

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the light of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which came into effect on 1st January, 2005, the previous and existing Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report. The Company has applied the principles of and complied with the applicable code provisions of the CG Code during the year ended 31st December, 2005, except for certain deviations as specified with considered reasons for such deviations as explained below.

THE BOARD

The Board currently comprises six Directors and its composition is set out as follows:

Executive Directors	: Akihiro Nagahara (<i>Chairman</i>) Stephen Lo Kam Fai (<i>Chief Executive</i>) Edwin Lo King Yau
Independent Non-Executive Directors ("INEDs")	: Chan Bo Ching Li Chak Hung Yuen Wai Ho

The brief biographical details of the Directors are set out in the "Brief Biographical Details of Directors and Senior Management" section on pages 18 to 19.

The INEDs provide the Group with a wide range of expertise and experience. Their active participation in Board and committee meetings brings independent judgement on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders.

The Company has three INEDs representing more than one-third of the Board. At least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the year, six Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

	Number of Board meetings attended/eligible to attend
Executive Directors:	
Akihiro Nagahara [^] (<i>Chairman</i>)	1/1
Stephen Lo Kam Fai [^] (<i>Chief Executive</i>)	1/1
Edwin Lo King Yau [^]	1/1
David T. Yeh [*]	3/5
Lee Jark Pui, O.B.E., J.P. [*]	4/5
Jonathan Miles Foxall [*]	5/5
Ng Tai Chiu [*]	3/5
Non-Executive Directors:	
Ning Gaoning [*]	0/5
Chan Wai Lam [*]	2/5
Leon Chan Nim Leung [*]	5/5
Michael Chan Kwok Shung ⁺	1/2
INEDs:	
Chan Bo Ching [^]	1/1
Li Chak Hung [^]	1/1
Yuen Wai Ho [^]	1/1
Leung Nai Kong, B.B.S., J.P. [*]	3/5
Tsui King Fai [*]	5/5
Victor Yung Ha Kuk [*]	4/5

[^] Appointed on 12th October, 2005

^{*} Resigned on 12th October, 2005

⁺ Retired by rotation on 3rd June, 2005

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, annual and interim results, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the daily operations and administration to the executive management under the supervision of the Executive Committee which has its specific written terms of reference. The respective functions of the Board and management of the Company have been formalised and set out in writing which was approved by the Board in October 2005. The Board will review the same once a year.

Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors and to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before the same will be tabled at the following Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Every Director is entitled to have access to board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. In addition, a written procedure was established in October 2005 to enable the Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

Chairman and Chief Executive

The roles of the Chairman and the Chief Executive are separate to reinforce their respective independence and accountability. The Chairman of the Company is Mr. Akihiro Nagahara who is primarily responsible for the leadership of the Board, while the function of the Chief Executive is performed by Mr. Stephen Lo Kam Fai who is responsible for the executive management of the Company's operations. The division of responsibilities between the Chairman and Chief Executive has been set out in writing and approved by the Board in June 2005.

Appointment and Re-election of Directors

The Nomination Committee has been established in June 2005 and currently consists of three members, Messrs. Yuen Wai Ho (Chairman), Chan Bo Ching and Li Chak Hung, all of whom are INEDs.

The major roles and functions of the Nomination Committee are:

- (i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- (ii) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;
- (iii) to assess the independence of INEDs;
- (iv) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the Chairman and the Chief Executive;

- (v) to do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board; and
- (vi) to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

The terms of reference of the Nomination Committee were adopted in June 2005 and have been posted on the Company's website.

The Nomination Committee shall meet before the holding of an AGM where appointment of Directors will be considered and additional meetings shall be held as and when necessary. Since the Nomination Committee has been established subsequent to the Company's last AGM held on 3rd June, 2005, thus no meeting was held in 2005.

Every newly appointed Director of the Company will receive an information package from the Company Secretary on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a director pursuant to the Companies Ordinance, Listing Rules and Securities and Futures Ordinance (the "SFO"). In addition, this information package includes materials to briefly describe the operations and business of the Company. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

The former Non-Executive Directors (other than the three former INEDs appointed with a term of two years) had no fixed term of office prior to their resignations on 12th October, 2005, but retired from office on a rotational basis in accordance with the relevant provision of the Articles of Association of the Company, save for the former Chairman of the Company, Mr. Ning Gaoning, was not subject to retirement by rotation and re-election at the Company's last AGM held on 3rd June, 2005. According to the Articles of Association of the Company then in effect prior to 3rd June, 2005, 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 greater than one-third) shall retire from office by rotation at each AGM, but the Directors were not required to retire by rotation at least once every three years. Further, any Director appointed to fill a casual vacancy shall hold office only until the next following AGM, and shall then be eligible for re-election.

