

Corporate Governance Report

The Company has always recognised the importance of the shareholders' transparency and accountability. It is the belief of the board that shareholders can maximise their benefits from good corporate governance.

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 year with certain deviations from code provisions A.5.4 and B.1.1 in respect of no written guidelines issued by the board for dealings in the securities of the Company and not having in place a remuneration committee with specific terms of reference, which were duly rectified after adoption of a code on ethics and securities transactions on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, and the establishment of the remuneration committee on 15 September 2005. Since then, the Company has fully complied with the Code.

BOARD OF DIRECTORS

The board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. Daily operations and execution are delegated to management. All directors give sufficient time and attention to the Group's affairs. The board believes that the balance between executive and non-executive directors is reasonable and adequate to provide checks and balances that safeguard the interests of shareholders and the Group.

At 31 December 2005, the board of the Company comprised three executive directors, namely, Mr. Lo Peter, Mr. Sun David Lee and Mr. Au Peter Jeva; four non-executive directors, namely, Mr. Chau Wai-Kau, Mr. Yeung Ting-Lap Derek Emory, Mr. Greer Thomas and Mr. Li Wentao; and three independent non-executive directors, namely, Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Zuchowski Sam.

The non-executive directors provide the Group with a wide range of expertise and experience. Their participation in board and committee meetings brings independent judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process, to ensure that the interests of all shareholders are taken into account.

The independent non-executive directors ensure the board accounts for the interests of all shareholders and that all issues are considered in an objective manner. The Company has received annual confirmation of independence from the three independent non-executive directors and as at the date of this report still considers them to be independent.

The board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the board and has met the recommended practice under the Code for the board to have at least one-third in number of its members comprising independent non-executive directors.

Corporate Governance Report

BOARD MEETINGS

For the year ended 31 December 2005, there were fourteen full board meetings held by the Company to discuss the Group's development strategies, investment projects and the operational and financial performance of the Group. The attendance of the directors at the board meeting is as follows:

		Number of attendance
<i>Executive directors</i>		
Mr. Lo Peter	(appointed on 26 May 2005)	7/14
Mr. Sun David Lee	(appointed on 26 May 2005)	6/14
Mr. Au Peter Jeva *	(appointed on 26 May 2005)	4/14
Mr. Chan Wai Kin, Benito	(appointed on 25 January 2005 and retired on 24 June 2005)	5/14
Mr. Tse Chung Sing	(appointed on 25 January 2005 and retired on 24 June 2005)	6/14
Mr. Wong Chor Sang	(resigned on 24 June 2005)	7/14
Mr. Kwok Kee Ho, Danny	(retired on 24 June 2005)	7/14
Mr. Wong Chor Wo	(resigned on 21 February 2005)	0/14
Ms. Andres Rosita	(resigned on 21 February 2005)	0/14
<i>Non-executive directors</i>		
Mr. Chau Wai-Kau	(appointed on 26 May 2005)	4/14
Mr. Yeung Ting-Lap Derek Emory	(appointed on 26 May 2005)	4/14
Mr. Greer Thomas *	(appointed on 26 May 2005)	1/14
Mr. Li Wentao	(appointed on 23 September 2005)	0/14
<i>Independent non-executive directors</i>		
Dr. Loke Yu	(appointed on 24 June 2005)	2/14
Dr. Leung Kwan-Kwok	(appointed on 26 May 2005)	0/14
Mr. Zuchowski Sam	(appointed on 26 May 2005)	1/14
Mr. Yue Kwai Wa, Ken	(appointed on 25 January 2005 and retired on 24 June 2005)	3/14
Mr. Chan Sheung Kwan	(resigned on 24 June 2005)	3/14
Mr. Yang Xi	(retired on 24 June 2005)	1/14

* Subsequent to the balance sheet date, on 1 January 2006, Mr. Au Peter Jeva and Mr. Greer Thomas resigned as directors of the Company.

The low attendance of the directors was due to the change of management during the year.

The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are followed. She also keeps detailed minutes of each meeting, which are available to all directors. A draft of the minutes is circulated to all directors for comment and approval as soon as practicable after the meeting.

