

CORPORATE GOVERNANCE REPORT

The Company recognises that good corporate governance standards maintained throughout the Group serve an effective risk management for the Company. The Board of Directors (the “Board”) of the Company is committed to lead the Group growing in an efficient manner followed by corporate missions in terms of business strategies and improved operational planning and procedures which are enforced under high corporate governance standard.

(1) CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the year under review with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, which were in force prior to 1 January 2005, except that the independent non-executive directors are not appointed for specific terms as required by paragraph 7 of the Code of Best Practice, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company’s bye-laws (the “Bye-laws”).

The Code on Corporate Governance Practices as promulgated by the Stock Exchange became effective on 1 January 2005, which provides the code provisions (the “CP”) and recommended best practices for corporate governance practices by listed companies. The Company considered that its prevailing structures and systems satisfied the requirements of the CP. The Company will continuously enhance the corporate governance standards throughout the Group and ensure further standards to be put in place by reference to the recommended best practices whenever suitable and appropriate.

(2) CORPORATE MANAGEMENT

i. Board of Directors

The Board reviews and approves corporate matters such as business strategies and investments, mergers and acquisitions, as well as the general administrative and management of the Group.

The Board currently consists of 5 executive directors and 3 independent non-executive directors:

Executive directors

Mr. Lee Man Fa (*Chairman*)

Mr. Yan Wa Tat

Mr. Kwok Ming Fai

Mr. Tai King Foon

Independent non-executive directors

Mr. Leung Sai Cheong

Mr. Liu Kwok Wah

Mr. Wong Chi Chung

The number of independent non-executive directors exceeds one third of the Board membership. The Board membership is covered by professionally qualified and widely experienced personnel so as to bringing in valuable contribution and different professional advices and consultancy for the development of the Company. More than one-half of the Board members have recognised professional legal, securities, tax and accounting qualifications.

All directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any director, Audit Committee and Remuneration Committee of the Company may take independent professional advice if they so wish at the expense of the Company, as arranged by the Company Secretary.

Pursuant to the Bye-laws, every director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. In this regard, both Mr. Yan Wa Tat, an executive director and Mr. Wong Chi Chung, an independent non-executive director shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting (“2006 AGM”) of the Company to be held on 24 March 2006.

The Bye-laws deviate from the CP that the chairman of the Board and the managing director of the Company shall not be subject to rotation for retirement at each annual general meeting of the Company. In order to comply with the CP properly, Mr. Lee Man Fa, Chairman, voluntarily retires and, being eligible, offers himself for re-election at the 2006 AGM.

Save for the board meetings held between the executive directors during the normal course of business of the Company, the Board has had regular quarterly board meetings in accordance with the CP. During the year, the Company held four regular quarterly board meetings.

ii. Other Committees

There are two committees established under the Board, namely the Audit Committee and the Remuneration Committee.

(a) Audit Committee

The Audit Committee comprises three independent non-executive directors of the Company, two of whom possess recognised professional qualification in finance and accounting and have proven experience in audit, finance and accounting. The committee is chaired by the members on rotation.

The functions of the Audit Committee includes but not limited to the following:

- Considering and reviewing the appointment, resignation and removal of external auditors and their fees
- Reviewing the interim and annual results of the Group

CORPORATE GOVERNANCE REPORT

- Discussing with the external auditors problems and issues of significance during the annual audit of the Group

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants, and have been updated on terms no less exacting those set out in the CP.

The works of the Audit Committee during the year under review included:-

- Reviewed the 2005 interim results and annual results of the Group
- Discussed with the management of the Company over the completeness, fairness and adequate accounting standards and policies of the Group in the preparation of the 2005 interim and annual financial statements
- Reviewed and discussed with the external auditors over the financial reporting of the Company
- Recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors

The Audit Committee met twice in 2005. Each committee meeting was supplied with the necessary financial information of the Group for the members to consider, review and assess matters of significance arising from the work conducted.

(b) Remuneration Committee

The Remuneration Committee consists of three independent non-executive directors. The committee is chaired by the members on rotation.

The terms of reference of the Remuneration Committee follow with the CP. The committee meets at least once a year.

The Remuneration Committee is to consider and approve the remuneration plans and policies for all executive directors of the Company and senior management of the Group by reference to the prevailing rate with companies listed on the Main Board of the Stock Exchange in Hong Kong.

(3) CORPORATE COMMUNICATION

The Company channels corporate information of the Group to the shareholders in a timely and accurate manner. Printed copies of the Annual Report 2004 and Interim Report 2005 are sent to all shareholders.

The Company held an annual general meeting and a special general meeting in 2005. At the annual general meeting convened on 24 February 2005, separate resolutions were proposed for each issue. In addition to the ordinary business of the Company dealt with at the annual general meeting, the Bye-laws were amended to reflect the recent amendments to the Listing Rules and the Securities and Futures Ordinance. At the special general meeting held on 31 May 2005, an ordinary resolution was passed in regard to the major transaction of the Company. Details of the major transaction are disclosed in the circular dated 13 May 2005 of the Company.

(4) CORPORATE CONTROL

The Board has overall responsibility in monitoring the process of corporate reporting and control system throughout the Group. The corporate reporting standards are delegated to the accounting department in terms of proper and regular reviews on the deployment of resources and financial reporting systems. The corporate governance practices and compliance with the Listing Rules, Securities and Futures Ordinance and other applicable regulations are delegated to the company secretarial department. The management of the Company reviews and briefs the reporting systems with the executive directors regularly and the Audit Committee annually.

Every newly appointed director of the Company was provided with a comprehensive handout detailing the responsibilities and duties of being a director of the Company, in particular highlighting the respective applicable rules and regulation, including the Listing Rules, which a director should aware and be informed on the first occasion of his appointment with the Company.

The Company has adopted a code of conduct (the "Company's Code") regarding securities transactions by directors and employees of the Group based on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules. A copy of the Company's Code was sent to each director and the relevant employees of the Group who are required to be provided under the Company's Code. All the directors have confirmed that they have complied with the required standards set out in the Company's Code.