

Corporate Governance Report

This corporate governance report ("CG Report") presents the corporate governance matters during the period covering the financial period ended 31 December 2005 and up to the date of the Annual Report to which this CG Report is inscribed ("CG Period") required to be disclosed under the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

ADOPTION OF CORPORATE GOVERNANCE PRINCIPLES

On 13 June 2005 ("Adoption Date"), the Board adopted a set of corporate governance principles ("Principles") which aligns with or is more restrictive than all requirements set out in the Code on Corporate Governance Practices ("CG Code") and the Model Code for Securities Transactions by Directors of Listed Issuers ("Securities Code") contained in the Listing Rules. The Board had also in writing made specific enquiry to each Director in respect of the due compliance of the rules and principles relevant to the Securities Code. During the CG Period, the Principles had been duly complied with except for the deviations summarised as follows:

CG Code

Deviation

Before the Adoption Date

- | | | |
|-------|---|--|
| A.1.1 | Full board meetings shall be convened to be held at least 4 times yearly at approximately quarterly intervals | <ul style="list-style-type: none"> • Before the Adoption Date, the Company convened to hold full Board meeting only twice for each financial year, and had not held a full Board meeting for the first quarter of 2005. • Since the Adoption Date, full Board meeting has been and will be convened to be held for each financial quarter. |
| A.2.1 | The roles of Chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual | <ul style="list-style-type: none"> • Before the Adoption Date, the Chairman and the CEO had been the same person during the initial period of the CG Period. • Since the Adoption Date, the defined roles and responsibilities of the CEO shall be placed with a CEO other than the Chairman or if no CEO is appointed, shall be shared and jointly saddled by all Executive Directors ("ED(s)"). Since the Adoption Date, the Company has not maintained a CEO. |
-

Corporate Governance Report

CG Code

Deviation

Before the Adoption Date

- | | |
|--|--|
| <p>A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election</p> | <ul style="list-style-type: none"> • Before the Adoption Date, all the Independent Non-executive Directors ("INED(s)") were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Company's Bye-laws. • With effect from or before the Adoption Date, the term of office for each then INED had been fixed for one year commencing retrospectively from the date of the 2005 annual general meeting of the Company until the next annual general meeting of the Company, at which all of them shall retire, but be eligible for re-election. |
| <p>A.4.2 Every director should be subject to retirement by rotation at least once every 3 years</p> | <ul style="list-style-type: none"> • Before the Adoption Date, there were no fixed terms for all the Directors to retire at annual general meeting of the Company and the Chairman of the Board was not subject to retirement at annual general meeting of the Company in each year. • With effect from or before the Adoption Date, all EDs, including the Chairman of the Board, shall retire, but be eligible for re-election, at least once in every 3 financial years at annual general meeting of the Company. |
| <p>A.6.1 Agenda and the board papers should be despatched at least 3 days before the meeting</p> | <ul style="list-style-type: none"> • Before the Adoption Date, the Audit Committee papers and the Board papers might not have been sent at least 3 days before the Audit Committee meetings and the Board meetings for approving the financial results. • Since the Adoption Date, the terms in relation to the despatch of the Audit Committee papers and the Board papers under the Principles had not been violated. |
-

Corporate Governance Report

CG Code

Deviation

Before the Adoption Date

- | | |
|--|---|
| <p>B.1.1 A remuneration committee should be set up with majority members to be INEDs</p> | <ul style="list-style-type: none"> • Before the Adoption Date, the Company had not set up a Remuneration Committee.
 • Since the Adoption Date, the Company has maintained a Remuneration Committee with specific written terms of reference comprising 2 INEDs and an ED. |
|--|---|

Save for the above, the Company has been in compliance with the CG Code and the Securities Code throughout the CG Period.

BOARD OF DIRECTORS

During the CG Period, the Board had held the following number of physical meetings of the Directors:

- 5 meetings of the full Board

- 6 meetings of the EDs

Out of the 5 full Board meetings, 4 of them were held to discuss and/or approve the annual/quarterly financial performance/results of the Group while 1 meeting(s) to discuss and approve a connected transaction of the Company which arose during the CG Period. The ED meetings were held to report, discuss and/or resolve for the ordinary business and operation matters, and the corporate movements and decisions.

