

Corporate Governance Report

The Board of Directors (the “Board”) is committed to maintain sound corporate governance standard and procedures to ensure integrity, transparency and quality of disclosure in order to promote the ongoing development of the best long term interest of the Company and enhance value for all of its shareholders.

CORPORATE GOVERNANCE PRACTICES

During the year, the Company has complied with the applicable code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited except the following deviations from Code A.4.1 and A.4.2:

1. the Chairman of the Board is not subject to retirement by rotation pursuant to the Company’s bye-law (the “Bye-law”) 99. However, pursuant to the Bye-law 119, amongst other things, the Board shall as soon as practicable following each of the Company’s annual general meeting elect one of its body to the office of Chairman of the Company and may from time to time elect or otherwise appoint other officers and determine the period to hold office;
2. the Independent Non-executive Directors were not appointed for specific terms but are subject to retirement by rotation and re-election at the Company’s annual general meeting in accordance with the Bye-laws;
3. the Directors may not retire by rotation at least once every three years, however, one-third of all the Directors (except the Chairman or Managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire by rotation at the Company’s annual general meeting and shall be eligible for re-election in accordance with the Bye-laws;
4. subsequent to the financial year end, the Board has designated Mr. Yip Chi Hung and Mr. Chen Che Yuan as Chairman and Chief Executive Officer with effect from 9th March 2006 respectively; and
5. in early April 2006, the Company established the Remuneration and Nomination Committees, which comprise solely independent non-executive directors, namely Messrs. Wong Chi Keung (*chairman*), Cheng Hok Ming, Albert and Ma Kwai Yuen, with primary duties to recommend, consider and review the remuneration and nomination of directors respectively.

To ensure the strict compliance with the Code to the Listing Rules, the Board is scheduled to amend the Bye-laws at the Company’s forthcoming 2006 annual general meeting.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” set out in Appendix 10 of the Listing Rules (the “Model Code”) to regulate the directors’ securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year ended 31st December 2005, and they have all confirmed their respective full compliance with the required standard set out in the Model Code.

Corporate Governance Report

BOARD OF DIRECTORS

The Board currently comprises 5 Directors, of which 2 are Executive Directors and 3 are Independent Non-executive Directors. The number of independent non-executive directors has met the minimum requirement of the Listing Rules and represented more than one-third of the total board members. Further, all the Independent Non-executive Directors possess appropriate professional accounting qualifications and/or financial management expertise. The members of the Board are as follows:

Executive Directors

Mr. Yip Chi Hung (*Chairman*)

Mr. Chen Che Yuan (*Chief Executive Officer*)

Independent Non-executive Directors

Mr. Wong Chi Keung

Mr. Cheng Hok Ming, Albert

Mr. Ma Kwai Yuen

The biographical details of the Directors are contained in the section headed “Directors and Senior Management Biographies”.

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors are independent.

When the Board considers any material proposal or transaction in which a substantial shareholder or a Director has a conflict of interest, the Director who has interests declares his interest and is required to abstain from voting and is not counted in the quorum.

Other than the regulatory and statutory responsibilities of the Board, the key functions of the Board are to formulate strategy and to monitor and control operating and financial performance in pursuit of the Group’s strategic objective. The Board, led by the Chairman, retains full responsibility for setting objective and business development plans. All Directors (including Independent Non-executive Directors) have been consulted on major and material matters of the Company.

The Board currently has three board committees (the “Board Committees”) namely, Audit Committee, Remuneration Committee and Nomination Committee solely to assist the Board in discharge of its duties and to oversee particular aspects of the Group’s affairs.

Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

The Board convened 7 meetings during the year. The attendance of individual Directors to the Board meetings in 2005 is summarised below.

