

CORPORATE GOVERNANCE REPORT

The Company is committed to maintain a high standard of corporate governance practices. The Board considers such commitment essential to maximize the interests of the Company's shareholders, employees and customers.

CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the code provisions as set out in the Appendix 14 Code on Corporate Governance Practices (the "Code") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2005, except for the deviations on Code Provisions A.2.1, A.4.1, A.4.2 and E.1.2 of the Code as 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") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Following specific enquiry by the Company, all the directors have confirmed that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2005.

BOARD OF DIRECTORS

The board of directors of the Company comprises:

Executive Directors:

Dr Lam How Mun Peter (*Chairman and Managing Director*)
Mr Cheung Chung Kiu
Mr Lam Hiu Lo
Mr Leung Chun Cheong
Mr Leung Wai Fai
Ms Poon Ho Yee Agnes

Independent Non-executive Directors:

Mr Lam Kin Fung Jeffrey
Mr Lam Ping Cheung
Mr Wong Wai Kwong David

The members of the Board are mostly professionally qualified and widely experienced personnel who bring in valuable contribution and different professional advices and consultancy for the development of the Company. The independent non-executive directors are persons of high calibre, with academic and professional qualifications in the field of accounting, law and business management. They provide strong support towards the effective discharge of the duties and responsibilities of the Board. Every director has access to board papers and related information; and has access to the services of the Company Secretary who updates the Board on governance and regulatory matters; and has the liberty to seek independent professional advice upon reasonable request.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

The Board formulates the overall policies and strategies, monitors the financial performance, oversees the management, and ensures good corporate governance practices of the Group. The directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. All directors are committed to their roles. Daily operations and administration are delegated to the management. The Board has set up a number of Committees to oversee particular aspects of the Group's affairs. In particular, the Board has delegated responsibilities to the Executive Committee which has been formed with specific written terms of reference and comprises all executive directors for making certain decisions for the management of the Group.

The directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The directors also ensure the timely publication of the financial statements of the Group. 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.

The statement of the external auditors of the Company, Messrs. Deloitte Touche Tohmatsu, about their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 24.

During the year, four full regular board meetings were held and the attendance of each director is set out as follows:

Name of director	Number of meetings attended in 2005	Attendance rate
Dr Lam How Mun Peter	3/4	75%
Mr Cheung Chung Kiu	2/4	50%
Mr Lam Hiu Lo	2/4	50%
Mr Leung Chun Cheong	3/4	75%
Mr Leung Wai Fai	4/4	100%
Ms Poon Ho Yee Agnes	3/4	75%
Mr Lam Kin Fung Jeffrey	4/4	100%
Mr Lam Ping Cheung	1/4	25%
Mr Wong Wai Kwong David	2/4	50%

At least 14 days notice of the regular board meetings is given to all directors and they can include matters for discussion in the agenda if necessary. The Company Secretary assists the Chairman in preparing the agenda for meetings and to ensure the compliance of the relevant rules and regulations. Minutes of the Board have recorded in sufficient detail the matters considered by the Board and decisions reached including any concerns raised by directors or dissenting views expressed. Minutes of the Board are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any director.

To the best knowledge of the Company, there is no financial, business, and family relationship among members of the Board. All directors are free to exercise their independent judgements.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Company's Bye-laws, every director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next annual general meeting and shall then be eligible for re-election at that meeting, and at each annual general meeting not exceeding one-third of the directors for the time being shall retire from office by rotation provided that the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. As such, a special resolution will be proposed to amend the Company's Bye-laws in the forthcoming annual general meeting such that the Company's Bye-laws will be amended in order to comply with the Code.

The Company has not established a Nomination Committee, the establishment of which is a recommended best practice by The Stock Exchange of Hong Kong Limited, and the selection and approval of new directors are undertaken by the Board. According to the Company's Bye-laws, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board, subject to re-election by the shareholders at the next annual general meeting. Consideration would be taken, among other things, to the nominee's qualification, experience and ability relevant to the Company's business. It is believed that all members of the Board would collectively have the required professional knowledge and skills in identifying, recruiting and evaluating new nominees to the Board.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Dr Lam How Mun Peter assumes the role of both Chairman and Managing Director of the Company, and is in charge of the overall management of the Company. The Company considers that the combination of the roles of chairman and chief executive officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its independent non-executive directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

Code Provision E.1.2 stipulates that, among other things, the chairman of the board should attend the annual general meeting to be available to answer questions at the annual general meeting. The Chairman of the Company did not attend the annual general meeting of the Company held on 29 April 2005 as he was away overseas. The vice chairman attended the said annual general meeting on his behalf to chair the meeting and answer shareholders' questions.

