

Corporate Governance Report

The Company acknowledges the importance of good corporate governance practices and believes that maintaining high standard of corporate governance practices is crucial to the development of the Company.

The Company has complied with all the code provisions (with the exception of Code Provision C.2 on internal controls) of the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the annual report, save for the few exceptions mentioned below.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and overseeing the Group's affairs. The Board formulates the overall strategic direction and review and approves major transaction of the Group, while the management is delegated with the power to implement policies and strategies as set out by the Board. The Board also acknowledges its responsibilities for preparing the financial statements of the Company.

The Board has a balanced composition of executive and non-executive directors. Currently, the Board comprises three Executive Directors, being Mr. Yeung Kwok Kwong (Chairman of the Board), Ms. Wong Yuk Ching and Mr. Lam Chi Chung, Tommy, one Non-Executive Director, being Mr. Lai Ka Fai, and three Independent Non-Executive Directors, being Mr. Anthony Francis Martin Conway, Mr. Siu Leung Yau and Mr. Liu Kwong Sang. The Directors have no financial, business, family or other material/relevant relationship. The profiles of the Directors, which are set out on pages 16 to 18, demonstrate a balance of skills and experience of the Board.

To ensure the compliance of Code Provisions D.1.1 and D.1.2, an executive committee has been established for the management and administration functions. The Board has also formalised the function reserved by the Board and those delegated to the management and clear direction has been given as to the power of the management.

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BOARD OF DIRECTORS *(continued)*

During the year, the Board has held four regular meetings. The attendance of the Directors at the regular meetings was as follows:

| Directors | Number of attendance |
|---|----------------------|
| Mr. Yeung Kwok Kwong (<i>Chairman of the Board</i>) | 4/4 |
| Ms. Wong Yuk Ching | 4/4 |
| Mr. Lam Chi Chung, Tommy (<i>appointed on 3 October 2005</i>) | 1/1 |
| Mr. Lai Ka Fai | 4/4 |
| Mr. Anthony Francis Martin Conway | 4/4 |
| Mr. Siu Leung Yau | 4/4 |
| Mr. Liu Kwong Sang | 4/4 |

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yeung Kwok Kwong is the Chairman of the Board and the Managing Director of the Company during the year. With effect from 1 April 2006, Mr. Or Wai Sheun will replace Mr. Yeung Kwok Kwong to act as the Chairman of the Board and Mr. Yeung Kwok Kwong will remain to act as the Managing Director.

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AUDIT COMMITTEE

The present members of the Audit Committee are two Independent Non-executive Directors of the Company, being Mr. Liu Kwong Sang (Chairman) and Mr. Siu Leung Yau and one Non-executive Director of the Company, being Mr. Lai Ka Fai. During the year, the Audit Committee has held three meetings. The attendance of the Audit Committee members at the audit committee meetings was as follows:

| Directors | Number of attendance |
|---|----------------------|
| Mr. Liu Kwong Sang (<i>Chairman of the audit committee</i>) | 3/3 |
| Mr. Siu Leung Yau | 3/3 |
| Mr. Lai Ka Fai | 3/3 |

The responsibility of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting and internal control system. The roles of the Audit Committee include maintaining a close relationship with the external auditors, reviewing of financial information of the Company and overseeing of the Company's financial reporting system and internal control procedure.

During the year, the Audit Committee reviewed its Terms of Reference and, on 30 June 2005, the Board adopted the Terms of Reference which included all the duties referred in Code Provision C.3.3. The Audit Committee also reviewed the second interim financial statements for 2004, the audited financial statements for 2004 and the interim financial statements for 2005 and met with the external auditors and the management of the Company to discuss issues arising from the audit of the financial statements. The Audit Committee has commenced to review the effectiveness of the system of internal control of the Group in 2006.

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REMUNERATION OF DIRECTORS

The Remuneration Committee of the Company was established on 21 September 2005. The present members of the Remuneration Committee are three Independent Non-executive Directors of the Company, Mr. Anthony Francis Martin Conway, Mr. Siu Leung Yau and Mr. Liu Kwong Sang and one Executive director of the Company, Mr. Yeung Kwok Kwong (Chairman). During the year, the Remuneration Committee has held one committee meeting. The attendance of the Remuneration Committee members at the Remuneration Committee meeting was as follows:

| Directors | Number of attendance |
|--|----------------------|
| Mr. Yeung Kwok Kwong (<i>Chairman of the remuneration committee</i>) | 1/1 |
| Mr. Anthony Francis Martin Conway | 1/1 |
| Mr. Siu Leung Yau | 1/1 |
| Mr. Liu Kwong Sang | 1/1 |

The roles of the Remuneration Committee include formulating remuneration policy for approval by the Board, which shall take into consideration factors such as salaries paid by comparable companies, employment conditions, time commitment and responsibilities, desirability of performance based remuneration, and individual performance of the Directors and Senior Management, and implement the remuneration policy laid down by the Board. During the year, the remuneration committee has reviewed the remuneration policy of the Company and the remuneration package offered to an Executive Director joined the Company during the year.

NOMINATION OF DIRECTORS

The Company currently does not have a nomination committee. To maintain high quality of the Board with a balance of skills and experience, the Board will identify individuals suitably qualified to become Directors when necessary. The Board will consider the experience, qualification and other relevant factors, including the standards set out in rules 3.08 and 3.09 of the Listing Rules and rule 3.13 of the Listing Rules in case of Independent Non-executive Directors, of the eligible candidates. During the year, the Board considered and approved the appointment of an additional Executive Director.

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NON-EXECUTIVE DIRECTORS

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Non-Executive Directors of the Company do not have a specific term of appointment, but subject to rotation in accordance with Article 108(A) of the Articles of Association of the Company. As the Non-Executive Directors are subject to rotation in accordance with the Articles of Association, the Board considers that the Non-Executive Directors to be appointed with no specific term will not impair the quality of corporate governance of the Company as required by the principle of good governance laid down in A.4 of the Code on Corporate Governance Practices.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

The first sentence of Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. In accordance with Article 112 of the Articles of Association of the Company, any Director appointed to fill a casual vacancy shall hold office until the next following annual general meeting of the Company.

As the Director appointed to fill a casual vacancy shall subject to re-election in the next following annual general meeting of the Company in accordance with the Articles of Association which complies with paragraph 4(2) of the Appendix 3 of the Listing Rules, the Board considers that the Directors so appointed subject to election by shareholders at the next following annual general meeting of the Company after their appointment will not impair the quality of corporate governance of the Company as required by the principle of good governance laid down in A.4 of the Code on Corporate Governance Practices.

The Company did not have any deviation from the first sentence of Code Provision A.4.2 during the year.

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APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS *(continued)*

The last sentence of Code Provision A.4.2 stipulates that that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In accordance with Article 108(A) of the Articles of Association of the Company, at every annual general meeting, one-third of the Directors for the time being, other than Chairman, Deputy Chairman, Managing Director or Joint Managing Director, or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office. In order to ensure compliance with the last sentence of Code Provision A.4.2, a special resolution will be proposed to amend the relevant Articles of Association of the Company at the annual general meeting to be held in 2006.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Listing Rules. On specific enquiries made, all directors of the Company have confirmed that, in relation to the accounting period covered by the annual report, they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors, Messrs Deloitte Touche Tohmatsu is set out below:

| | <i>HK\$'000</i> |
|----------------------|-----------------|
| Services rendered | |
| — audit services | 950 |
| — non-audit services | — |
| | <u>950</u> |