To comply with the code provision A.4.1 of the CG Code, all the existing INEDs had been appointed on 12th October, 2005 with a fixed term of office, but subject to the relevant provisions of the Articles of Association of the Company or any other applicable laws whereby the Directors shall vacate or retire from their office. In addition, to ensure fully compliance with the code provision A.4.2 of the CG Code, the Articles of Association of the Company have been amended on 3rd June, 2005 to provide, inter alia, that every Director shall be subject to retirement by rotation at least once every three years. Furthermore, relevant amendments will be proposed for the shareholders' approval at the forthcoming AGM in order that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

Board Committees

In addition to the Nomination Committee, the Board has established three committees, being the Remuneration Committee, Audit Committee and Executive Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on page 8 in the section “The Board” above, have been adopted for the committee meetings so far as practicable.

Remuneration Committee

The Remuneration Committee has been established in June 2005 in order to comply with the code provision B.1.1 of the CG Code. It currently consists of three members, including Messrs. Chan Bo Ching (Chairman), Li Chak Hung and Yuen Wai Ho, all of whom are INEDs. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company’s policy if considered necessary.

The major roles and functions of the Remuneration Committee are:

- (i) to consult the Chairman and/or the Chief Executive of the Company about their proposals relating to the remuneration of Executive Directors and the senior management (which should refer to the same category of persons as referred to in the Company’s annual report and is required to be disclosed under paragraph 12 of Appendix 16 or other rule(s) from time to time of the Listing Rules) of the Company (the “Senior Management”);
- (ii) to make recommendations to the Board on the policy and structure for all remuneration of the Directors and the Senior Management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- (iii) have the delegated responsibility to determine the specific remuneration packages of all Executive Directors and the Senior Management, including (but not limited to) benefits in kind, pension rights and compensation payments (such as compensation payable for loss or termination of their office or appointment), and make recommendations to the Board of the remuneration of Non-Executive Directors. The Committee should consider 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;
- (iv) to review 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;
- (v) to ensure that no Director or any of his associates is involved in deciding his own remuneration. For this purpose, the remuneration of any member of the Committee shall be determined by the Board;

- (vi) to advise shareholders of the Company on how to vote with respect to any service contracts of Directors that require shareholders' approval under Rule 13.68 or other rule(s) from time to time of the Listing Rules; and
- (vii) to review and approve performance-based remuneration by reference to the goals and objectives resolved by the Board from time to time.

The terms of reference of the Remuneration Committee were adopted in June 2005 and have been posted on the Company's website.

The Remuneration Committee shall meet at least once a year. Two committee meetings were held in 2005 to (i) approve the directors' fee payable to the former Directors; and (ii) review and discuss the existing policy and structure for the remuneration of Directors and Senior Management, the remuneration packages of the Executive Directors and Senior Management and the attendance of each member is set out as follows:

Committee member	Number of Committee meetings attended/eligible to attend
Chan Bo Ching [^] (<i>Chairman</i>)	1/1
Li Chak Hung [^]	1/1
Yuen Wai Ho [^]	1/1
Leon Chan Nim Leung [*]	1/1
Victor Yung Ha Kuk [*]	1/1
Leung Nai Kong, B.B.S., J.P. [*]	1/1
Tsui King Fai [*]	1/1

[^] Appointed on 12th October, 2005

^{*} Resigned on 12th October, 2005

The remuneration payable to the Directors will depend on their respective contractual terms under their employment or service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 10 to the financial statements.

Audit Committee

The Audit Committee has been established some time ago. To retain independence and objectivity, the Audit Committee currently consists of three members and all of them are INEDs and which has been chaired by Mr. Li Chak Hung who has the appropriate professional qualifications or accounting or related financial management expertise. The other members of the Audit Committee are Messrs. Chan Bo Ching and Yuen Wai Ho. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

The major roles and functions of the Audit Committee are:

- (i) to be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditors;
- (ii) to consider and discuss with the external auditors the nature and scope of each year's audit;
- (iii) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- (iv) to review the interim and annual financial statements before submission to the Board;
- (v) to consider any significant or unusual items that are, or may need to be, reflected in the interim and annual financial statements, and any matters the external auditors, the Company's Qualified Accountant or compliance officer may wish to discuss;
- (vi) to review the external auditors' management letters and management's response;
- (vii) to review the Group's financial controls, internal control and risk management systems; and
- (viii) to consider any findings of major investigations of internal control matters as delegated by the Board and management's response.

