

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Company is committed to sound corporate governance practices aimed to promote greater transparency, investor confidence and accountability.

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) amended the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) relating to the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Listing Rules in December 2004. The Company has considered the CG Code and has taken steps to comply with it where appropriate. In the opinion of the Directors, the Company has complied with the code provisions listed in the CG Code throughout the year ended 31 December 2005, with the exception of the following deviations:

Code provision A.2.1

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2005, Ms Lo Yuk Yee is the Chairman of the Board and the chief executive officer. The Board considers that vesting the roles of chairman and chief executive officer in the same person enables more effective and efficient planning and implementation of business plans. However, the Board will consider separating the roles of chairman and chief executive officer if a clear division of responsibilities is considered necessary.

Code provision A.4.1 and A.4.2

Under the code provision A.4.1, non-executive directors should be appointed for a specific term and under A.4.2, every director should be subject to retirement by rotation at least once every three years. Currently, non-executive Directors are not appointed for a specific term. This constitutes a deviation from code provision A.4.1. However, they are subject to retirement by rotation at each annual general meeting under the bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the CG Code. Furthermore, under the existing bye-laws of the Company, the Chairman of the Board and the Managing Director of the Company are not subject to retirement by rotation. This constituted a deviation from the code provision A.4.2. To comply with the code provision, relevant amendments to the existing bye-laws of the Company will be proposed at the next annual general meeting to be held on 28 June 2006, such that the Chairman of the Board and the Managing Director of the Company will be subject to retirement by rotation.

Code B.1.1

Under the code provision B.1.1, a remuneration committee with specific written terms of reference should be established. Currently, the Company has not established the remuneration committee but will set up the committee once suitable candidates are identified.

CORPORATE GOVERNANCE REPORT

Code provision E.1.2

The chairman of the Board, Ms Lo Yuk Yee, did not attend the annual general meeting held on 30 June 2005. However, other executive directors and chairman of the audit committee were present in that annual general meeting.

This report also provides the status of the Company's compliance with the Corporate Governance Report as set out in Appendix 23 of the Listing Rules as follows:

Board of Directors

The Board is responsible for formulating and reviewing business strategies and directions, overseeing the management and monitoring the performance of the Group. While the management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

The Board currently comprises of 8 Directors, with 5 executive Directors and 3 independent non-executive Directors. The Board believes that the balance between executive and non-executive directors is reasonable and adequate to provide check and balance that safeguard the interests of shareholders and the Group.

The Board has the overall responsibility for preparing the accounts of the Group. In preparing the accounts, the generally accepted accounting policies in Hong Kong have been adopted and the Group has complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been applied consistently.

Audit Committee

The Company has established an Audit Committee with written terms of reference for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process of the Group. The Audit Committee is also responsible for the appointment of external auditors and assessment of their qualifications, independence and performance.

The Audit Committee consists of three independent non-executive Directors namely, Mr Wong Wai Kin (Chairman of the Audit Committee), Mr Ma Shiu Kin and Ms So Tosi Wan, Winnie. Both Mr Wong Wai Kin and Ms So Tosi Wan, Winnie have appropriate professional qualifications as required by 3.10(2) of the Listing Rules.

The Audit Committee held two meetings during the year ended 31 December 2005 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The Audit Committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

CORPORATE GOVERNANCE REPORT

Attendance Record at Board and Audit Committee Meetings

Directors	Meetings Attended/Held	
	Board	Audit Committee
Ms Lo Yuk Yee (<i>Chairman</i>)	19/20	—
Ms He Jin Hong	8/20	—
Mr Siu Siu Ling, Robert	13/20	—
Mr Ha Sze Tung Sharp Stone	7/20	—
Mr Hu Min	13/20	—
Mr Wong Wai Kin	4/20	1/2
Mr Ma Shiu Kin	4/20	1/2
Ms So Tosi Wan, Winnie	7/13	2/2
Dr Cao Wu (resigned on 15 September 2005)	1/17	—
Mr Leung Wai Chuen (resigned on 15 September 2005)	3/17	1/1

Auditors' Remuneration

During the year under review, the remuneration paid or payable to the auditors of the Company are as follows:

	KLL Associates CPA Limited HK\$	BDO McCabe Lo Limited HK\$
2004 audit fee under provided	16,680	—
2005 interim results review	55,000	—
2005 annual audit	—	450,000
Non-audit services:		
Due diligence review on a company	100,000	—
Review on the general offer circular	—	75,000
Disbursements	—	1,794
Total	<u>171,680</u>	<u>526,794</u>

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 the code of conduct for securities transactions by Directors. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code during the year.

CORPORATE GOVERNANCE REPORT

Communication with Shareholders and Investors

The Company adopts a policy of disclosing relevant information to shareholders and investors in a timely manner. The Company discloses information in the form of paid announcements in an English and a Chinese newspaper. Printed copies of the annual and interim reports and circulars are sent to all shareholders. Shareholders are encouraged to attend the annual general meeting of the Company which allows Directors to meet and communicate with shareholders.

A meeting circular is distributed to all shareholders at least 21 days before annual general meeting and at least 14 days before special general meeting. It sets out details of each proposed resolution, voting procedures and other information. The procedures for demanding and conducting a poll are also explained during the meeting. The results of the poll, if any, will be published in the newspapers on the business day following the meeting.