734,683,140	83.28%
Total	4,484,683,140	100.00%

Financial Calendar for 2005/06

Event	Proposed Date
Announcement of 2004/05 annual results	21 October 2005
Annual General Meeting	November to December 2005
Announcement of interim results	mid March 2006