

CORPORATE GOVERNANCE REPORT

In the opinion of the board of directors of the Company (the "Board"), the Company has complied with the Code of Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2005 except for certain deviations disclosed herein.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by its directors. Having made specific enquiry, all directors have confirmed that they have fully complied with the required standard set out in the Model Code during the year.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Group and oversees the Group's businesses, strategic decisions and performance. The Board has delegated the day-to-day responsibility to the Executive Directors and senior management who perform their duties under the leadership of the Managing Director.

The Board currently consists of five Executive Directors and three Independent non-executive Directors.

The Board schedules four meetings a year and also meets as and when required. During the year, the Board held five regular meetings.

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The members of the Board and the attendance of each member in 2005 are as follows:

| Executive Directors | Number of board meetings held during the director's term of office in 2005 | Number of meeting(s) attended |
|---|---|--|
| Ms. Ho Yin King, Helena (<i>Chairman and Managing Director</i>) | 5 | 5 |
| Mr. Ho Fai Keung, Jacky (<i>Deputy Chairman</i>) | 5 | 5 |
| Mr. Low Nyap Heng | 5 | 4 |
| Mr. Cheung Sze Ming | 3 | 3 (Note) |
| Ms. Lo Suk King | 3 | 0 (Note) |
| Mr. Lai Kam Hung | 3 | 0 (Note) |
| Independent Non-executive Directors | | |
| Dr. Li Sau Hung, Eddy | 5 | 4 |
| Mr. Leung Ka Kui, Johnny | 5 | 4 |
| Mr. Chan Kam Kwan, Jason | 5 | 5 |

Notes:

- There were only three regular board meetings held since Mr. Cheung Sze Ming, Ms. Lo Suk King and Mr. Lai Kam Hung were appointed as directors of the Company on 22 April 2005.
- Mr. Lai Kam Hung resigned as a director of the Company on 23 September 2005.

The Company has received annual confirmations of independence from Dr. Li Sau Hung, Eddy, Mr. Leung Ka Kui, Johnny and Mr. Chan Kam Kwan, Jason and the Company considers them to be independent.

Given the nature and business objective of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of directors and their respective biographies are set out on pages 11 to 12 of this annual report respectively.

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CHAIRMAN AND MANAGING DIRECTOR

Ms. Ho Yin King, Helena is the Chairman of the Board and the Managing Director of the Company. In the opinion of the Board, the roles of the managing director and the chief executive officer are the same. Although under A.2.1 of the Code, the roles of the Chairman and chief executive officer should be separated and should not be performed by the same individual, the Company considers that the extensive experience and marketing network established by Ms. Ho is critical for the business and future development of the Company. Hence, the Company believes that it is in the best interest of its shareholders that Ms. Ho Yin King, Helena will remain the Chairman and the Managing Director of the Company. However, the Company will review the current structure when and as it becomes appropriate in future.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Under A.4.1 of the Code, the non-executive directors should be appointed for a specific term, subject to re-election and under A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Currently, the three Independent Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Bye-laws of the Company, and their appointment will be reviewed when they are due for re-election. In addition, under the provisions of the Bye-laws of the Company, the Chairman of the Board and/or the Managing Director of the Company are not subject to retirement by rotation or be taken into account in determining the number of directors to retire each year.

The Company will propose certain amendments to its bye-laws at its forthcoming annual general meeting to require that all directors (whether appointed for specific terms or not) including the Chairman of the Board and the Managing Director of the Company to retire by rotation at least once every three years.

The amendments shall also bring the Bye-laws of the Company up to date and in line with the Code requirements.

REMUNERATION COMMITTEE

The Remuneration Committee was established with a specific written terms of reference.

The Remuneration Committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all directors and senior management of the Company and is delegated by the Board with the responsibility to determine on behalf of the Board the specific remuneration packages for all Executive Directors and senior management of the Company.

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The Remuneration Committee comprises four directors including the three Independent Non-executive Directors, namely Mr. Leung Ka Kui, Johnny (*Chairman*), Dr. Li Sau Hung, Eddy and Mr. Chan Kam Kwan, Jason, and the Chairman of the Company, Ms. Ho Yin King, Helena.

During the year, the Remuneration Committee held three meetings.

Members of the Remuneration Committee and the attendance of each member in 2005 are as follows:

| Independent Non-executive Directors | Number of meetings held during the member's term of office in 2005 | Number of meeting(s) attended |
|--|---|--------------------------------------|
| Mr. Leung Ka Kui, Johnny (<i>Chairman</i>) | 3 | 3 |
| Dr. Li Sau Hung, Eddy | 3 | 2 |
| Mr. Chan Kam Kwan, Jason | 3 | 3 |
| Executive Director | | |
| Ms. Ho Yin King, Helena | 3 | 3 |

During the year, the Remuneration Committee has performed the following duties:

- (1) reviewed the remuneration of the Executive Directors (including the Chairman of the Company); and
- (2) discussed and studied the appropriate way to remunerate those directors who have performed extra services in obtaining a favourable award in a legal claim of a subsidiary of the Company.

NOMINATION OF DIRECTORS

The Company has not established a Nomination Committee. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no director being involved in fixing his/her own terms of appointment and no Independent Non-executive Director being involved in assessing his own independence.

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AUDITORS' REMUNERATION

During the year, the Group has not engaged any non-audit services from the auditors and was charged about HK\$2,450,000 for auditing services only.

AUDIT COMMITTEE

The Audit Committee was established with a specific written terms of reference.

The Audit Committee is responsible for reviewing and supervising the financial reporting process and internal control system of the Group and providing advice and comments to the Board.

During the year, the Audit Committee held two meetings.

Members of the Audit Committee and the attendance of each member in 2005 are as follows:

| Independent Non-executive Directors | Number of meetings held during the member's terms of office in 2005 | Number of meeting(s) attended |
|--|--|--------------------------------------|
| Dr. Li Sau Hung, Eddy (<i>Chairman</i>) | 2 | 2 |
| Mr. Leung Ka Kui, Johnny | 2 | 1 |
| Mr. Chan Kam Kwan, Jason | 2 | 2 |

During the year, the Audit Committee has performed the following duties:

- (1) reviewed with the auditors the audited financial statements for the year ended 31 December 2004 and reviewed the unaudited interim financial statements for the six months ended 30 June 2005, with recommendations to the Board for approval;
- (2) reviewed reports on internal control system covering financial, operational, procedural compliance and risk management functions;

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- (3) reviewed the compliance issues with the regulatory and statutory requirements; and
- (4) reviewed with the management of the Company the accounting principles and practices adopted by the Group.

Mr. Chan Kam Kwan, Jason, a member of the Audit Committee, possesses relevant professional qualifications and financial management expertise and meets the requirements of rule 3.21 of the Listing Rules.

ACCOUNTABILITY

The directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cashflows of the Group. In preparing the accounts for the six months ended 30 June 2005 and for the year ended 31 December 2005, the directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

INTERNAL CONTROLS

The Board has, through the Audit Committee, conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions. The internal control system is designed to provide reasonable, but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievements of the Group's objectives.