



CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Compliance with Code on Corporate Governance Practices

The Group's annual report for the year ended 31st December, 2005 has been reviewed by the Audit Committee of the Company.

The Company is committed to maintaining the highest standard of corporate governance practices. The Company has complied with all the code provisions as set out in Appendix 14 of the Code on Corporate Governance Practices of the Listing Rules throughout the accounting period for the year ended 31st December, 2005, except for the following deviations:

Code Provision A.2.1

This Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The roles of chairman and chief executive ("CE") are still managed by the same individual. Due to the fact that currently the Group is adjusting its business structure, and therefore at present, the Group has no separation of the roles of chairman and CE.

Code Provision A.4.2

Code 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 and that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The existing Article 93 of the Articles of Association of the Company specifies that the Directors shall have 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. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The existing Article 102 of the Articles of Association of the Company specifies that at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office. The retiring Directors shall be eligible for re-election.

In order to ensure all compliance with Code A.4.2, a special resolution will be proposed to amend the relevant Articles of Association of the Company at the Annual General Meeting to be held in 2006.

Further to the report on Corporate Governance contained in the 2004 Annual Report, the Company has issued appointment letters to all the three independent non-executive directors making that the appointment would be valid for a period of three years in compliance with Code Provision A4.2.



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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 its own code of conduct regarding the directors' securities transactions. The Company has made specific enquiry of all directors whether they have complied with the Model Code and all directors confirmed that they have complied with the Model Code for the year ended 31st December, 2005.

Written guidelines on no less exacting terms than the Model Code relating to securities transaction for employees have been sent to all employees of the Group.

BOARD OF DIRECTORS

The Board of the Company comprises a total of five directors in which two are executive directors. The chairman and CE is Mr. Dai Xiaoming, and the deputy chief executive is Mr. Kenneth Hiu King Kon, and three are independent non-executive directors, namely Mr. Jesse Nai Chau Leung, Mr. Xiang Bing and Mr. Edward Shen. Mr. Jesse Nai Chau Leung has an appropriate professional qualification in accounting and related financial management expertise.

Other than the directorship with the Company, there is no other relationship, including financial, business, family or other material/relevant relationship(s), among the five directors of the Board.

Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors meet the independence guidelines as set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The chairman and CE provides leadership for the Board and ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All directors have been consulted about any matters proposed for inclusion in the agenda. The chairman and CE has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary. The chairman and CE ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner with the support of the Company Secretary.

Management is responsible for the day-to-day operations of the Group's business under the leadership of the chairman and CE. The chairman and CE together with deputy CE are responsible for managing the businesses of the Group, including implementation strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group.



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BOARD OF DIRECTORS (Cont'd)

The Directors contributes to the affairs of the Board and the Board always acts in the best interests of the Group.

Appropriate insurance cover on directors' and officers' Liabilities has been in force to protect the directors and officers of the Group from their risk exposure arising from the business of the Group.

As at the date of this Report for the year 2005, the Board held five meetings on 19th April, 2005, 28th June, 2005, 13th September, 2005, 7th December, 2005 and 18th April, 2006.

Attendance

Executive Directors

Dai Xiaoming (Chairman and CE)	5/5
Kenneth Hiu King Kon (Deputy Chief Executive)	5/5

Independent Non-Executive Directors

Jesse Nai Chau Leung	5/5
Xiang Bing ⁽¹⁾	3/5
Edward Shen	5/5

Note:

(1) Absent on 28th June, 2005 and 7th December, 2005

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee on 13th September, 2005. The Remuneration Committee comprises the chairman, Mr. Edward Shen, being an independent non-executive director, and the two independent non-executive directors, namely Mr. Jesse Nai Chau Leung and Mr. Xiang Bing.

