

Corporate Governance Report

The Company always recognizes the importance of incorporating elements of good corporate governance in the management structures and internal control procedures, to ensure all business activities and decision-making can be properly regulated. During the financial year ended 31 December 2005, the Company complied with the applicable Code Provisions in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) save that the number of meetings of the board of Directors held during the financial year ended 31 December 2005 was less than the required under the Code as the Directors consider that three Board meetings held in the financial year effectively dealt with all major matters of the Group during the same period.

BOARD OF DIRECTORS

The board of Directors of the Company (the “Board”) is responsible for preventing the frauds and irregularities, for safeguarding the assets of the Group and for formulating of business strategies for the Group’s development. The Board currently comprises seven executive Directors, three non-executive Directors and three independent non-executive Directors. Details of the Directors are given on pages 15 to 17 of this report.

Seven executive Directors comprise Mr. LEE Yin Yee, Mr. TUNG Ching Bor, Mr. TUNG Ching Sai, Mr. LEE Shing Put, Mr. LEE Yau Ching, Mr. LI Man Yin and Mr. NG Ngan Ho. Mr. LEE Yin Yee is the father of Mr. LEE Shing Put, and also the brother-in-law of Mr. TUNG Ching Bor and Mr. TUNG Ching Sai, and the uncle of Mr. LEE Yau Ching. Mr. TUNG Ching Bor is the brother of Mr. TUNG Ching Sai. Mr. LEE Shing Put is the son of Mr. LEE Yin Yee, cousin of Mr. LEE Yau Ching and nephew of Mr. TUNG Ching Bor and Mr. TUNG Ching Sai. Mr. LEE Yau Ching is the nephew of Mr. LEE Yin Yee and cousin of Mr. LEE Shing Put. Three non-executive Directors comprise Mr. LI Ching Wai, Mr. SZE Nang Sze and Mr. LI Ching Leung. Three independent non-executive Directors comprise Mr. LAM Kwong Siu, Mr. WONG Kong Hon and Mr. WONG Chat Chor Samuel. Where vacancies exist at the Board, candidates will be proposed and put forward to the Board for consideration and approval, with a view to appointing to the Board individuals with appropriate capabilities at that time.

Mr. LEE Yin Yee is the Chairman of the Group, and Mr. TUNG Ching Sai is the Chief Executive Officer of the Group. The Chairman is responsible for managing and providing leadership to the Board. He ensures that the Group has maintained strong and effective corporate governance practices and procedures. The Chief Executive Officer is responsible for the day-to-day management of the business of the Group. With the assistance of the Board and other senior management, he closely monitors the operating and financial results of the Group, identifies the weakness of the operation and takes appropriate steps to remedy, and outlines the future business plans and strategies of the Group for the Board’s approval.

All three non-executive Directors were appointed for a term of three years, commenced on 1 January 2005. All three independent non-executive Directors were appointed for a term of three years, commenced on 3 February 2005. All of them meet the independence criteria and have made annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules.

During the financial year 2005, the Board held three board meetings on 18 January 2005, 22 April 2005 and 13 September 2005, respectively, and all Directors had attended the three meetings except Mr. WONG Kong Hon was absent on 22 April 2005. At least four Board meetings are scheduled for the financial year 2006.

The Board, led by the Chairman, is responsible for the formulation of the overall strategies and objectives, the monitoring and evaluation of the operating and financial performance, the review of the corporate governance standard, and the supervision of the management of the Group. The management of the Group is responsible for the implementation of the business strategies and the day-to-day operations of the Group under the leadership of the Chief Executive Officer. The Directors have full access to information on the Group. Senior management of the Group also provides the Directors from time to time with information on businesses of the Group.

MODEL CODES FOR SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company have made specific enquires with the Directors and all Directors have confirmed that they complied with the Model Code throughout the year ended 31 December 2005.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company has five members comprising Mr. LAM Kwong Siu, Mr. WONG Kong Hon, Mr. WONG Chat Chor Samuel, Mr. LEE Yin Yee and Mr. TUNG Ching Sai. The chairman of the Remuneration Committee is Mr. LAM Kwong Siu. The primary duties of the Remuneration Committee include reviewing the terms of remuneration packages and determining the award of bonuses. Its terms of reference are available on request. During the year, a meeting of the Remuneration Committee was held on 13 September 2005 and all the committee members had attended the meeting.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive Directors, Mr. LAM Kwong Siu, Mr. WONG Kong Hon and Mr. WONG Chat Chor Samuel. Mr. LAM Kwong Siu is the chairman of the Audit Committee. The Audit Committee assists the Board to review the financial reporting process, to evaluate the effectiveness of internal control systems, and to oversee the auditing processes. Its terms of reference are available on request. An audit committee meeting was held on 22 April 2005 throughout the financial year 2005.

DIRECTOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges that it is their responsibility for (i) overseeing the preparation of the financial statements of the Group with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group, and (ii) selecting suitable accounting policies, applying the selected accounting policies consistently, and making prudent and reasonable judgments and estimates for the preparation of the financial statements of the Group.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 34.

AUDITORS' REMUNERATION

The professional fee charged by the Group's auditors in respect of the auditing services is disclosed in the notes to the financial statements. The remuneration paid to the auditors of the Group is solely for auditing services rendered during the year and amounts to approximately HK\$2.0 million.

INTERNAL CONTROL

The Board and the management of the Group maintain a sound and effective system of internal control of the Group so as to ensure the effectiveness and efficiency of operations of the Group in achieving the established corporate objectives, safeguarding assets of the Group, rendering reliable financial reporting and complying with applicable laws and regulations.

The Board is also responsible for making appropriate assertions on the adequacy of internal controls over financial reporting and the effectiveness of disclosure controls and procedures. Through the audit committee, it reviews the effectiveness of the system.