

# Corporate Governance Report

This report is a product of the Company's compliance with all relevant recommendations laid down in the "Corporate Governance Report" as set out in Appendix 23 of the Listing Rules.

The Company is committed to exercise a high standard of corporate governance practices at all times. The Board believes that good corporate governance helps the Company safeguard the interests of its stakeholders and improve the performance of the Group. During the year under review, the Company had complied with all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code") throughout the accounting period covered by the Company's 2005 annual report.

## THE BOARD OF DIRECTORS

The Board comprises of:

### Executive Directors:

Chan Chun Choi *(Chairman and Managing Director)*  
Lu Su Hua *(Deputy Chairman)*

### Independent Non-executive Directors:

Ng Chi Shing  
Yuen Kwok Wah, Bernard  
Lam Williamson

There is no relationship between members of the Board.

The Board consists of a good mix of expertise, knowledge, experience and skills, the essential abilities to guide the management teams to fulfill corporate goals. The mission of the Board is to undertake the role for strategic planning and development of the Group with the objective to maximize its shareholders' value. Through the aids of senior management and the internal control mechanism, the Board monitors and supervises, from time to time, the ongoing performance of the Group.

Of the three independent non-executive Directors ("INEDs"), Mr. Lam Williamson possesses appropriate professional accounting qualifications and financial management expertise, satisfying Rule 3.10(2) of the Listing Rules. Through positive contributions to the Board and committee works, the INEDs provide independent directives on important decisions in respect of strategic developments, corporate governance practices, financial reporting framework, internal controls, and risk management.

On an annual basis, the Company had received, from each of its INEDs, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company therefore considers that all INEDs are independent.

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The Board meets regularly throughout the year to review the business strategies and to monitor the operational and financial performance of the Group. The bye-laws of the Company (the "Bye-laws") allow board meetings to be conducted by way of telephone or videoconference and all Directors are given fourteen-day notices for regular board meetings. Sufficient information was supplied by management to facilitate the board meetings in making decisions. In both regular and ad hoc board meetings as required by business needs, the Directors are free to include matters of interest for discussion in the agenda. Other than the board papers and related materials, documents of all kinds in relation to the entire Group are accessible to all Directors at any time with one-day notice.

During the year, thirteen board meetings, including four regular quarterly meetings, were held and the attendance summary is as below:

<b>Name of Director</b>	<b>Number of attendance</b>	<b>Attendance rate</b>
Chan Chun Choi	13	100%
Lu Su Hua	13	100%
Ng Chi Shing	8	62%
Yuen Kwok Wah, Bernard	8	62%
Lam Williamson	9	69%

### RE-ELECTION OF DIRECTORS

Each Director has entered into a letter of appointment with the Company for a term governed by the Bye-laws numbered 87(1) where one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting of the Company. To support a good corporate governance practice and follow provision A4.2 of the Code, the chairman of the Board (the "Chairman") would retire from his office and offer himself for re-election at the Company's annual general meeting held on 15 May 2006.

### THE CHAIRMAN AND MANAGEMENT TEAM

The Company implements a clear division of responsibilities among its top management. The Chairman is kept separate from the control of daily operations. Since January 2006, a dual leadership structure has been in place where the Chairman solely oversees the functions of the Board and the senior management team, headed by the Group's chief financial officer, takes responsibility for the Group's day-to-day business operations.

### FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Group's financial statements in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group in a timely manner. Equally important, they are also responsible for keeping proper accounting records and disclosures.

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## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company had made specific enquires of all Directors regarding any non-compliance with the Model Code during the year and received confirmations from all Directors that they had fully complied with the required standard set out in the Model Code.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in 1999. All members of the Audit Committee are the INEDs with a rotational chairmanship structure. The composition and member of the Audit Committee comply with the requirements under Rule 3.21 of the Listing Rules. The written terms of reference, which describe the authority and duties of the Audit Committee, were adopted since its establishment and had been amended to conform to the provisions of the Code.

The Audit Committee provides the following consultative services to the Board:

- reviewing and monitoring audit process, financial reporting, internal controls, risk management system, and accounting policies and practices;
- deciding the appointment and terms of engagement of external auditors; and
- involving in the decision making for all non-audit engagements.

The Audit Committee convenes at least three meetings a year to review with management the accounting principles and practices adopted by the Group and all other matters within the scope of its terms of reference and the maintenance of the independence and objectivity of the external auditors. In April 2005, the Committee members met with Lak & Associates C.P.A. Limited, the auditors of the Company ("Lak & Associates" or the "Auditors"), who presented the implications of those new accounting standards enforceable in this and subsequent financial years. During the year, Lak & Associates rendered no non-audit services to the Group and the Group also did not incur any non-audit service fees.

The Group's 2005 audited financial statements had been duly reviewed by the Audit Committee with management and the Auditors. The members of the Audit Committee unanimously recommended for approval by the Board. The Committee has concluded that it is satisfied with the professional performance of the Auditors and therefore recommends the Board that Lak & Associates be re-appointed as our auditors in the Company's 2006 annual general meeting.

