

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has adopted its code on corporate governance (the "Company's Code on CG") based on the principles set out in the Code of CG Practices contained in Appendix 14 of Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's Code on CG, with the exception of Code Provision C.2 on internal controls which is effective for accounting periods commencing on or after 1 July 2005, has become effective for accounting periods commencing on or after 1 January 2005.

In the opinion of the directors, the Company has complied with the Code on CG Practices and the Company's Code on CG (collectively, the "CG Codes") throughout the year, except for the deviations from Code Provisions which are explained in the following relevant paragraphs.

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 of dealings in securities of the Company by the directors. The Model Code also applies to "relevant employees" as defined in code provision A.5.4 of the Code on CG Practices. Based on specific enquiry of the Company's directors, the directors confirmed that they have complied with the required standard set out in the Model Code throughout the accounting period covered by the annual report.

BOARD OF DIRECTORS

As at the date of this report, the Board comprised eight directors, including three non-executive Directors, being Mr. Hung Hak Hip, Peter (Chairman), Ms. Hung Chiu Yee and Mr. Lee Pak Wing; three independent non-executive directors, being Dr. Wong Yu Hong, Philip, Mr. Sze Tsai To, Robert and Mr. Cheung Wing Yui, Edward and two executive directors, being Mr. Wong Kwok Ying and Ms. Lam Fung Ming, Tammy. Biographical details which include relationships among members of the Board are set out under the Directors' and Senior Executives' Biographies on pages 14 to 16.

The Board accepts that it is ultimately accountable and responsible for the performance and affairs of the Company. Although the Board bears overall responsibility for the Company, the management of the Company (including the executive directors) is the custodian and administrator of the day-to-day performance of the Company.

The Company has received an annual confirmation of independence from each of the independent non-executive directors, Dr. Wong Yu Hong, Philip, Mr. Sze Tsai To, Robert and Mr. Cheung Wing Yui, Edward. At the date of this report, they consider themselves to be independent.

Code provision A.4.2 of the Code on CG Practices stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Pursuant to the Company Act 1990 of Bermuda for the Company, executive Chairman and Managing Director of the Company are not subject to any requirement to retire by rotation nor will they be counted in the calculation of the number of directors who must retire by rotation. Nevertheless, the Company does not at present have any executive Chairman and Managing Director.

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The Board meets at least four times a year and on other occasions when a Board decision is required on major issues. Directors may participate in meeting via telephone or video-conferencing link. Board consents are given by vote at the Board meetings and supplemented via circulation of written resolutions between Board meetings.

During the year, there were five full board meetings (including those with voting by communication), seven ad hoc meetings and seven full board circulations. Individual attendance records at full board meetings are set out on page 11 of this report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Codes require that the roles of the Chairman and Chief Executive Officer be separated and not performed by the same individual.

The Chairman's principal responsibility is to ensure effective running of the Board, enabling that the Board as a whole to play a full and constructive part in the development and determination of the Group's strategy and overall commercial objectives. The Chief Executive Officer is responsible for day-to-day management of the Group's business and achieving the strategic and commercial objectives agreed by the Board. In the year under review, the Chairman of the Company was Mr. Hung Hak Hip, Peter. The role of the Chief Executive Officer was shared by Mr. Wong Kwok Ying (Chief Financial Officer) and Ms. Lam Fung Ming, Tammy (Chief Operating Officer).

NON-EXECUTIVE DIRECTORS' TERM OF OFFICE

The non-executive directors of the Company were previously not appointed for specific terms as required by code provision A.4.1 of the Code on CG Practices as they were subject to retirement and re-election in accordance with the provisions of the bye-laws of the Company.

For the purposes of complying with the CG Codes, certain amendments to the bye-laws of the Company were proposed by the Board and approved by shareholders at a special general meeting of the Company held on 20 June 2005 and the non-executive directors of the Company have been appointed for specific terms.

REMUNERATION OF DIRECTORS

The Remuneration Committee was established with a particular responsibility to review the Company's remuneration policy for directors and members of the senior management. The Remuneration Committee currently comprises Mr. Hung Hak Hip, Peter (chairman of the Committee), the non-executive Chairman of the Company, and Dr. Wong Yu Hong, Philip, Mr. Sze Tsai To, Robert and Mr. Cheung Wing Yui, Edward, the three independent non-executive directors.

During the year, the terms of reference of the Remuneration Committee had been revised to align with the provisions of the Code on CG Practices as set out in Appendix 14 of the Listing Rules. The terms of reference of the Remuneration Committee shall be available to the public on request and will be included in the Company's website once it is set up.

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The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Remuneration Committee with reference to directors' duties, responsibilities and performance and the results of the Group.

The Remuneration Committee held one meeting in 2005. During the meeting, the Remuneration Committee reviewed the fees payable to the non-executive directors for the 2005 financial year. Meeting attendance record of the Remuneration Committee is set out on page 11.

