

CORPORATE GOVERNANCE REPORT

Nortiy International Group Limited (the “Company”) is committed to achieving high standard of corporate governance that properly protect and promote the interests of all the shareholders and to enhance corporate value and accountability of the Company. The Company has applied the principles and complied with the code provisions as prescribed in Appendix 14 - Code on Corporate Governance Practices (“CG Code”) of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), which became effective on 1 January 2005.

To ensure compliance with the CG Code, the Board of Directors (the “Board”) has examined and reviewed the issues arising from application of corporate governance practices to the Company and where necessary and appropriate, will amend the Articles of Association of the Company (the “Articles”) to bring the Articles in alignment with provisions of the CG Code. This report describes the Company’s corporate governance practices and explains the applications of the principles of the CG Code and any deviation therefrom.

CORPORATE GOVERNANCE PRACTICES

The Board assumes overall responsibilities for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company’s affairs. The Board focuses on overall corporate strategies and policies with attention particularly paid to the financial performance of the Group.

To maximise the effectiveness of the Board, the Company has established audit committee and remuneration committee with specific written terms of reference respectively to assist the committees in execution of their duties. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time to enhance the corporate governance practices of the Company.

There is a clear division of the responsibilities of the Board and the management. The Board delegated its responsibilities to directors and senior management to deal with day-to-day operations and review those arrangements on a periodic basis. Management has to report back to the Board and obtain prior approval before making decisions for key matters or entering into any commitments on behalf of the Company. The Board has a balance of skill and experience appropriate for the requirements of the business of the Company.

All directors have access to the Company Secretary who is responsible for the Group’s compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations etc. All directors are given the opportunities to include matters to be discussed in the agenda of the board/committee meetings. The Company Secretary is delegated with the responsibility to prepare meeting agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda. An agenda accompanied by any related materials are circulated to all directors in a timely manner and at least three days before the date of scheduled meeting. Where queries are raised by directors, responses should be given as promptly and fully as possible within a reasonable time. Relevant notices are also given to all directors of the Company for regular board meetings at least 14 days before the meetings.

CORPORATE GOVERNANCE REPORT

Minutes of the board/committee meetings are recorded in significant detail for any decision and recommendation made during the meetings. Draft and final versions of minutes are circulated to directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities on timely basis. To properly discharge their duties, directors are given access to independent professional advisers, when necessary, at the expense of the Company.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a Board/committee meeting and the interested shareholder or director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. Independent non-executive director ("INED") who, and whose associates, have no material interest in the transaction, should be present at such a board meeting.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2005, the Company was in compliance with the CG Code except for the following:

Deviation from the CG Code	Relevant CG Code Provisions	Step has been taken to comply with the CG Code
1. The Independent Non-executive Directors (“INEDs”) are not appointed for specific term but are subject to the provisions for retirement and rotation of directors under the Articles of Association of the Company (the “Articles”).	A.4.1	ALL INEDs were not appointed for a specific term but they are subject to retirement at the first General Meeting after their appointments and thereafter they are subject to retirement by rotation at least once every three years in accordance with the Articles pursuant to the CG Code.
2. The Company has not established written guidelines for relevant employees in respect of dealing in securities of the Company by 1 January 2005.	A.5.4	The Company has adopted the written guidelines for relevant employees in respect of dealing in securities of the Company on 1 June 2005.
3. The Company has not set up a Remuneration Committee (“RC”) by 1 January 2005.	B.1.1	The Company has established the RC on 1 June 2005.
4. The existing terms of reference of Audit Committee of the Company (“AC”) have not comprised all the duties of AC as set out in the CG Code.	C.3.3	The Company has adopted a revised terms of reference of AC to include all the duties of AC as set out in the CG Code on 1 June 2005.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has established written guidelines regarding the required standard of dealings in securities by directors of the Company. Having made specific enquiries of directors of the Company, the Board is pleased to confirm that they have fully complied with the required standard with respect to the securities dealings of the Company pursuant to the Listing Rules during the year ended 31 December 2005.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The Board currently comprises seven members as follows:

Executive Directors:

Mr Feng Shen Chuan (*Chairman*)

Ms Kuo Shu Chen

Mr Feng Yung Chuan

Ms Wu Xiaoqin

Independent Non-executive Directors:

Mr Lo Kwok Kwei David

Mr Au Wing Kit

Ms Eugenia Yang

BOARD AND COMMITTEE ATTENDANCE

The Board held four meetings in the year 2005. Details of the attendance of individual director at Board meetings and committee meetings during their terms of services in the Company in the year 2005 are set out as below :