Corporate Governance Report

During the CG Period, the composition of the Board, and the respective attendances of the Directors at the above Directors' meetings are presented as follows:

Director	Board capacity	Appointment/ Resignation during the CG Period	Attendance	
			Full Board meetings	ED meetings
Mr Kwan Pak Hoo Bankee	ED & Chairman		5/5	6/6
Mr Law Ping Wah Bernard	ED & CFO		5/5	6/6
Ms Kwok Lai Ling Elaine	ED		4/5	6/6
Mr Leung Siu Pong James	ED		5/5	6/6
Mr Li Yuen Cheuk Thomas	ED		5/5	6/6
Ms Tin Yuen Sin Carol	ED	was appointed on 1 September 2005	3/3	0/2
Mr Lo Ming Chi Charles	INED		2/5	N/A
Mr Ng Ka Chung Simon	INED	was appointed on 28 February 2006	1/1	N/A
Mr Leung Ka Kui Johnny	INED	was appointed on 8 June 2005	4/4	N/A
Dr Hui Ka Wah Ronnie	INED	resigned on 28 February 2006	3/4	N/A
Mr Lai Wai Kwong Daryl	INED	resigned on 8 June 2005	0/1	N/A

During the CG Period, none of the Directors above has or maintained any financial, business, family or other material/ relevant relationship with any of the other Directors.

The terms of the appointments of the EDs and the INEDs were governed by the respective employment or service contracts while the appointments of the directorship were subject to, as to EDs, retirement, rotation and re-election at least once every 3 financial years and, as to INEDs, retirement and re-election every year, all at annual general meetings of the Company.

REMUNERATION COMMITTEE

Since the Adoption Date, the Company had maintained a Remuneration Committee. The role and function of the Remuneration Committee include:

- recommendation to the Board on the remuneration policy for the Directors;

Corporate Governance Report

- review of, approval of and recommendation for (if any) the remuneration package of each Director including benefits in kind, pension right, bonus payment and compensation payable;
- review and approval of performance-based remuneration of each Director (if any) by reference to achievement goals and objectives set by the Board;
- review and approval of the compensation payment to any Director upon his/her cessation of directorship in or employment with the Company;
- engagement of external professional advisors to assist and/or advise the Remuneration Committee on its duties when necessary and reasonable.

Terms of reference of the Remuneration Committee had been compiled since the establishment of the Remuneration Committee and were endorsed and adopted by the Remuneration Committee. The most updated version of the terms of reference of the Remuneration Committee has been posted onto the corporate website of the Company since the Adoption Date.

For the financial period under review, the Remuneration Committee had held 1 physical meeting for the purpose of considering the remuneration of the Directors.

The composition of the Remuneration Committee, and the respective attendances of the committee members are presented as follows:

Member	Board capacity	Attendance
Mr Lo Ming Chi Charles	INED	1/1
Mr Ng Ka Chung Simon (was appointed on 28 February 2006)	INED	1/1
Dr Hui Ka Wah Ronnie (resigned on 28 February 2006)	INED	0/0
Mr Kwan Pak Hoo Bankee	Chairman of the Board	1/1

The chairman of the Remuneration Committee since its establishment has been Mr Lo Ming Chi Charles.

The summary of the work performed by the Remuneration Committee for the financial period under review included:

- endorsement to the remuneration policy for the Directors;
- review and approval of the remuneration package of each Director including benefits in kind, pension right, bonus payment and compensation payable.

Corporate Governance Report

REMUNERATION POLICY FOR DIRECTORS

The Company adopted a remuneration policy providing guideline for Directors' remuneration.

Under the remuneration policy, Directors' remuneration should be based on internal equity factors and external market conditions and will be reviewed from time to time.

The remuneration of EDs generally consists of:

- fixed monthly salary/allowance – which is set in accordance with the Director's duties, responsibilities, skills, experiences and market influences;
- pension – which is based on the local Mandatory Provident Fund Contribution Scheme;
- short term variable incentive – which may include discretionary cash bonus depending on the achievement of short-term corporate objectives and/or personal targets;
- long term variable incentive – which may include share options designed to encourage long-term commitment.

The remuneration of NEDs will be a lump sum of management fee made annually.

DIRECTORS' REMUNERATION

The remuneration paid to and/or entitled by each of the Directors for the financial period under review is set out in note 13 to the financial statements in the Annual Report.

