

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by directors. Having made specific enquiry of the directors, the directors confirmed that they have complied with the code throughout the six months ended 30 June 2005.

Corporate Governance

Pursuant to Rules 3.10 and 3.19 of the Listing Rules, the Company is required to have at least three independent non-executive directors and at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. On 3 April 2005, Mr. Fai Cheong Hau, an independent non-executive Director and a member of the audit committee of the Company, has passed away and Mr. Chan Shing Hoi, Alfred had tendered his resignation as independent non-executive director and member of the audit committee of the Company on 15 May 2005. The Company then appointed Mr. Sin Wai Chiu, Joseph and Mr. Ip Man Tin, David as independent non-executive Directors as well as members of the audit committee of the Company on 16 May 2005. However, on 23 February 2006 and 24 March 2006, Mr. Ku Suen Fai and Mr. Sin Wai Chiu, Joseph had tendered their resignations as independent non-executive directors and members of the audit committee of the Company respectively. In order to address to the non-compliance of Rule 3.10 of the Listing Rules, the Company had used its best efforts to identify other suitable persons to be independent non-executive directors and members of the audit committee of the Board. On 9 June 2006, Mr. Chan Chiu Hung, Alex and Mr. Lo Tat Shing have been appointed as independent non-executive directors and members of the audit committee of the Company. The audit committee now comprises three independent non-executive directors of the Company, namely, Mr. Ip Man Tin, David, Mr. Chan Chiu Hung, Alex and Mr. Lo Tat Shing.

Except as detailed above, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, with deviations from code provisions A.2.1, A.4.1 and B.1 of the Code in respect of the service term and rotation of directors.

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 chairman of the Company is now performing both roles as the Company considers it is more effective to have both roles performed by the same person at the present situation.

Under the code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. However, none of the existing independent non-executive directors of the Company is appointed for specific terms but they are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company, which stipulates that one-third of the directors for the time being, or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from the office by rotation at each annual general meeting. 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 Code in this respect.

Under the code provision B.1, remuneration committee has to be set up by the Company. Despite no remuneration committee was formed during the period under review, it has been established on 9 June 2006 with all the independent non-executive directors being members.

Continuing Disclosure Requirements under Chapter 13 of The Listing Rules

- a) Pledging of shares by the controlling shareholder and loan agreements with covenants relating to specific performance of the controlling shareholder under Rules 13.17 and 13.18 of the Listing Rules:

In accordance with the disclosure requirements of Rules 13.17 and 13.18 of the Listing Rules, the following disclosures are included in respect of one of the Company's bank loan facilities, which the controlling shareholder of the Company to secure the bank loan facility of the Company and certain covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a loan facility letter dated 25 October 2002 between the Company and ICIC, relating to a 30-month term loan facility of HK\$20 million, a termination event would arise if 20% of the market of certain of the Company's shares owned by Kong Fa and pledged with ICIC for the facility falls below 110% of the outstanding loan balance.

At 30 June 2005, Kong Fa had pledged 596,052,085 ordinary shares of HK\$0.10 each of the Company to secure the loan facility and the outstanding loan balance was approximately HK\$7,025,000.