

Corporate Governance Report

Corporate Governance Practices

The Company is committed to the overall standards of corporate governance. The board of Directors (the "Board") has adopted the principles and complied all the applicable provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2005 except for deviation from provision A.4.1 of the Code in respect of the service term of Directors. Provision A.4.1 stipulates that non-executive directors should be appointed for specific term, subject to re-election. None of the existing Independent Non-executive Directors (the "INEDs") of the Company is appointed for specific term and this constitutes a deviation. However, all Directors are subject to retirement by rotation and re-election at the annual general meeting. In the opinion of the Directors, this meets the same objectives and is no less exacting than those in the Code.

During the year ended 31 December 2005, appropriate actions were taken by the Board, including the amendments made to the Company's Articles of Association to the effect that every director will be subject to retirement by rotation at least once every three years, to maintain sound corporate governance standard. The Company will continuously review and improve its corporate governance practices and standards in order to promote the long-term interest of the Company and enhance value for shareholders.

On 17 January 2006, Mr. Ha Shu Tong tendered his resignation as Executive Director and Managing Director of the Company but retain as a consultant to the Company. The Company is currently looking for suitable candidate to fill up the vacancy and for the time being, Mr. Ni Xinguang temporarily took up the role and duties as Managing Director in addition to his role of being the Chairman of the Company. This would constitute deviation from provision A.2.1 of the Code.

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 for securities transactions by Directors of the Company in 2005. All the Directors of the board have confirmed, following specific enquiry has made by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2005.

Board of Directors

Functions and role

The Board has overall responsibility in formulating the strategic development of the Group, monitoring and controlling the Company's operation and financial performance.

All the Directors are appointed and are then subject to rotation for re-appointment at the annual general meeting. Each Director is subject to retirement by rotation at least once every three years. Appropriate and sufficient information was provided to each of the Directors to keep abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

The INEDs are expressly identified in all corporate communications such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed. Each of the INEDs has filed a written confirmation to the Company confirming their independence pursuant to Rule 3.13 of Chapter 3 of the Listing Rules. There are no service contracts signed between the INEDs and the Company and each of the INEDs was remunerated at HK\$120,000 per annum.

To the best knowledge of the Company, there is no financial, business, family relationship among the members of the Board as at 31 December 2005. All of them are free to exercise their individual judgment.

Composition

As of 31 December 2005, the Board comprises six Directors, of which three are Executive Directors and three are INEDs. One of the three INEDs possesses appropriate professional accounting qualifications and financial management expertise, which is in compliance with the Listing Rules requirement. The Director's respective biographical information is set out in this annual report under the heading "Directors Profile".

The Board held 9 Board meetings during the financial year ended 31 December 2005. Appropriate and sufficient information was provided to the Board in a timely manner for their review before the meetings. Composition and attendance of individual Directors at Board meetings is set out in the section of "Directors Attendance at Board, Remuneration Committee and Audit Committee Meetings".

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Chairman and Managing Director

The Chairman and Managing Director of the Company is Mr. Ni Xinguang and Mr. Ha Shu Tong, respectively. On 17 January 2006, Mr. Ha Shu Tong resigned from his roles of Executive Director and Managing Director while the Chairman assumes the role of Managing Director on a temporary basis until the vacancy can be filled. This would constitute a deviation from provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be the same individual.

Mr. Ni Xinguang is mainly responsible for leadership of the Board, investor relationship, overseeing the business development of the Company and its subsidiaries (the "Group") including strategic and corporate development. The Board does not consider that this structure will impair the balance of power and authority between the Board and the management of the Company given there is a division of responsibility for the individual business operation of the Group. Nevertheless, the Company is actively seeking a replacement to fill in the position of Managing Director who would be responsible for the day to day operation and management of the Group.

Audit Committee

Composition

The Company has established an Audit Committee since 1999 and three meetings were held during the financial year ended 31 December 2005. Written terms of reference is formulated and continuously updated in accordance with the requirements of the Listing Rules. The Audit Committee consists of all three INEDs and is chaired by Mr. Tang Chi Wing. The Audit Committee meets at least twice a year on a half year basis, or more frequently as if require. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules.

