

Corporate Governance Report

The Code of Best Practice (the "Code of Best Practice") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") was replaced by the Code on Corporate Governance Practices (the "CG Code") which has become effective for accounting periods commencing on or after 1 January 2005.

On 31 May 2005, the Company's Articles of Association was amended to provide that all directors shall retire on such manner of rotation i.e. once every three years, and that the newly appointed director shall be subject to re-election at the first general meeting after their appointment as required by the Listing Rules.

During the year, the Company complied with the Code of Best Practice, applies and adopts the principles and complied with all code provisions except code provision on A.1.1 on the holding of Board meetings in each year as described below and to certain extent of the recommended best practices of the CG Code.

Board Composition and Board Practices

The Board of directors (the "Board") of the Company is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

The Board of the Company comprises a total of six directors, with three executive directors and three independent non-executive directors. One of the three independent non-executive directors has appropriate professional qualifications, or accounting or related financial management expertise. The names of directors and their positions are as follows:

Name of Director

Position

Executive directors:

Mr. Lam Foo Wah	Chairman
Mr. Hui Yip Wing	Vice Chairman and CEO
Mr. Wong Shing Loong, Raymond	Executive Director

Non-executive directors:

Professor Yeung Kwok Wing	Independent Non-Executive Director
Mr. Mak Kam Sing	Independent Non-Executive Director
Mr. Wong Shiu Hoi, Peter	Independent Non-Executive Director

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Board Composition and Board Practices – continued

Half of the Board is independent non-executive directors and each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent.

All directors (including independent non-executive directors) are subject to retirement by rotation once every three years in accordance with the CG Code and the Company's Articles of Association (after its amendment on 31 May 2005). Review will be made regularly of the Board composition to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The directors' biographical information is set out on pages 11 to 13.

The positions of the Chairman of the Board (Chairman") and the CEO are held and performed by Mr. Lam Foo Wah and Mr. Hui Yip Wing, two separate individuals, which complies with code provision A.2.1 of the CG Code.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies and policies; approval of annual budgets and business plans; evaluating the performance of the Group; and oversight of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary. With the support of executive directors and the Company Secretary, the Chairman seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. Three Board meetings were held during the year for facilitating the function of the Board. The Board believes that the three Board meetings held during the financial year were adequate to cover all major issues during such period. In any event all directors were available for consultation by management from time to time during the year. The attendance of the directors at the Board meeting is disclosed on page 29 of this report.

Management is responsible for the day-to-day operations of the Group under the leadership of the CEO. The CEO, working with the other executive directors and the executive management team of each business division, is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group. All directors have made full and active contribution to the affairs of the Board and the Board always acts in the best interests of the Group. Apart from the regular Board meetings, the Chairman may hold meetings with the independent non-executive directors without the presence of executive directors.

In order to ensure that the Board is able to fulfill its responsibilities, the Board has established and delegated specific responsibilities to the Audit Committee and Remuneration Committee. The details of the committees are stipulated on pages 27 to 28 of this report.

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Board Composition and Board Practices – continued

At least 14 days formal notice of every regular board meeting is given to all directors to give them the opportunity to attend. Board papers are circulated not less than three days before the Board meetings to enable the directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and the Qualified Accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors shall have full access to information on the Group and are able to seek independent professional advice whenever deemed necessary by the directors. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

Appropriate insurance cover on directors and officers liabilities has been in force to protect the directors and officers of the Group from their risk exposure arising from the businesses of the Group.

The Company Secretary is responsible to the Board for ensuring that board procedures are followed and for ensuring that the Board is fully briefed on all legislative, regulatory and corporate governance developments and that it has regard to them when making decisions. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiry has been made with all directors and the directors have complied with the required standard set out in the Model Code for the year ended 31 December 2005.

Directors' Responsibility for the Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Group.

With the assistance of the finance department which is under the supervision of the Qualified Accountant of the Company, the directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The directors also ensure the publication of the financial statements of the Group is in a timely manner.