	Attendance
Executive directors	
— Mr. Yip Chi Hung (<i>Chairman</i>)	7/7
— Mr. Seto Yee Woon, John ¹	7/7
— Mr. Pang Hong ²	1/7
— Mr. Chen Che Yuan (<i>Chief Executive Officer</i>) ³	N/A
Independent non-executive directors	
— Mr. Wong Chi Keung	5/7
— Mr. Cheng Hok Ming, Albert	4/7
— Mr. Fung Choi On ⁴	4/7
— Mr. Ma Kwai Yuen ⁵	1/7

¹ Mr. Seto Yee Woon, John was resigned as Chairman and Executive Director with effect from 9th March 2006.

² Mr. Pang Hong was removed as Executive Director with effect from 28th June 2005.

³ Mr. Chen Che Yuan was appointed as Executive Director and Chief Executive Officer with effect from 9th March 2006.

⁴ Mr. Fung Choi On resigned as Independent Non-executive Director with effect from 31st May 2005.

⁵ Mr. Ma Kwai Yuen was appointed as Independent Non-executive Director with effect from 28th June 2005.

Notice of at least 14 days has been given of regular Board meetings to give all Directors an opportunity to attend. For all other Board meetings, reasonable notice has been given. Occasionally, in view of time presses and unavailability of Board members, the Board adopts resolution in writing instead of meeting. The Board has passed resolutions in writing by all the Directors in 1 occasion during the year.

In 2005, with the support of the company secretary of the Company (the “Company Secretary”), the newly appointed directors received comprehensive briefing on the first occasion of their appointment to ensure that the newly appointed directors of the Company have proper understanding of the operations and business of the Company and that they are fully aware of their responsibilities under applicable statutory and regulatory requirements.

With the support of 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. Agenda for meetings is set and board papers are prepared and disseminated to the Directors in a timely and comprehensive manner. All businesses transacted at the Board meetings were well-documented. Minutes of Board meetings are taken by the Company Secretary and are available to all Directors.

Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

Directors have access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. The Company Secretary accounts to the Board directly for ensuring that board procedures and rules and regulations are followed and that activities of the Board are efficient and effective by assisting the Chairman to prepare agendas for meetings and by preparing and disseminating Board papers to the Directors and Board Committees in a timely and comprehensive manner.

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, Securities and Futures Ordinance and Companies Ordinance etc., including publication and dissemination of reports and financial statements and interim reports within the periods laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notification is made of Director's dealings in securities of the Group.

The Company Secretary also advises the Directors on their obligations for disclosure of interests in securities, connected transactions and price-sensitive information and ensures that the standards and disclosures required by the Listing Rules are observed and, where required, reflected in the Report of the Directors.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge that they are primarily responsible for the preparation of the financial statements which give a true and fair view and that appropriate accounting policies are selected and applied consistently.

To the best knowledge of the Directors, there is no uncertainty relating to events or conditions that may cast significant count upon the Company's ability to continue as a going concern.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman is Mr. Yip Chi Hung while the Chief Executive Officer is Mr. Chen Che Yuan. The Chairman bears primary responsibility for the works of the Board, by ensuring its effective function, while the Chief Executive Officer bears executive responsibility for the Company's business and the management of the day-to-day operations of the Company.

BOARD COMMITTEES

The Board established three board committees to assist the Board in discharge of its duties and to oversee particular aspects of the Group's affairs. Each committee has its terms of reference available for access at the principal place of business of the Company and each of the committee members was furnished with a copy of the respective terms of reference.

Corporate Governance Report

BOARD COMMITTEES *(Continued)*

1. Audit Committee

In April 1999, the Company established an audit committee with written terms of reference adopted which were subsequently amended in early April 2006. The Audit Committee comprises solely independent non-executive directors, namely Messrs. Wong Chi Keung (*chairman*), Cheng Hok Ming, Albert and Ma Kwai Yuen.

The Audit Committee is responsible for the following:

- reviewing and supervising the Company's financial reporting process and internal control systems;
- reviewing the accounting principals and practices adopted by the Group and other financial reporting matters and ensure the completeness, accuracy and fairness of the financial statements;
- making recommendations as to the effectiveness of internal control and risk management; and
- monitoring the compliance with statutory and listing requirements and to oversee the relationship with the external auditors.