Functions and Role

The primary functions of the Audit Committee are, inter alia, to assist the Board in fulfilling its oversight responsibilities with respect to relationship with external auditors including review and approve audit engagements fees, terms and all non-audit engagements; to review and ensure the independence and objectivity of the auditors; to review the annual and interim report and other financial information provided by the Company to its shareholders, the public and others and matters within the scope of the terms of reference.

The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with the management on the internal controls and financial reporting matters during the year 2005.

Remuneration Committee

Functions and Role

The primary objectives of the Remuneration Committee include determining the remuneration policy and structure and remuneration packages of the Directors and the senior management and making recommendations to the Board, and other related matters.

The Remuneration Committee is responsible for establishing transparent procedures for developing such remuneration policy and structure which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee met once during the year ended 31 December 2005 and reviewed the existing remuneration policy and structure of the Company.

The Executive Directors are responsible for reviewing the market conditions, time commitment, responsibilities, performance of individuals and any other relevant information and propose to the Remuneration Committee for consideration and approval. No Executive Director can determine his own remuneration.

Composition

The Remuneration Committee consists of all three INEDs and is chaired by Mr. Chan Wai Sum. The Remuneration Committee meets at least once a year.

Directors Attendance at Board, Remuneration Committee and Audit Committee Meetings

Directors	Attendance/Number of Meetings Held		
	Board	Audit Committee	Remuneration Committee
<i>Executive Directors:</i>			
Ni Xinguang	4/9	N/A	N/A
Ha Shu Tong	9/9	N/A	N/A
Ng Chun Chuen, David	9/9	N/A	1/1
<i>Independent Non-executive Directors:</i>			
Chan Wai Sum	4/9	3/3	1/1
Tang Chi Wing	4/9	3/3	1/1
Lee Kit Ming, Edmund ("Mr. Lee")	Note	2/2	1/1
Lu Wei ("Mr. Lu")	Note	1/1	0/0

Note: Mr. Lee resigned as the Company's INED and member of the Audit Committee and Remuneration Committee on 15 June 2005 while Mr. Lu was appointed the same on the even date.

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Director Nomination Procedures

The Company has not set up a Nomination Committee yet. According to the Articles of Association of the Company, the Board has the power from time to time and at any time to appoint any person as a Director either to fill a causal vacancy or as an addition to the Board. The current nomination procedures for appointment of new directors would normally take into consideration of the candidates' past experience, qualifications and any other factors, if any, which are relevant to the Company's business. Then, short listed candidates with their biographies for directorship would be brought to the Board before meeting for consideration as soon as it is practicable.

Auditors' Remuneration

During the year, the fees paid or payable to external auditors of the Company, RSM Nelson Wheeler were approximately HK\$669,000 and HK\$282,000 for statutory audit services rendered and non-audit services rendered (including disbursement fees) to the Group respectively.

The Group also appointed other external auditors for the statutory audit purposes of certain overseas subsidiaries and their remuneration for audit services rendered was approximately HK\$2,000.

Internal Controls

The Board has overall responsibilities for introducing and continuously maintaining system of sound and effective internal controls and review its effectiveness. It is committed to review and implement an effective and sound internal controls system of the Group to safeguard the shareholders' interests. The Board has delegated to the management to conduct reviews on all material controls including financial, operational and compliance and risk management procedures as well as the implementation of the system of internal controls.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such financial statements.

The statement of the external auditors of the Company, RSM Nelson Wheeler, with regard to their reporting responsibilities on the Company's financial statements is set out in the Report of the Auditors on page 21.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Investor Relationship and Communication

The Company endeavors to maintain good investor relationship with shareholders and potential investors by way of annual general meeting, publication of interim and annual reports, and timely press releases on newspaper.

Shareholders are encouraged to attend the annual general meetings for which a notice would be served with at least 21 days period. The Chairman and/or Directors are available to answer questions on the Group's business at the meetings. At general meetings, separate resolutions are proposed on each substantially separate issue such as the election of individual directors and re-appointment of auditors.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in a circular to shareholders accompanied this annual report. The circular also includes relevant details on proposed resolutions, and biographies of each candidates standing for re-election.