

CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhance its corporate governance standards by emphasizing transparency, independence, accountability, responsibility and fairness. The Company exercises corporate governance through the Board of Directors (“Board”) and various committees with designated functions. The Company has consistently complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. In January 2005, the Code of Best Practice was replaced by the Code on Corporate Governance Practice. During the year, the Company has taken a series of steps to promote the level of corporate governance according to the requirement and recommendation guidance set out in the Code on Corporate Governance Practice, which include the establishment of Audit Committee, Remuneration Committee and Nomination Committee and the amendments of the bye-laws of the Company to take effect of the necessary improvements of the governance of the Company. The major responsibilities of the Board and these committees are set out below.

BOARD OF DIRECTORS

The Board is responsible for formulating and reviewing of the long-term business directions and strategies, and monitoring the operating and financial performance of the Group. The management is delegated by the Board with the authority to make decisions on daily operations.

The Board consists of four executive directors, Mr. Yu Pan, the chairman, Mr. Lau Yat Tung, Derrick, the deputy chairman, Mr. Wong Lok, and Mr. Zheng Jian Wei and three independent non-executive directors, namely Mr. Choy Shu Kwan, Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong.

According to the bye-laws 87 (1) and (2) of the Company, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation such that each Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years at the annual general meeting. A retiring director shall be eligible for re-election and shall continue to act as Director throughout the meeting at which he retires.

All directors are closely involved and participate in the management of the Company. During the year, five full board meetings were held and attended by all directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In pace with the business development and growth of the Group, the Group currently maintains a small but efficient team in the daily operations of the Group. Due to the small size of the team, both the roles of the Chairman and Chief Executive Officer of the Company are currently played by Mr. Yu Pan. The Board considers the currently simple but efficient team serves sufficiently enough the need of the Group. The Board will, nonetheless, review the business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the day-to-day management team to ensure a proper balance of power and authority within the Company.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises the Chairman of the Company, Mr. Yu Pan and all three independent non-executive directors, namely, Mr. Choy Shu Kwan, Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong.

REMUNERATION COMMITTEE *(Continued)*

The Remuneration Committee was formed in July 2005. One meeting was held and attended by all members in 2005.

The major roles and functions of the Remuneration Committee are as follows:

1. to make recommendations to the Board on the remuneration policy and structure of the Board, all committees members and senior management;
2. to determine the remuneration packages of the directors, all committee members and senior management. The remuneration packages include basic salary, annual bonus, retirement and compensation packages;
3. to review and approve the compensation to executive directors and senior management on termination or dismissal;
4. to review and approve the performance target, appraisal system, remuneration terms and conditions, amount and distribution basis of the year-ended bonus; and
5. to review the expenses reimbursement policy.

NOMINATION COMMITTEE

The Nomination Committee of the Company comprises three executive directors, namely, Mr. Yu Pan, Mr. Wong Lok and Mr. Lau Yat Tung, Derrick and one independent non-executive director, Mr. Choy Shu Kwan.

The Nomination Committee was formed in July 2005. One meeting was held and attended by all members in 2005.

The major roles and functions of the Nomination Committee are as follows:

1. to propose the basic requirements and objective entry standard for directors;
2. to review and approve the selection, nomination and appointment procedures for directors, all committee members and senior management;
3. to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board in all such aspects;
4. to ensure the fixed employment period for the directors and fulfillment of the re-election requirements set under the bye-laws of the Company and related regulatory bodies;
5. to assess the independence of independent non-executive directors; and
6. to review and approve the part-time policy for the directors and senior management; and oversee the establishment of appropriate succession planning for directors in particular the chairman and the chief executive officer.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive directors, Mr. Choy Shu Kwan, Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong.

Two meetings were held and attended by all members in 2005.

The major roles and functions of audit committee are as follows:

1. review the integrity of accounts and financial reporting process;
2. review and oversee the effectiveness of internal control systems;
3. appointment of external auditors and assessment of their qualifications, independence and performance; and
4. periodic review of the Company's and the Group's accounts to check for compliance with applicable accounting standards and legal and regulatory requirements on financial disclosures.

The Audit Committee has reviewed the audited results for the year ended 31 December 2005.

AUDITORS' REMUNERATION

Messrs. Albert Lam & Co. was the former auditors of the Company. Messrs. BDO McCabe Lo Limited ("BDO") was appointed by the shareholders on 25 November 2005 to replace Messrs. Albert Lam & Co. as Company's auditors. Their engagement of the audit for 2005 has been reviewed and approved by the audit committee.

During the year under review, the remuneration paid to the Company's auditors are set out as follows:

| Services rendered | Albert Lam & Co. | BDO |
|---|-----------------------------|----------------|
| | <i>HK\$</i> | <i>HK\$</i> |
| Under-provision of audit services for 2004 | 120,000 | — |
| Interim results review services | 51,500 | — |
| Audit services for 2005 | — | 400,000 |
| Non-audit services | | |
| — Taxation services | 38,530 | — |
| — Reporting accountant's service for an acquisition transaction | — | 325,000 |
| — Disbursements | 30,000 | — |
| TOTAL | 240,030 | 725,000 |

DIRECTORS' SECURITIES TRANSACTIONS

Other than the governance through the board and the committees, the Company has adopted the code of conduct regarding the directors' securities transactions as set out in the Model Code of the Listing Rules. Following specific enquiry by the Company, all directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year under review.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with all shareholders. The Company's general meetings are a valuable forum for the Board to communicate directly with the shareholders. The members of the Board and the committees and the external auditors are present to answer shareholders' questions.

A meeting circular is distributed to all shareholders at least 21 days before the annual general meeting and at least 14 days before special general meetings. It sets out the procedures for demanding and conducting a poll at the shareholders' meeting and voting intention of proxies. The results of the poll, if any, will be published in the newspapers.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner well before the time limits as laid down in the Listing Rules.

The 2006 annual general meeting will be held at the office of Strategic Public Relations Group Limited, Room 3203, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong on Wednesday, 26 April 2006 at 3:00 p.m..