

# Corporate Governance Report

## Introduction

The Group commits to maintain and ensure high standards of corporate governance and has adopted the provisions contained in the Code on Governance Practices (“Code”) as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2005 save for the few exceptions mentioned below. This report outlines the main corporate governance processes and practices adopted by the Group with specific reference to the provisions of the Code.

## Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules as its own code for dealing in securities of the Company by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard as set out in the Model Code during the year ended 31 December 2005.

## Board of Directors

The Company is led and controlled through the Board. Apart from its statutory responsibilities, the Board sets the Group’s overall business and financial strategies as well as setting policies on various matters including major investments, key operational targets and financial control.

During the year ended 31 December 2005, the Board held four regular meetings at approximately quarterly intervals according to the Code except for the last meeting was postponed to Jan 2006 as a director was on an important business trip during December 2005. The attendance of each director is as follows:

Name of Director	Number of attendance
<b>Executive Director</b>	
Mr. Leung Chung Shan ( <i>Chairman</i> )	2/4
Mr. Tam Lup Wai, Franky ( <i>Deputy Chairman</i> )	4/4
Mr. Chiu Wing Keung	4/4
<b>Independent Non-executive Director</b>	
Mr. Chow Siu Ngor	4/4
Mr. Ting Leung Huel, Stephen	4/4
Mr. Lam Bing Kwan	4/4

Under the code provision A.2.1, the role of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not at present have any officer with the title of chief executive officer (“CEO”) but instead the duties of a CEO are performed by Mr. Tam, the Deputy Chairman of the Company in the same capacity as the CEO of the Company.

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The Board comprises six members, three of whom are executive directors including the Chairman of the Board and three are independent non-executive directors. An executive director and an independent non-executive director possess recognized professional qualifications in accounting. The profiles of the directors' qualifications and experience are set out on page 3 and 4 of this annual report. The Company is of the view that the current Board comprises members who, as a group, provides the necessary skill and experience for the requirements of the Group's business.

The three independent non-executive directors have all confirmed in writing to the Company that they meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules.

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. There is no service contract between the Company and the independent non-executive directors whom are not appointed for a specific term but are subject to retirement by rotation at the annual general meeting in accordance with the Bye-laws of the Company. Their appointment will be reviewed when they are due for re-election and the Company is of the view that this meets the same objectives of the said code provision.

## Audit Committee

The Audit Committee was established by the Company on 28 December 1999 and the present members are as follows:

Name of Director	Number of attendance
Mr. Chow Siu Ngor ( <i>Chairman</i> )	2/2
Mr. Ting Leung Huel, Stephen	2/2
Mr. Lam Bing Kwan	2/2

The primary function of the Audit Committee is to review and monitor the Group's financial reporting process and internal controls. It is also responsible for making recommendation to the Board for the appointment, reappointment or removal of the external auditor.

During the year, the Audit Committee has convened two meetings and reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements and unaudited interim financial statements.

## Remuneration Committee

The Remuneration Committee was established by the Company on 1 August 2005 and the members are as follows:

Name of Director	Number of attendance
Mr. Lam Bing Kwan ( <i>Chairman</i> )	1/1
Mr. Ting Leung Huel, Stephen	1/1
Mr. Chow Siu Ngor	1/1

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The Remuneration Committee is responsible for making recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis.

The Remuneration Committee has convened one meeting in 2005 to consider and approve the Group's policy for the remuneration of directors for the financial year ended 31 December 2005. The Remuneration Committee has assessed the performance of the executive directors and considered the remuneration package of executive directors by reference to the prevailing packages with companies listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the remuneration of directors are disclosed on an individual basis and are set out in note 11 to the financial statements.

## Directors' responsibilities for the financial statements

The directors are responsible for the preparing of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The directors have selected suitable accounting policies and applied them consistently, made judgments and estimates on a going concern basis.

Despite that the Group sustained recurrent losses and had net current liabilities of HK\$63 million at 31 December 2005, the Directors of the Company are of the opinion that the Company and the Group will be able to meet their obligations as and when fall due after taking into account the following:

1. HK\$30 million loan facilities is made available to the Company from financial institutions up to 31 March 2007 which the financial institutions reserve the right to terminate the facilities at any time by notice to the Company in writing; and
2. continuing financial support received from a substantial shareholder, Tees Corporation.

The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

## Auditors' responsibilities and remuneration

The statement of RSM Nelson Wheeler regarding their report responsibilities is set out in the Auditors' Report on page 23 and 24 of this annual report.

During the year, the audit fee and taxation service fee paid to the Company's auditors, RSM Nelson Wheeler for the Group amounted to HK\$580,000 and HK\$23,000 respectively.

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## Internal Controls

The Board has the overall responsibilities for the Group's internal control system and has adopted a set of internal controls which facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reporting and compliance with relevant laws and regulations. The system is designed to minimize risks of failure to achieve corporate objectives.

The Company has commenced to review the effectiveness of the Group's internal control system in December 2005 and is currently preparing the report for review by the Audit Committee.

## Communication with shareholders

The annual general meeting provides a useful channel for shareholders to communicate with the Board. All shareholders have at least 21 days' notice of annual general meeting at which directors are available to answer questions on the Company's affair.

Separate resolutions are proposed at the annual general meeting on each substantially separate issue, including the election of individual director.

The right to demand a poll was set out in the circular to shareholders of the Company dispatched together with this annual report.