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NON-EXECUTIVE DIRECTORS

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject for re-election.

The non-executive directors of the Company are re-appointed at each annual general meeting to hold office until the conclusion of the next annual general meeting and, upon retiring, where eligible, may offer themselves for re-election at the annual general meeting. The Board has discussed and considered that the non-executive directors shall be subject to rotation and re-election by shareholders pursuant to the Company's Bye-laws. The Board also considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence to the Company pursuant to rule 3.13 of the Listing Rules, and the Company considers all of the independent non-executive directors to be independent.

REMUNERATION OF DIRECTORS

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

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
2. to determine the specific remuneration packages of all executive directors;
3. to review and approve performance-based remuneration;
4. 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;
5. to ensure that no director or any of his associates is involved in deciding his own remuneration; and
6. to advise shareholders of the Company on how to vote with respect to any service contracts of directors that require shareholders' approval under Rule 13.68 of the Listing Rules.

The terms of reference of the Remuneration Committee have been posted on the Company's website.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS (continued)

The Remuneration Committee of the Company comprising two executive directors and three independent non-executive directors was formed on 20 June 2005. One meeting was held in 2005 and the attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2005	Attendance rate
Dr Lam How Mun Peter	1/1	100%
Mr Cheung Chung Kiu (<i>Chairman</i>)	0/1	0%
Mr Lam Kin Fung Jeffrey	0/1	0%
Mr Lam Ping Cheung	1/1	100%
Mr Wong Wai Kwong David	1/1	100%

The Remuneration Committee of the Company has reviewed and discussed, among other things, on the remuneration packages (including the annual performance bonus policy) of the executive directors, the remuneration of the independent non-executive directors, the existing share option policy, the retirement benefit schemes, and the long-term incentive arrangement. The Remuneration Committee also recommended to the Board the remuneration packages of the executive directors of the Company.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid and payable to the Company's auditors, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fees paid/payable <i>HK\$'000</i>
Audit services	764
Non-audit services	302
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	1,066

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

1. to review the annual report and half-year report before submission to the Board;
2. to review the Group's financial and accounting policies and practices;
3. to review the financial controls, internal control and risk management systems;
4. to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
5. to be primarily responsible for making recommendation to the Board on the appointment of the external auditor, and to approve the remuneration and terms of engagement of the external auditor; and
6. to report to the Board on the matters set out in the code provision relating to Audit Committee as set out in the Code.

The terms of reference of the Audit Committee have been posted on the Company's website.

The Audit Committee of the Company was formed on 9 April 1999 and currently comprises three independent non-executive directors. Two meetings were held in 2005 and the attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2005	Attendance rate
Mr Lam Kin Fung Jeffrey (<i>Chairman</i>)	2/2	100%
Mr Lam Ping Cheung	2/2	100%
Mr Wong Wai Kwong David	2/2	100%

Draft and final versions of minutes of the meetings of Audit Committee are sent to all members of the committee for their comment and records respectively under the reasonable time after the relevant meeting. The minutes of the meetings of Audit Committee were tabled to the Board for noting and for adoption by the Board where appropriate.

The Audit Committee has reviewed with management and external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the Group's audited financial results for the year ended 31 December 2005. The Audit Committee reviews the financial statements before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

The management has undertaken an annual internal control system effectiveness review, and presented to the Audit Committee the related review manual covering inter alia, the internal control procedures, operational control procedures, risk management function, listing rules and securities regulation compliance, personnel and general administration control. The management concluded that they are satisfied that the prevailing internal control systems as appropriate to the Group's operations are in place and have been implemented properly. No significant areas of improvement which are required to be brought to the attention to the Audit Committee are revealed.

The Audit Committee has reviewed the internal control manual and discussed the internal control systems assessment bases with the management. The members of the Audit Committee expressed their concurrence with the procedures as detailed in the internal control manual adopted by the Group.