Information relating to the remuneration of each director for 2005 is set out in note 8 to the financial statements.

NOMINATION OF DIRECTORS

Currently, the Company does not have a Nomination Committee and it is the Board's responsibility to identify individuals suitably qualified for becoming board members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account his experience, qualification and other relevant factors. All candidates must also meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

AUDITORS' REMUNERATION

During 2005, the fees payable to Ernst & Young, the Company's external auditors, for audit services totalled to HK\$1,128,000 (2004: HK\$988,000). Ernst & Young has also provided the Group with non-audit services, including review of interim financial report, at fees totalled to HK\$398,000 (2004: HK\$336,000).

AUDIT COMMITTEE

The Company has an Audit Committee with terms of reference revised to align with the provisions of the Code on CG Practices as set out in Appendix 14 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The terms of reference of the Audit Committee shall be available to the public on request and will be included in the Company's website once it is set up.

As at 31 December 2005, the Audit Committee comprised Mr. Sze Tsai To, Robert (chairman of the Committee), Dr. Wong Yu Hong, Philip and Mr. Cheung Wing Yui, Edward, the three independent non-executive directors, and the chairman of the Audit Committee has the required appropriate professional financial qualifications and experience. On 15 March 2006, Dr. Wong Yu Hong, Philip resigned from the Audit Committee and Mr. Hung Hak Hip, Peter, the non-executive Chairman of the Company, was appointed a member of the Audit Committee. Accordingly, as at the date of this report, the Audit Committee comprised Mr. Sze Tsai To, Robert, Mr. Cheung Wing Yui, Edward and Mr. Hung Hak Hip, Peter.

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In 2005, the Audit Committee reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of audited accounts for the year 2004 and the interim financial report for the six months ended 30 June 2005. The Group's annual results for the year ended 31 December 2005 have also been reviewed by the Audit Committee of the Company.

The Audit Committee held two meetings in 2005. Meetings attendance record of the Audit Committee are set out on page 11.

FINANCIAL REPORTING

The directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

As at 31 December 2005, the directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis.

The responsibilities of the external auditors with respect to financial reporting are set out in the Report of the Auditors attached to the Company's 2005 Annual Report.

INTERNAL CONTROLS

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

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DIRECTORS'/COMMITTEE MEMBERS' ATTENDANCE

Name of Director	Meetings Attended/Eligible to attend		
	Full Board	Audit Committee	Remuneration Committee
<i>Non-executive Directors</i>			
Mr. Hung Hak Hip, Peter (<i>note 1</i>) (<i>Chairman of the Board and the Remuneration Committee</i>)	5/5	N/A	1/1
Ms. Hung Chiu Yee (<i>note 2</i>)	3/5	1/1	N/A
Mr. Lee Pak Wing (<i>note 2</i>)	2/5	0/1	N/A
<i>Independent Non-executive Directors</i>			
Dr. Wong Yu Hong, Philip (<i>note 3</i>)	2/5	2/2	0/1
Mr. Sze Tsai To, Robert (<i>Chairman of the Audit Committee</i>)	4/5	2/2	1/1
Mr. Cheung Wing Yui, Edward	4/5	2/2	1/1
<i>Executive Directors</i>			
Mr. Wong Kwok Ying	5/5	N/A	N/A
Ms. Lam Fung Ming, Tammy	4/5	N/A	N/A
Mr. Chan Sai On, David (<i>note 4</i>)	0/2	N/A	N/A

Notes:

1. Mr. Hung Hak Hip, Peter was appointed a member of the Audit Committee on 15 March 2006.
2. Ms. Hung Chiu Yee and Mr. Lee Pak Wing resigned from the Audit Committee on 17 June 2005.
3. Dr. Wong Yu Hong, Philip resigned from the Audit Committee on 15 March 2006.
4. Mr. Chan Sai On, David resigned from the Board on 20 May 2005.

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ANNUAL GENERAL MEETING

The forthcoming annual general meeting ("AGM") will be held on Tuesday, 13 June 2006 and the Notice of AGM will be published and despatched in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTERS OF MEMBERS

The transfer books and register of members of the Company will be closed from 8 June 2006 to 13 June 2006, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for attending the AGM, (a) all transfers in relation to Shares held by the Members whose names are recorded in the register of members of the Company in Hong Kong, accompanied by the relevant share certificates, must be lodged with the Company's Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4 : 00 p.m. on 7 June 2006 for registration; (b) all transfers in relation to Shares held by the Members whose names are recorded in the register of members of the Company in Bermuda, accompanied by the relevant share certificates, must be lodged with HSBC Institutional Trust Services (Asia) Limited, at 39th Floor, Dorset House, Taikoo Place, 979 King's Road, Hong Kong not later than 4:00 p.m. on 7 June 2006 for registration.