Corporate Governance Report

All directors have access to relevant and timely information, and they can ask for further information or retain independent professional advisors if necessary. They also have unrestricted access to the advice and service of the Company Secretary, who is responsible for providing directors with board papers and related materials and ensuring that board procedures are followed.

Should a potential conflict of interest involving a substantial shareholder or director arise, the matter is discussed in an actual meeting, as opposed to being dealt with by written resolution. Independent non-executive directors with no conflict of interest are present at meetings dealing with conflict issues. Board committees, including the Audit, Remuneration and Nomination Committees, all follow the applicable practices and procedures used in board meetings for committee meetings.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman and the Chief Executive Officer are held by separate individuals so as to maintain an effective segregation of duties. Mr. Lo Peter is the Chairman of the Company and provides leadership to the board to ensure that the board works effectively and all important issues are discussed in a timely manner. Mr. Sun David Lee is the Chief Executive Officer of the Company and is responsible for supervising the implementation of the Group's strategic plans.

DIRECTORS' TERMS OF APPOINTMENTS AND RE-ELECTION

In accordance with article 116 of the Company's articles of association, one-third of the directors, including the non-executive directors, shall retire from office by rotation at each annual general meeting.

Article 99 of the Company's articles of association provides that directors appointed to fill a casual vacancy shall hold office only until the first annual general meeting after their appointment, and shall be subject to re-election by the shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

On 15 September 2005, the Group adopted a code on ethics and securities transactions, which incorporates a code of conduct regarding directors' securities transaction on terms no less exacting than the required standard set out in Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules. Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to the compliance with the code. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the code on ethics and securities transactions throughout the year.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The board is responsible for presenting a clear, balanced assessment of the Group's performance and prospects. It is also responsible for preparing accounts that give a true and fair view of the Group's financial position on a going-concern basis and other price-sensitive announcements and financial disclosures. Management provides the board with the relevant information it needs to discharge these responsibilities.

The responsibilities of the auditors to the shareholders are set out in the Report of the Auditors on pages 19 and 20.

Corporate Governance Report

REMUNERATION COMMITTEE

The Remuneration Committee was established on 15 September 2005 with written terms of reference in compliance with the Code. It is responsible for formulating and recommending remuneration policy to the board and determining the remuneration of executive directors and members of senior management. Meetings of the Remuneration Committee shall be held at least once a year. At 31 December 2005, the Remuneration Committee comprised one executive director, Mr. Lo Peter, and two independent non-executive directors, Mr. Zuchowski Sam and Dr. Loke Yu. Mr. Zuchowski Sam is the chairman of the committee. Due to the change of management and the fact that the committee was only constituted on 15 September 2005, no meeting of the Remuneration Committee had been held during the year.

NOMINATION COMMITTEE

The Nomination Committee was established on 15 September 2005 with written terms of reference in compliance with the Code. It is responsible for making recommendations to the board on nominations, appointment of directors and board succession. Meetings of the Nomination Committee are held as and when required. At 31 December 2005, the Nomination Committee comprised one executive director, Mr. Lo Peter, and two independent non-executive directors, Mr. Zuchowski Sam and Dr. Loke Yu. Mr. Zuchowski Sam is the chairman of the committee. Due to the change of management and the fact that the committee was only constituted on 15 September 2005, no meeting of the Nomination Committee had been held during the year.

AUDIT COMMITTEE

The Company has had an Audit Committee since 2001. The Audit Committee is responsible for reviewing the Group's financial reporting, internal controls and making recommendations to the board. At 31 December 2005, the Audit Committee comprised three independent non-executive directors, Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Zuchowski Sam. Dr. Loke Yu is the chairman of the committee.

