

The Company has always recognised the importance of the shareholders' transparency and accountability. It is the belief of the Board that shareholders can maximize their benefits from good corporate governance.

The Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") became effective on 1 January 2005, the Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report. The Company has applied the principles of and complied with the applicable code provisions of the CG Code during the year ended 31 December 2005 except for certain deviations in respect of the service term and rotation of directors.

THE BOARD

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performances. The management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has established various committees, including an Audit Committee and a Remuneration Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to the Board. Further details of these committees are set out in this report.

Board meetings are scheduled to be held at approximately quarterly interval and as required by business needs. During the year, six full Board meetings were held and the attendance of each director is set out as follows:

Name of Director	Number of Board meetings attended/held
Yue Jialin	6/6
Lau Yau Cheung	6/6
Wong Wing Kuen, Albert	5/6
Tsui Robert Che Kwong	5/6
Wu Guo Jian	2/6

At least 14 days' notice of a regular Board meeting is normally given to all directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all directors at least 3 days before the date of every Board meetings so that the directors have the time to review the documents. Draft minutes of each Board meeting are circulated to all directors for their comment before approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable notice by any director.

Every director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary, and has the liberty to seek independent professional advise if so required. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and the Chief Executive Officer of the Company are Mr. Yue Jialin and Mr. Lau Yau Cheung respectively. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by two separate individuals who have no relationship with each other to strike a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the Board is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all respects effectively. The division of responsibilities between the Company and the Chief Executive Officer have been clearly established and set out in writing.

BOARD COMPOSITION

The Board comprises two executive directors, being Mr. Yue Jialin and Mr. Lau Yau Cheung and three independent non-executive directors, being Mr. Wong Wing Kuen, Albert, Mr. Tsui Robert Che Kwong and Mr. Wu Guo Jian. The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board and has met the practice under the CG Code that at least three independent non-executive directors were appointed. One of the independent non-executive directors has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The brief biographical details of the directors are set out on page 4 of the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications. The Board has received from the three independent non-executive directors annual confirmations of their independence, and considers that they are all independent under the guidelines set out in Rule 3.13 of the Listing Rules.

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

The non-executive directors of the Company had no fixed term of office prior to 1 June 2005, but retired from office on a rotational basis in accordance with the relevant provisions of the Company's Bye-laws. According to the Bye-laws, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) should retire from office by rotation, provided that the Chairman of the Board and/or the Managing Director of the Company should not be subject to retirement by rotation. Further, any director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following annual general meeting and should then be eligible for re-election at that meeting.

To fully comply with code provision A.4.1 of the CG Code, all non-executive directors of the Company were appointed for a specific term on 1 June 2005 which shall continue until 31 December 2006, but subject to retirement by rotation and re-election by the shareholders of the Company. In addition, to ensure full compliance with the code provision A.4.2 of the CG Code, relevant amendments to the Bye-laws of the Company will be proposed for approval by the shareholders of the Company at the forthcoming annual general meeting of the Company so that (i) any director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the Company's first general meeting after the appointment; and (ii) every director shall be subject to retirement by rotation at least every three years.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the directors. All directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code.

REMUNERATION COMMITTEE

The Remuneration Committee has been established in June 2005 in order to comply with the code provision B.1.1 of the CG Code. It currently comprises three independent non-executive directors. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The Remuneration Committee shall meet at least once a year. One Committee meeting was held in 2005 to review and discuss the existing policy and remuneration packages of both the executive and non-executive directors and the attendance of each member is set out as follows:

Committee Member	Number of Committee meetings attended/held
Wong Wing Kuen, Albert (<i>Chairman</i>)	1/1
Tsui Robert Che Kwong	1/1
Wu Guo Jian	1/1

The remuneration payable to directors will depend on their respective contractual terms under their employment or service contracts, and as recommended by the Remuneration Committee. Details of the directors' remuneration are set out in note 9 to the financial statements.

The major roles and functions of the Remuneration Committee are as follows:

1. to review and make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
2. to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment and conditions elsewhere in the Group and desirability of performance-based remuneration;
3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
4. to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment;
5. to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and
6. to ensure that no director or any of his associates is involved in deciding his own remuneration.

AUDIT COMMITTEE

The Audit Committee has been established since July 2004 and currently comprises all three independent non-executive directors of the Company, Mr. Wong Wing Kuen, Albert, Tsui Robert Che Kwong and Wu Guo Jian.

The Audit Committee shall meet at least twice a year. Two Committee meetings were held during the year. The attendance of each member is set out as follows:

Committee Member	Number of Committee meetings attended/held
Wong Wing Kuen, Albert (<i>Chairman</i>)	2/2
Tsui Robert Che Kwong	2/2
Wu Guo Jian	1/2

Full minutes of Audit Committee meetings are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

The major roles and functions of the Audit Committee are:

1. to consider and recommend to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of those auditors;
2. to consider and discuss with the external auditors the nature and scope of each year's audit;
3. to review and monitor the external auditors' independence and objectivity;
4. to review the interim and annual financial statements before submission to the Board;
5. to discuss any problems and reservation arising from the interim review and final audit, and any matters the external auditors may wish to discuss;
6. to review the external auditors' management letters and management's response;
7. to review the Group's financial controls, internal control and risk management systems; and
8. to consider any findings of major investigations of internal control matters as delegated by the Board and management's response.

During the meetings held in 2005, the Audit Committee had performed the work as summarized below:

1. reviewed the final results of the Group for the year ended 31 December 2004 and the interim results for the six months ended 30 June 2005 before submission to the Board;
2. reviewed the external auditors' independent review report in the relation to the 2005 interim results;
3. recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors.

ACCOUNTABILITY AND AUDIT

The directors are responsible for overseeing the preparation of financial statements for each financial year which give true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to shareholders. The directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the financial statements. The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators.

INTERNAL CONTROLS

The Board is responsible for overseeing the Group's system of internal controls. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure, to achieve the business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of the shareholders, customers and the Group's assets.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's auditors, Messrs Graham H. Y. Chan & Co. is set out as follows:

Services rendered	Fee paid/payable <i>HK\$'000</i>
Audit services	250
Non-audit services	217
	<u>467</u>

COMMUNICATIONS WITH SHAREHOLDERS

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The Company's annual general meeting (the "AGM") is a valuable forum for the Board to communicate directly with the shareholders. The Chairman actively participates in the AGM and personally chairs the meeting to answer any questions from the shareholders. A separate resolution is proposed by the Chairman in respect of each issue to be considered at the AGM. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the AGM, and (except where a poll is demanded) reveals how many proxies for and against have been received of each resolution.