The share options granted to and/or entitled by the Directors during the financial period under review are inscribed in the section headed "Directors' Interests in Securities" of the Directors' Report.

NOMINATION OF DIRECTORS

The Board shall be composed of members with mixed skills and experience with appropriate weights necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. Each member of the Board shall possess, be recognised for and be able to exhibit high and professional standard of a set of core criteria of competence.

Since the Adoption Date, the Company had adopted a nomination policy for the criteria, procedures, and process of the appointment and removal of Directors.

Corporate Governance Report

Under the nomination policy, the board of EDs has been delegated the full power to the administration of the nomination policy and the appointment and the termination of Directors, where the full Board remains to have the full and overriding power and absolute right thereover.

During the CG Period, 4 meetings were held by the EDs in resolving for the acceptance of the resignation of three ex-Directors and the appointment of three new Directors. The attendances of the EDs were as follows:

Director	Attendance
Mr Kwan Pak Hoo Bankee	3/4
Mr Law Ping Wah Bernard	4/4
Ms Kwok Lai Ling Elaine	2/4
Mr Leung Siu Pong James	2/4
Mr Li Yuen Cheuk Thomas	1/4
Ms Tin Yuen Sin Carol (was appointed on 1 September 2005)	1/1

AUDIT COMMITTEE

Throughout the CG Period, the Company had maintained an Audit Committee. The major role and function of the Audit Committee include:

- monitoring the integrity of the financial statements of the Group;
- providing independent review and supervision of the effectiveness of the internal control of the Group;
- review of the adequacy of the external audits;
- review on the compliance issues with the Listing Rules and other compliance requirements;
- providing independent views on connected transactions and transactions involving materially conflicted interest;
- consideration and reviewing the appointment of the Auditors and the audit fee.

Terms of reference of the Audit Committee had been compiled since the establishment of the Audit Committee and each version was endorsed and adopted by the then Audit Committee. The most updated version of the terms of reference of the Audit Committee has been posted onto the corporate website of the Company since the Adoption Date.

Corporate Governance Report

For the financial period under review, the Audit Committee had held 4 physical meetings for discussing and/or approving the periodic financial results of the Group.

The composition of the Audit Committee, and the respective attendances of the committee members are presented as follows:

Member	Board capacity	Attendance
Mr Lo Ming Chi Charles	INED	4/4
Mr Ng Ka Chung Simon	INED (was appointed on 28 February 2006)	1/1
Mr Leung Ka Kui Johnny	INED (was appointed on 8 June 2005)	3/3
Dr Hui Ka Wah Ronnie	INED (resigned on 28 February 2006)	3/3
Mr Lai Wai Kwong Daryl	INED (resigned on 8 June 2005)	1/1

Before the Adoption Date, there was no defined chairmanship of the Audit Committee. Since the Adoption Date, the chairman of the Audit Committee has been Mr Lo Ming Chi Charles.

The report of the work performed by the Audit Committee for the financial period under review is set out in the section headed "Audit Committee Report" of this Annual Report.

AUDITORS' REMUNERATION

The analysis of the Auditors' remuneration for the financial period under review is presented as follows:

	Fee amount (HK\$)
Audit service	1,500,000
Non-audit services:	
– Preparation of accountants' report for the proposed acquisition of a business in PRC and review of sufficiency of working capital, pro-forma statement of assets and liabilities and statement of indebtedness of the enlarged group	850,000
Total	<u>2,350,000</u>

The non-audit services arose from the requirement of accounting performance required under the Listing Rules for corporate transaction of the Group which took place during the financial period under review.

Corporate Governance Report

ACKNOWLEDGEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the accounts of the Group. In preparing the accounts for the financial period under review, the Directors have:

- based on a going concern basis;
- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were prudent, fair and reasonable.

REVIEW OF INTERNAL CONTROL

During the financial period under review, the Directors had arranged to conduct a review over the effectiveness of the internal control system of the Group including functions of financial, operation, compliance and risk management. The review showed a satisfactory control system. The review had been reported to the Audit Committee. The Directors had also, where necessary, initiated necessary improvement and reinforcement to the internal control system.

On behalf of the Board

Bankee P Kwan

Chairman

Hong Kong, 13 April 2006