Directors	Board		Audit Committee	
	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended
Executive Directors				
Mr Feng Shen Chuan	4	3	-	-
Ms Kuo Shu Chen	4	4	-	-
Mr Feng Yung Chuan	4	1	-	-
Ms Wu Xiaoqin	4	3	-	-
Mr Hung Kun Fu ¹	1	1	-	-
Independent Non-Executive Directors				
Mr Lo Kwok Kwei David	4	0	2	2
Mr Au Wing Kit	4	1	2	1
Ms Eugenia Yang ²	1	0	1	1
Ms Lam Tak Yee ³	3	1	1	1

Notes:

1. Mr Hung Kun Fu resigned as executive director on 18 March 2005.
2. Ms Eugenia Yang was appointed as an independent non-executive director and audit committee member on 5 August 2005.
3. Ms Lam Tak Yee resigned as an independent non-executive director and audit committee member on 5 August 2005.

CORPORATE GOVERNANCE REPORT

In order to ensure that the Board is able to fulfill its responsibilities, management has provided adequate and timely information to the Board regarding any affairs that require decision by the Board. Management is also required to produce reports relating to operational and financial performance of the Company to the Board. The Board has separate and independent access to senior management at all times.

Mr Feng Shen Chuan, the Chairman of the Company, is the brother of Mr Feng Yung Chuan, an Executive Director of the Company. He is also the father of Mr Feng Jim Chia-Chun, the Chief Executive Officer of the Company. Other than disclosed above, there is no other relationship (including financial, business, family or other material or relevant relationships) among members of the Board and between the Chairman and the Chief Executive Officer.

The Independent Non-executive Directors have the same duties of care and skill and fiduciary duties as the Executive Directors. The name of all Independent Non-executive Directors are expressly identified in all corporate communications.

All Independent Non-executive Directors meet the requirements of independence under the Listing Rules so that there is sufficient element of independence in the Board to exercise independent judgements. Pursuant to the requirements of the Listing Rules, the Company has also received annual written confirmation from each of the Independent Non-executive Directors. The Company considers all the Independent Non-executive Directors to be independent.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr Feng Shen Chuan is the Chairman of the Company and Mr Feng Jim Chia Chuan is the Chief Executive Officer (“CEO”) of the Company.

The role of the Chairman and CEO are segregated with a clear division of responsibilities between them to ensure balance of power and authority. As the Chairman of the Board, Mr. Feng Shen Chuan is responsible for, among others, exercising control over the quality, quantity and timeliness of the flow of information between the management of the Company and the Board, and assisting in ensuring compliance with the Company’s guidelines on corporate governance. As CEO, Mr. Feng Jim Chia Chun is responsible for coordinating the Group’s business and assist the Chairman of the Company to market and locate potential business opportunities and also execute the policy of the Company.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS

The Company has established a Remuneration Committee ("RC") with specific terms of reference which deal clearly with its authorities and duties. The RC consists of three Independent Non-executive Directors, Mr Lo Kwok Kwei David, Mr Au Wing Kit and Ms Eugenia Yang; and one Executive Director, Mr Feng Shen Chuan. Mr Lo Kwok Kwei David is the Chairman of the RC. The responsibility of RC is to oversee Board remuneration matters and the main functions of the RC are as follows:

- recommend the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;
- determine the remuneration packages of all Executive Directors and senior management;
- review and approve their performance-based remuneration;
- review and approve compensation to directors and senior management in connection with any loss or termination of their office or appointment; and
- ensure that no director or any of his associates is involved in deciding his own remuneration.

The emoluments of Executive Director comprise a basic salary for their contributions which are determined by reference to the skill, experience, responsibilities, employment conditions and performance of each director. All Independent Non-Executive Directors receive a fixed fee for their services. Revision to the remuneration packages for Directors are subject to the review and approval of the Board of Directors of the Company and is thereafter, subject to shareholders' approval at the annual general meeting. Details of directors' remuneration for each Director are set out in this Annual Report.

The Company has adopted a share option scheme on 10 June 2003 which serves as a long term incentive to attract and retain eligible staff including directors of the Company so that the level of remuneration packages of staff including directors are sufficient and competitive compared to the prevailing market condition.

No RC meeting has been held in year 2005 to review the remuneration packages of the Board, which are nominal by market standards and the Company's performance. The Board considered that the existing remuneration packages to each director are reasonable and appropriate with reference to the financial performance of the Company.

NOMINATION OF DIRECTORS

The Board does not establish a Nomination Committee at present to make recommendations to the Board regarding the Board appointments. The Company understands the need to maintain its cost competitiveness with reference to the financial performance of the Company and the current difficult market conditions. The Board will review the need for a Nomination Committee at appropriate time.