With the consent of the Audit Committee, the Board hereby confirms that, in the preparation of the 2005 consolidated financial statements of the Company, the Directors, both collectively and individually, applied such degree of skill, care and diligence as may reasonably be expected of under the Rule 3.08 of the Listing Rules.

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During the year, three Audit Committee meetings were held and the attendance summary is as below:

<b>Name of Director</b>	<b>Number of attendance</b>	<b>Attendance rate</b>
Ng Chi Shing	3	100%
Yuen Kwok Wah, Bernard	3	100%
Lam Williamson	3	100%

### REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established in January 2005 with specific terms of reference. The Committee members are all the INEDs with a rotational chairmanship structure. The Remuneration Committee provides objective opinions in helping the Group formulating remuneration policies, especially for those involving Directors or senior management. Moreover, the Remuneration Committee ensures that no conflicting parties are involved in the decision process of committing remuneration packages. In short, the objective of this Committee is to assure that the Group is able to attract, retain, and motivate a high-caliber management team which is essential to the future of the Company.

If a Director's emolument were to be determined, the Remuneration Committee would certainly consider various factors, including market comparability, complexity of duties, and the performance expectation.

The Remuneration Committee convenes meetings when necessary. The Committee met once in August 2005 for reviewing the Group's overall remuneration policies.

There are both local and mainland employees in the Group. The remuneration package for Hong Kong staff is strictly on a monthly-salary basis and that for the mainland employees is performance oriented. Year-end bonus is linked to the financial results of the Group as well as the performance of individual staff. The remuneration policies of the Group's employees are subject to review regularly.

The Group does not operate any pension or retirement schemes for its Directors or employees until the implementation of the MPF Ordinance in late 2000. The Group has a share options scheme, which was approved by the shareholders on 22 January 1998, available for any full time employees of the Company or any of its subsidiaries, including any executive directors of the Company or of any subsidiaries. No options had been granted since the approval of the scheme.

Due to its unfavorable performance over years, the Group offered no benefits of any kind, except the employer's contribution to MPF, to its directors and staff in 2005.

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Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

Name of Director	Director's	Salaries, allowances and other	Employer's	Total	Total
	fee	benefits	contribution to MPF	2005	2004
	2005	2005	2005	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive Directors</b>					
Chan Chun Choi	–	876	12	888	522
Lu Su Hua	100	–	–	100	100
	100	876	12	988	622
<b>Non-executive Director</b>					
Liu Kwok Fai Alvan *	–	–	–	–	75
	–	–	–	–	75
<b>Independent Non-executive Directors</b>					
Ng Chi Shing	100	–	–	100	100
Yuen Kwok Wah, Bernard	100	–	–	100	100
Lam Williamson	50	–	–	50	13
	250	–	–	250	213
<b>Total</b>	350	876	12	1,238	910

\* Liu Kwok Fai Alvan retired from office in September 2004.

No share options have been granted to the Directors since the approval of the Company's share option scheme.

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The emoluments of the Directors fell within the following bands:

	<b>2005</b>	2004
	<b>Number of Directors</b>	Number of Directors
Nil – HK\$1,000,000	<b>5</b>	6

During the year, no emoluments were paid by the Group to the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a Director waived or agreed to waive any remuneration during the year.

### NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established in January 2005 with specific terms of reference and the current members are all the INEDs with a rotational chairmanship structure. The Nomination Committee provides objective opinions in recommending the appointments of Directors and evaluating the Board's composition.

Certain procedures and criteria are adopted by the Nomination Committee in the process of changing Directors. In particular, academic and professional background, commercial or trading practicing experience, financial management skills, ethical value, and social responsibility exposure are taken into consideration for nominating new Directors. Selected candidates are invited to have formal meetings with the Nomination Committee which then provide recommendations to the Board for its final approval of appointment. Should there be resignation of Directors, the Nomination Committee is required to understand and to determine if any matters should be brought to the attention of shareholders.

There was no meeting of this Committee in 2005.

### INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has proactively enhanced its corporate transparency to the investment community and the communication with our shareholders. Other than mandatory interim and final reports, the timely press releases of corporate information keep the public informed of our latest developments. Working on a tight budget, the Company was not able to voluntarily provide regular briefings and meetings with shareholders, investors, or analysts. However, direct shareholders' contacts with the Company had been entertained properly during the year. Furthermore, the Company's annual general meetings create a useful forum between the shareholders and the Board.

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Ever since it was listed in the Stock Exchange, the Company has announced its annual and interim results in a timely fashion. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors. Details of poll voting procedure and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. The results of the poll shall be published in the newspapers and on the Stock Exchange's website.

## **BUSINESS ETHICS**

The Company commits to high standard of business ethics and integrity. Code of ethics is enforced in the Group where no employees are allowed to accept gifts or benefits of any type, in their capacity as our staff, from any party. Business partners are also informed of the ethical policy that forbids our employees from accepting their gifts.