For the year ended 31 December 2005, there were two meetings held by the Audit Committee to review with external auditors the external audit findings, the accounting principles and practices adopted by the Group, and Listing Rules and statutory compliance, and to discuss auditing and financial reporting matters for the annual financial statements for 2004 and interim financial statements for 2005 before recommending them to the board for approval. The attendance is as follows:

		Number of attendance
<i>Independent non-executive directors</i>		
Dr. Loke Yu	(appointed on 24 June 2005)	1/2
Dr. Leung Kwan-Kwok	(appointed on 26 May 2005)	0/2
Mr. Zuchowski Sam	(appointed on 26 May 2005)	1/2
Mr. Yue Kwai Wa, Ken	(appointed on 25 January 2005 and retired on 24 June 2005)	1/2
Mr. Chan Sheung Kwan	(resigned on 24 June 2005)	1/2
Mr. Yang Xi	(retired on 24 June 2005)	1/2

Corporate Governance Report

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors, RSM Nelson Wheeler, is set out as follows:

	Fee paid/payable HK\$'000
Audit services	780
Non-audit services	
Accountants' report on acquisition of a subsidiary	750
Rights issue	81
Takeover	61
Taxation services	50
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	1,722

INTERNAL CONTROL

According to the press release of the Independent Commission Against Corruption ("ICAC") and press reports on 24 November 2004, the former chairman of the Company, Mr. Wong Chor Wo, had been arrested by the ICAC and was charged with (i) misappropriating Company's funds totalling HK\$20.8 million and (ii) knowingly making a false statement to the Company's former auditors, PricewaterhouseCoopers, contrary to Section 134 of the Hong Kong Companies Ordinance (the "Incident"). Several persons including two former executive directors and one employee of the Company had also been arrested but all of them were later released without charge. Mr. Wong and the two former executive directors subsequently resigned in late 2004 and early 2005.

In the light of the Incident, in January 2005, the Group has prepared an Internal Control and Accounting Manual (the "Manual") for adoption by the Group so as to enhance its internal control. This Manual was prepared by the Accounts Manager of the Group in conjunction with the legal advisers and is a set of best practices related to internal financial control systems and regulation. The areas covered include accounting controls and administrative controls. Administrative controls deal with the operations of the business and internal controls deal with accounting for such operations. On 19 January 2005, HLB Hodgson Impey Cheng ("HLB"), certified public accountants, were appointed to review, supervise and monitor its implementation and to see whether there are any compliance shortcomings and to advise the independent board committee. On 22 February 2005, the Group formed an Independent Committee comprising all of the independent non-executive directors to conduct a review of the financial and system control of the Group.

In mid April 2005, the Company experienced a change of substantial and controlling shareholders, following which, there was a change of management in late May 2005.

Corporate Governance Report

Following the change of the management, the new management has devoted time to improving the Company's internal control and accounting procedures. Periodic announcements were made to update the shareholders on HLB's findings and the review results of the Independent Committee. According to HLB's latest findings as announced on 21 February 2006, there were still some areas in which the Company's internal controls were found to be deficient. The board believe that most of the weaknesses identified by HLB can be rectified through the strict adoption of the practices and standards set out in the Manual, the implementation of HLB's recommendations as well as regular review and monitoring of the internal control systems in the future. Regarding the review conducted by the Independent Committee, as to whether the Company had kept proper books and records at the relevant time and whether Company funds had indeed been misappropriated, the Independent Committee is unable to form any conclusive opinion as the review was subject to significant limitations, namely, that (i) the accounting staff of the Group at the relevant time are no longer employees of the Group, and, accordingly, were unavailable for comment; (ii) a substantial part of the documents for 2001 were seized by the ICAC; and (iii) the Independent Committee has limited investigative powers.

The new management understands that the board has overall responsibility for maintaining sound and effective internal controls. Continuous review of the Group's internal control system will be conducted so as to safeguard the Group's assets and shareholders' interests.

COMMUNICATION WITH SHAREHOLDERS

The Group follows a policy of disclosing relevant information to shareholders in a timely manner. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual general meeting ("AGM") provides a forum for shareholders to exchange views directly with the board. The Company regards the AGM as an important event and all directors, senior management and external auditors make an effort to attend the AGM of the Company to address shareholders' queries. All the shareholders of the Company are given a minimum of 21 days' notice of the date and venue of the AGM of the Company. The Company supports the Code's principle to encourage shareholders' participation.