CORPORATE GOVERNANCE REPORT

APPOINTMENT, RE-ELECTION AND REMOVAL

Appointment of new director is a matter for consideration by the Board. The Board reviews the profiles of the candidates and makes recommendations on the appointments, re-election and retirement of directors. Candidates are appointed to the Board on the basis of the skill, competencies and experience that they can contribute to the Company. The Company believes that members of the Board, individually and collectively, have satisfactorily discharged their duties to the Company. During the year, Mr Hung Kun Fu resigned as Managing Director and Executive Director of the Company and Ms Lam Tak Yee resigned as Independent Non-executive Director of the Company for personal reasons. Ms Eugenia Yang was appointed as Independent Non-executive Director of the Company in 2005.

Newly appointed director is briefed and updated to ensure that he has a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities of the latest changes under statute and common law, the Listing Rules, Companies Ordinance, Securities and Futures Ordinance, applicable legal and other regulatory requirements and the governance policies of the Company.

The Independent Non-executive Directors are not appointed for specific term and are subject to retirement by rotation and re-election by shareholders at Annual General Meeting ("AGM") after their appointment and thereafter at least once every three years in accordance with the Company's Articles of Association.

In accordance with Article 99 of the Company's Articles of Association, one-third of the directors who have been longest in office since their last election or re-election are subject to retirement by rotation. All retiring directors are eligible for re-election.

AUDIT COMMITTEE

The Company has established an Audit Committee ("AC") with specific terms of reference explaining its role and authorities delegated by the Board. The AC consists of three Independent Non-executive Directors, Mr Lo Kwok Kwei David, Mr Au Wing Kit and Ms Eugenia Yang, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties. In accordance with the provisions of the CG Code, the terms of reference of the AC were revised on 1 June 2005 which are substantially the same as the provisions set out in the CG Code.

CORPORATE GOVERNANCE REPORT

The Company provides sufficient resources to the members of AC for discharging their duties. The main duties and responsibilities of AC are set out as follows:

- considering and recommending the appointment, re-appointment and removal of external auditors;
- discussing with external auditor's independency, the nature and scope of the audit and reporting obligations before the audit commences;
- monitoring integrity of financial statements and reviewing the interim and annual financial statements and reports before submission to the Board;
- reviewing the Group's financial controls, internal control and risk management systems.

The role of AC is to assist the Board in the execution of its corporate governance responsibilities within the established Board references and requirements. The AC has reviewed the interim and annual financial statements of the Group for the year ended 31 December 2005 as well as the auditors' report, interim results announcements and annual results announcements before they are presented to the Board for approval.

The AC noted that there were no non-audit services provided by the external auditors to the Group during the financial year ended 31 December 2005 that could affect the independence of the external auditors.

Minutes of AC are kept by the Company Secretary. Draft and final versions of minutes are sent to all members of the AC within a reasonable time after the meeting for their comments and records respectively.

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis. The directors have also ensure timely publication of the financial statements of the Group.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's position and prospects to extend the Group's financial reporting including annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements and application accounting standards.

CORPORATE GOVERNANCE REPORT***INTERNAL CONTROLS***

The Board maintains a system of internal controls for all companies within the Group. The controls are to provide reasonable assurance (but not absolute guarantee) that assets are adequately safeguard, operational controls are in place, business risks are suitably protected and proper accounting records are maintained.

In order to fully comply with the CG Code provision C.2 "Internal Control" which will be implemented for accounting periods commencing on or after 1 July 2005, the Board is in the process of reviewing and modifying the Group's internal control system.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Group's external auditors, Ho & Ho and Company, is HK\$547,000 for reviewing the interim results and auditing the final results of the Company. There is no non-audit services provided by Ho & Ho and Company during the year ended 31st December 2005.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, press announcements and circulars made through the Company's and Stock Exchange's websites.

The AGM or other general meetings provide a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as the Chairmen of AC and/or RC, or in their absence, members of the committees or senior management of the Company are available to answer questions raised by shareholders.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

Details of the poll voting procedures and rights of shareholders to demand a poll are included in circular convening a general meeting to be despatched to the shareholders of the Company. The Chairman of the meeting ensures that the Company is in compliance with the voting by poll requirements.



CORPORATE GOVERNANCE REPORT

The Company has counted all proxy votes, and except where a poll is required, the Chairman of a meeting indicates to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution. The Company ensures that votes cast are properly counted and records.

The Chairman of the meeting ensures that at the commencement of the meeting an explanation is provided of (1) the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and (2) the detailed procedures for conducting a poll and answers any questions from shareholders whenever voting by way of a poll is required.