The Audit Committee meets the external auditors and the senior management at least twice a year to discuss any areas of concern during the audits. The Audit Committee reviews the interim and annual financial statements before submission to the Board.

During the year, 2 meetings were held with the management and the external auditors. The Chairman of the Audit Committee also attended the Company's 2005 annual general meeting. Members of the Audit Committee and their respective attendance at board meetings are listed below.

Committee members	Attendance
— Mr. Wong Chi Keung	2/2
— Mr. Cheng Hok Ming, Albert	2/2
— Mr. Fung Choi On ⁴	1/2
— Mr. Ma Kwai Yuen ⁵	1/2

⁴ Mr. Fung Choi On resigned as Independent Non-executive Director with effect from 31st May 2005.

⁵ Mr. Ma Kwai Yuen was appointed as Independent Non-executive Director with effect from 28th June 2005.

Draft and final versions of minutes of Audit Committee meetings are sent to all members of the Audit Committee for their comments and records respectively within reasonable time after the relevant meeting.

The Group's interim report for the 6 months ended 30th June 2005 and the annual report for the year ended 31st December 2005 have been reviewed by the Audit Committee, and with recommendation to the Board for approval.

Corporate Governance Report

BOARD COMMITTEES *(Continued)*

2. Remuneration Committee

In early April 2006, the Company established a remuneration committee with written terms of reference adopted. The Remuneration Committee comprises solely independent non-executive directors, namely Messrs. Wong Chi Keung (*chairman*), Cheng Hok Ming, Albert and Ma Kwai Yuen. Its primary responsibilities include recommending, reviewing and determining the remuneration policy and packages of directors. Directors do not participate in the determination of their own remuneration.

The Remuneration Committee meets as and when required to consider remuneration related matters. All business transacted at the Remuneration Committee is recorded and maintained.

In 2005, the Board has discussed and reviewed the current remuneration policies of the Company that the Independent Non-executive Directors are remunerated by reference to the time commitment and market comparables, and nil remuneration is determined for Executive Directors.

3. Nomination Committee

In early April 2006, the Company established a nomination committee with written terms of reference adopted. The Nomination Committee comprises solely independent non-executive directors, namely Messrs. Wong Chi Keung (*chairman*), Cheng Hok Ming, Albert and Ma Kwai Yuen. Its primary responsibilities include nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointment.

The Nomination Committee meets as and when required to consider nomination related matters. All business transacted at the Nomination Committee is recorded and maintained.

In 2005, the Board has discharged the duties of nomination committee by disseminating to the Board members the biographies of all valid nomination candidates before the Board meeting held for consideration as soon as practicable. Consideration would be given to factors such as the candidate's experience and qualifications relevant to the Company's business.

AUDITORS' REMUNERATION

For the year ended 31st December 2005, fees paid to other auditors of subsidiaries for taxation service were HK\$24,200. Fees payable for audit and audit-related services to PricewaterhouseCoopers and other auditors were HK\$1,198,644 and HK\$36,300 respectively.

Corporate Governance Report

INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective internal control system of the Group. The Group's internal control system includes a well defined management structure with limits of authority which is designed for the achievement of business objectives, safeguarding assets against unauthorised use or disposition, ensuring proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and ensuring compliance with relevant legislations and regulations.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain a high level transparency in communicating with shareholders. The Company provides detailed information in its annual and interim reports.

The annual general meeting provides a useful forum for shareholders to exchange view with the Board. At the annual general meeting of shareholders, the Board always makes efforts to fully address any questions raised by shareholders.

Separate resolutions are proposed at the general meetings on each substantially separate issue, including the election of individual directors. In addition, details of proposed resolutions and procedures for demanding a poll are included in the circular to shareholders. Poll results are published in the newspapers and on the website of the Stock Exchange.