The report of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 31.

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Auditors' Remuneration

The Group's external auditors are Deloitte Touche Tohmatsu. For the year ended 31 December 2005, the Auditors of the Company received approximately HK\$683,000 for audit service.

Audit Committee

The Company has complied with the requirement of the Listing Rules requirement in establishing an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The audit committee of the Company (the "Audit Committee") adopted the terms of reference with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and in accordance with the requirements of the CG Code were revised during the year. The terms of reference of the Audit Committee are posted on the Company's website.

The Audit Committee of the Company which comprises three independent non-executive directors namely, Mr. Wong Shiu Hoi, Peter (the Chairman of the Audit Committee), Professor Yeung Kwok Wing and Mr. Mak Kam Sing, has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2005.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the Auditors of the Company. Regular meetings have been held by the Audit Committee since its establishment. Two Audit Committee meetings were held during the year and the record of attendance of individual members is listed out on page 29.

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Audit Committee – continued

The main duties of the Audit Committee are set out below:

- (i) to recommend to the Board on the appointment, reappointment and removal of the external auditors, and any questions of resignation or dismissal of the auditors;
- (ii) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- (iii) to develop and implement policy on the engagement of external auditors to supply non-audit services;
- (iv) to monitor integrity of financial statements of the Company and the Company's annual and interim reports and accounts, and to review significant financial reporting judgments contained in such reports;
- (v) to review the Company's financial controls, internal control and risk management systems; and
- (vi) to review the Group's financial and accounting policies and practices.

Remuneration Committee

According to the requirement of the CG Code, the Company set up a remuneration committee ("Remuneration Committee") on 22 August 2005. The Remuneration Committee comprises Mr. Mak Kam Sing (Chairman of the Remuneration Committee) and two other independent non-executive directors, namely, Professor Yeung Kwok Wing and Mr. Wong Shiu Hoi, Peter. Remuneration Committee meeting has been convened in September 2005 and the record of attendance is listed out on page 29.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and reviewing the specific remuneration packages of all executive directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. Terms of reference of the Remuneration Committee which have been adopted by the Board are posted on the Company's website.

The Remuneration Committee shall consult the Chairman about their proposals relating to remuneration package and other human resources issues of the directors and senior management of the Company. The emoluments of directors and senior management are based on the skill, knowledge and involvement in the Company's affairs of each director and senior management and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

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Nomination of Directors

The Company has not established any nomination committee and would not consider establishing a nomination committee owing to the small size of the Board. The Chairman of the Board is responsible for making recommendations to the Board on the appointment of directors, evaluation of board composition and the management of board succession. The Board carries out the process of selecting and recommending candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. There was no meeting held for nomination of directors nor there was any person nominates to fill board vacancy during the year.

Records for Board and respective Board Committees Meetings held during the year

Name of Directors	Attendance/Number of Meetings held		
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting
<i>Executive directors:</i>			
Mr. Lam Foo Wah	3/3	N/A	1/1
Mr. Hui Yip Wing	3/3	N/A	N/A
Mr. Wong Shing Loong, Raymond	3/3	N/A	N/A
<i>Independent non-executive directors:</i>			
Mr. Wong Shiu Hoi, Peter	3/3	2/2	1/1
Professor Yeung Kwok Wing	2/3	2/2	1/1
Mr. Mak Kam Sing	2/3	2/2	1/1

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Internal Control and Risk Management

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations.

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The internal control system will be reviewed on an ongoing by the Board in order to make it practical and effective.

Investor Relations and Communication with Shareholders

The Company establishes different communication channels with shareholders and investors: (i) shareholders can receive printed copies of corporate information, (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) the Company's website offers communication channel between the Company and its shareholders and investors; and (iv) the Company's Sub-Registrar and Transfer Agent in Hong Kong serve the shareholders respecting all share registration matters.