The terms of reference of the Audit Committee of the Company were revised in June 2005 to comply with the code provision C.3.3 of the CG Code and which have been posted on the Company's website.

The Audit Committee shall meet at least twice a year. Two committee meetings were held in 2005 and the attendance of each member is set out as follows:

Committee member	Number of Committee meetings attended/eligible to attend
Victor Yung Ha Kuk * (<i>Former Chairman</i>)	2/2
Leon Chan Nim Leung *	2/2
Leung Nai Kong, B.B.S., J.P. *	2/2
Tsui King Fai *	2/2
Michael Chan Kwok Shung +	1/1

* Resigned on 12th October, 2005

+ Retired by rotation on 3rd June, 2005

During the meetings held in 2005, the Audit Committee had performed the work as summarised below:

- (i) reviewed and recommended to the Board for approval the new and revised accounting policies of the Group following the adoption of new Hong Kong Financial Reporting Standards; and
- (ii) reviewed the financial reports for the year ended 31st December, 2004 and for the six months ended 30th June, 2005 and recommended the same to the Board for approval.

Executive Committee

The Executive Committee has been established in October 2005 and currently consists of three Executive Directors, being Messrs. Akihiro Nagahara (Chairman), Stephen Lo Kam Fai and Edwin Lo King Yau. The Executive Committee is vested with all the general powers of management and control of the activities of the Group as are vested in the Board of the Company, save for those matters which are reserved for the Board's decision and approval pursuant to the written terms of reference of the Executive Committee.

The Executive Committee meets as and when necessary to discuss the operating affairs of the Group. It is mainly responsible for undertaking and supervising the day-to-day management and is empowered:

- (i) to formulate and implement policies for the business activities, internal control and administration of the Group; and
- (ii) to plan and decide on strategies to be adopted for the business activities of the Group.

Codes for Securities Transactions by Directors and Relevant Employees

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code.

To comply with the code provision A.5.4 of the CG Code, the Company has also established and adopted in June 2005 the Model Code, to regulate dealings in the securities of the Company by all employees of the Company and its subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

Accountability and Audit

Financial Reporting

The Directors acknowledge their responsibility for preparing, with the support from the Accounts Department, the financial statements of the Group. The financial statements for the year ended 31st December, 2005 have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules and the Companies Ordinance.

The reporting responsibilities of the Company's external auditors, Messrs. Deloitte Touche Tohmatsu, are set out in the Auditors' Report on page 24.

External Auditors' Remuneration

During the year, the remuneration paid/payable to the Company's existing external auditors, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered for the Group	Fee paid/payable <i>HK\$'000</i>
Audit services	230
Non-audit services including:	
Taxation service	15
Review requirements under the Listing Rules	34
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Total	279
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During the year, the remuneration paid/payable to the Company's former external auditors, Messrs. Ernst & Young is as follows:

Services rendered for the Group	Fee paid/payable <i>HK\$'000</i>
Audit services	9
Non-audit services including:	
Review requirements under the Listing Rules	15
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Total	24
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Communication with Shareholders

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. As a channel to further promote effective communication, the corporate website is maintained to disseminate shareholder information and other relevant financial and non-financial information electronically on a timely basis.

The AGM is a valuable forum for the Board to communicate directly with the shareholders. The chairman of the AGM actively participates in the AGM to answer any questions from the shareholders. A separate resolution is proposed by the chairman of the AGM in respect of each issue to be considered at the AGM. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The chairman of the AGM explains the procedures for demanding and conducting a poll again at the beginning of the AGM, and (except where a poll is demanded) reveals how many proxies for and against have been received in respect of each resolution.

Mr. Ning Gaoning, the former Chairman of the Company, was unable to attend the AGM held on 3rd June, 2005 as he was out of town during that period, and thus there is a deviation from the code provision E.1.2 of the CG Code that the chairman of the board should attend the AGM. The existing Chairman of the Company, Mr. Akihiro Nagahara, will use his best endeavours to attend all future AGMs.

Corporate Governance Enhancement

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders are also welcome to promote our transparency.

On behalf of the Board



Akihiro Nagahara

Chairman

Hong Kong, 24th March, 2006