The principle responsibility of the Remuneration Committee includes making recommendation to the Board on the Company's policy and structure for all remuneration of directors and senior management and reviewing the specific remuneration packages of all executive directors and senior management by reference to corporate goals and objectives resolved by the Board. The emoluments of directors are based on the skill and contribution in the Company's affairs and are determined by reference to the duties and responsibilities of the executive and non-executive directors after considering the Group's performance and the prevailing market situations including salaries paid by comparable companies. The Remuneration Committee has consulted the chairman and CE and the deputy CE in recommending directors' remuneration. Terms of reference of the Remuneration Committee are available at the Company's website.



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REMUNERATION COMMITTEE (Cont'd)

Particulars of the emoluments to the Directors are set out in note 11 of the financial statements.

On 3rd April, 2006, management made a recommendation in respect of the directors and senior staff's remuneration policy of the Group to the Remuneration Committee and the Committee then reviewed and concurred these recommendation.

As at the date of this Report for the year 2005, the Remuneration Committee held a meeting on 4th April, 2006 to discuss to Group's remuneration policy.

Attendance

Independent Non-Executive Directors

Edward Shen (Chairman)	1/1
Xiang Bing	1/1
Jesse Nai Chau Leung	1/1

EMPLOYEES

The remuneration policy for all employees is to ensure that the pay levels are competitive and effective in attracting, retaining and motivating employees.

In addition to basic salaries and the provision of mandatory provident fund scheme, employees are provided with medical insurance and some of them are included under a defined contribution provident fund scheme.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements for the Group.

Management has provided explanation and information to the Board to enable it to make an informed assessment in respect of the financial statements of the Group.

With the assistance of the Finance Department which is under supervision of the Qualified Accountant of the Company, the directors ensure that financial statements of the Group, which is prepared on a going concerns basis, are in accordance with the statutory requirements and applicable accounting standards. The directors ensure that the publication of the Group's financial statements is in a timely manner.



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INTERNAL CONTROL

During the period from 15th January, 2006 to 3rd April, 2006, the Group Financial Controller conducted an internal control review and on 4th April, 2006 submitted to the Board the internal control procedures including financial operational and compliance controls, and the risk management policies of the Group, to manage the risks that the Group may be exposed to. The Board will review the effectiveness of the internal control system of the Group. The review covers all material controls, including financial operational and compliance controls and risk management functions. The Board considers that the internal control systems are effective and adequate.

AUDITORS' REMUNERATION

For the year ended 31st December, 2005, the Auditors of the Company will receive approximately HK\$850,000 for the audit of the Group's financial statements.

AUDIT COMMITTEE

The Audit Committee was established on 15th September, 1998 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. The Audit Committee comprises the Chairman, Mr. Jesse Nai Chau Leung, being an independent non-executive director, and two independent non-executive directors, namely Mr. Xiang Bing and Mr. Edward Shen. In accordance with the requirements set out in the Code on Corporate Governance Practices, the terms of reference of the Audit Committee were revised on 13th September, 2005 in terms substantially the same as provisions set out in the Code on Corporate Governance Practices. The revised terms of reference of the Audit Committee are available at the Company's website.

At the date of this Report for the year 2005, the Audit Committee held three meetings on 11th April, 2005, 12th September, 2005 and 4th April, 2006.

Attendance

Independent Non-Executive Directors

Jesse Nai Chau Leung (Chairman)	3/3
Xiang Bing	3/3
Edward Shen	3/3

The Audit Committee have reviewed and supervised the Group's financial reporting system and internal control procedures, reviewed the Group's financial information and reviewed the relationship of the Auditors with the Company.



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AUDIT COMMITTEE (Cont'd)

The following is a summary of the work of the Audit Committee:

- (i) review of the financial reports for the year ended 31st December, 2004, for the six months ended 30th June, 2005 and for the year ended 31st December, 2005;
- (ii) consideration and approval of the 2005 audit fees;
- (iii) review of the effectiveness of the internal control system; and
- (iv) review of the continuing Connected Transaction.

The Audit Committee had also revised its terms of reference and posted on web according to the early adoption of the Stock Exchange's new corporate governance requirements.

The Audit Committee has regular meetings two times a year and additional meetings are held as the work of the committee demands.