

Corporate Governance Report

The Company recognizes that good corporate governance is vital to the success of the Group and the sustained development of the Group. The Company aims at complying with, where appropriate, all code provisions set out in Appendix 14 Code on Corporate Governance Practices (the “CG Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The Company’s corporate governance practices are based on the principles and the code provisions (“Code Provisions”) as set out in the CG Code of the Listing Rules. The Company has, throughout the year ended 31st December, 2005 and up to the date of publication of the annual report, applied and complied with most of the Code Provisions save certain deviations from the Code Provisions in respect of code provisions A.2.1, A4.1 and A.4.2, details of which are explained below.

Securities Transactions by Directors

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. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year under review and they have all confirmed that they had fully complied with the required standard set out in the Model Code.

Board of Directors

The Board comprises of two Executive Directors, being Mr. Lam Kwok Hing (Chairman and Managing Director) and Mr. Nam Kwok Lun (Deputy Chairman); three Independent Non-executive Directors, being Mr. Cheung Kin Wai, Mr. Kwan Wang Wai Alan and Mr. Ng Chi Kin David. Biographical details, which include relationships among members of the Board, are provided in the “Directors and Senior Management Profile” section of the annual report.

There is a clear division of responsibilities between the Board and the management. The Board is responsible for providing high-level guidance and effective oversight of the management while day-to-day management of the Group is delegated to the management team of each respective subsidiary. Generally speaking, the Board is responsible for:

- Formulating the Group’s long term strategy and monitoring the implementation thereof
- Approval of interim and year end dividend
- Reviewing and approving the annual and interim reports
- Ensuring good corporate governance and compliance
- Monitoring the performance of the management
- Reviewing and approving any material acquisition and assets disposal

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The Board authorises the management to carry out the strategies that have been approved.

The Board meets regularly at least four times a year and additional meetings or telephone conference are convened as and when the Board considers necessary. In 2005, four board meetings were held. Details of the Directors' attendance record in the year are as follows:

Directors	Attendance/ No. of meeting
Mr. Lam Kwok Hing	4/4
Mr. Nam Kwok Lun	4/4
Mr. Cheung Kin Wai	4/4
Mr. Kwan Wang Wai Alan	3/4
Mr. Ng Chi Kin David	4/4

The Board complied with the Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent Non-executive Directors and one of the Independent Non-executive Directors has appropriate professional qualifications or accounting or related finance management expertise. Each of the Independent Non-executive Director 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 set out in Rule 3.13 of the Listing Rules.

Chairman and Chief Executive Officer

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

The Company does not at present have any officer with the title of "chief executive officer" ("CEO") but instead the duties of a CEO are performed by the Managing Director ("MD"). The positions of both Chairman and MD are currently held by Mr. Lam Kwok Hing. The Board believes that vesting the roles of both Chairman and MD in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. In addition, through the supervision of the Board which comprised of three independent non-executive directors, representing more than half of the Board, the interests of the shareholders are adequately and fairly represented.

Appointment and Re-election of Directors

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

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None of the existing non-executive directors (including independent non-executive directors) of the Company is appointed for a specific term. This constitutes a deviation from the GC Code. In accordance with the provisions of the Bye-laws of the Company, any director appointed by the Board during the year shall retire and submit themselves for re-election at the first general meeting immediately following his/her appointment. Further, at each annual general meeting, one-third of the directors for the time being, or if their number is not three or multiple of three, then the number nearest to but not exceeding one-third, shall retire from office. The directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. At such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those in the GC Code.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the next following annual general meeting after their appointment, and 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 Bye-laws of the Company, the Chairman or Managing Director is not subject to retirement by rotation or taken into account on determining the number of Directors to retire. This constitutes a deviation from the GC Code. As continuation is a key factor to the successful implementation of any long term business plans, the Board believes that, together with the reasons for deviation from Code Provision A.2.1, that the present arrangement is most beneficial to the Company and the Shareholders as a whole.

Remuneration of Directors

The Company established the Remuneration Committee in February 2005 with terms of reference substantially the same as those contained in paragraph B.1.3 of the CG Code. A majority of the members of the Remuneration Committee is Independent Non-executive Directors and members of the Committee are listed as below.

The Remuneration Committee is primarily responsible for the following duties

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;
2. to have the delegated responsibilities to determine the specific remuneration packages of all Executive Directors and senior management;
3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
4. to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

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5. 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; and
6. to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company

The Remuneration Committee will meet at least once each year. During the year under review, one meeting was held to consider and approve the remuneration package and terms of service contract of Mr. Nam Kwok Lun, the Executive Director and Deputy Chairman of the Company appointed in 2005.

Committee member		Attendance/ No. of meeting
Mr. Kwan Wang Wai Alan	<i>(Independent Non-executive Director & chairman of the Remuneration Committee)</i>	1/1
Mr. Cheung Kin Wai	<i>(Independent Non-executive Director)</i>	1/1
Mr. Ng Chi Kin David	<i>(Independent Non-executive Director)</i>	1/1
Mr. Lam Kwok Hing	<i>(Executive Director)</i>	1/1
Mr. Nam Kwok Lun	<i>(Executive Director)</i>	1/1

Nomination of Directors

Currently, the Company does not have a nomination committee, and the Board will identify individuals suitably qualified to become board members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account of his/her experience, qualification and other relevant factors. All candidates must also meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an Independent Non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

During the year, the Board appointed Mr. Nam Kwok Lun as Executive Director and Deputy Chairman of the Board and re-designated Mr. Kwan Wang Wai Alan as Independent Non-executive Director. Both of them retired from office in the Company's Annual General Meeting but remain their positions.

Auditors' Remuneration

During the year, the auditors of the Company, Messrs. Deloitte Touche Tohmatsu received approximately HK\$823,000 for statutory audit services. Payments made by the Company for non-audit services to the auditors were made during the year were:

- HK\$130,000 for review of the unaudited financial statements for the six months ended 30th June, 2005
- HK\$4,000 for audit of provident scheme fund

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Audit Committee

The Audit Committee was established in 1999 and comprises three Board members, all of whom are Independent Non-executive Directors. The Audit Committee has adopted the same term of reference, which describes the authority and duties of the Committee, as quoted under code provision C.3.3 of the GC Code.

The Audit Committee will meet at least twice each year. In 2005, the Audit Committee met twice considering the annual results of the Group for the financial year ended 31st December, 2004 and the interim results of the Group for the 6 months ended 30th June, 2005, assessing any changes in accounting policies and practices, major judgmental areas and compliance with applicable legal and accounting requirements and standards, discussing with the auditors of the Company on internal control. Details of Committee members and their attendance records are listed as below:

Committee member		Attendance/ No. of meeting
Mr. Ng Chi Kin David	<i>(Independent Non-executive Director & chairman of the Audit Committee)</i>	1/1
Mr. Cheung Kin Wai	<i>(Independent Non-executive Director)</i>	1/1
Mr. Kwan Wang Wai Alan	<i>(Independent Non-executive Director)</i>	1/1

Director's Responsibilities for the Financial Statement

The Board acknowledges that it is their responsibility for (i) overseeing the preparation of the financial statements of the Group with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and (ii) selecting suitable accounting policies and applying the selected accounting policies consistently with the support of reasonable and prudent judgement and estimates.

A statement by the auditors about their reporting responsibilities is set out on page 21 of this Annual Report.

Internal Controls

A sound and effective internal control system is important to safeguard the shareholders' investment and the Company's assets. During the year, the Board reviewed 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 of the Group.