

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") is of the view that corporate governance is vital to the continued success of the Company and has therefore adopted various measures to ensure that a high standard of corporate governance is upheld. With effect from 1st January, 2005, the Company has applied the principal and complied with the requirements of the Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "SEHK") save and except certain deviations as more specifically described below. The current practices will be reviewed and updated regularly so that the latest development in corporate governance can be followed and observed.

DIRECTORS

Directors' Securities Transactions

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

Board of Directors

The Board comprises:

| | | |
|--|---|---|
| <i>Executive Directors</i> | : | Mr. FU Wai Chung Ms. NG Wan Ms. FU Man Mr. LO Yat Fung |
| <i>Independent Non-executive Directors</i> | : | Mr. LAM King Pui Mr. NG Keung Mrs. WONG LAW Kwai Wah, Karen |

Each independent non-executive director gives an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 3.13 of the Listing Rules.

During the financial year ended 31st December, 2005, ten Board meetings were held and the attendance of each director is set out as follows:

| Name of director | Number of Board meetings attended in the financial year ended 31st December, 2005 | Attendance rate |
|--|---|--------------------------------|
| Mr. FU Wai Chung | 10 | 100% |
| Ms. NG Wan | 10 | 100% |
| Ms. FU Man | 10 | 100% |
| Mr. LO Yat Fung | 10 | 100% |
| Mr. LAM King Pui | 9 | 90% |
| Mr. NG Keung | 9 | 90% |
| Mrs. WONG LAW Kwai Wah, Karen (appointed on 30th June, 2005) | 6 | 100% during appointment period |
| Mr. TSAO Kwong Yung, Peter (deceased on 5th June, 2005) | 3 | 100% during appointment period |

Corporate Governance Report

The Board is responsible for the types of decision relating to the following aspects:

- formulation of operational and strategic direction of the Company;
- monitoring the financial performance of the Company
- overseeing the performance of the management;
- ensuring a prudent and effective framework of internal control is in place to enable risks to be assessed and managed; and
- setting the Company's values and standards.

while daily operation and administration are delegated to the management.

The Board held meetings from time to time whenever necessary. Minutes of every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes at the following Board meeting. The Board also ensure that it is supplied in a timely manner with the agenda and all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

Chairman and Chief Executive Officer

Mr. Fu Wai Chung ("Mr. Fu") is the chairman and co-founder of the Company. Mr. Fu has extensive experience in the industry which is beneficial and of great value to the overall development of the Company.

The Company has no such title as chief executive officer and therefore the daily operation and management of the Company is looked after by the executive directors as well as the senior management under the leadership of Mr. Fu.

The Board is of the view that although there is no chief executive officer, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals and meet from time to time to discuss issues affecting operation of the Company.

Ms. Ng Wan is the spouse of Mr. Fu and Ms. Fu Man is the sister of Mr. Fu.

Appointment and Re-election of Directors

Each executive director is appointed for an initial term which is renewable automatically each year. All independent non-executive directors are appointed for a specific term which may be extended as each director and the Company may agree in writing. However, they are appointed subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provision of the Articles of Association of the Company (the "Articles of Association").

According to the Articles of Association, one-third of the directors for the time being (save and except chairman of the Board and/or the managing director whilst holding such office) shall retire from office by rotation at each annual general meeting and any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall retire and be subject to re-election. The above practice deviates from the provision A.4.2 of the Code which requires all directors appointed to fill casual vacancy be subject to re-election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years. Having reviewed the relevant Articles of Association, the Board proposed to put forth a special resolution in the coming annual general meeting to amend the Articles of Association to comply with the said code provision.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 21st September, 2005 comprising the three independent non-executive directors. Mr. LAM King Pui is the chairman of the Remuneration Committee.

According to the terms of reference of the Remuneration Committee, its major roles and functions are as follows:

- (1) To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing policy on such remuneration.
- (2) To have the delegated responsibility to determine the specific remuneration package for all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of independent non-executive directors. The Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remunerations.
- (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.
- (5) To review and approve compensation arrangement 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.
- (6) To ensure that no director or any of his associate is involved in deciding his own remuneration.

A meeting of the Remuneration Committee, which was well attended by all members of the Remuneration Committee, was held in the year 2005 and various issues concerning the compensation structure and reward system for all grades of staff were discussed.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, the Board has prepared the financial statements on a going concern basis.

The responsibility of the external auditors is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion solely to the shareholders of the Company, as a body, and for no other purpose. A statement by the auditors about their reporting responsibility is set out on page 21 of this Annual Report.

The management of the Company reports regularly to the Board on the financial position and prospects of the business of the Company to enable the Board to make an informed assessment of the financial and other performance of the Company.

Corporate Governance Report

Internal Control and Risk Management

The Board is responsible for overseeing the Company's system of internal control.

To facilitate the effective and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasizes on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. The Group's system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of the business objectives.

The internal control system is reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board.

The Board has conducted review of the effectiveness of the system of internal control and is of the view that the system of internal control adopted for the year ended 31st December, 2005 is sound and is effective to safeguard the interests of the shareholders' investment and the Company's assets.

Audit Committee

The audit committee of the Company (the "Audit Committee") comprises the three independent non-executive directors. Mr. LAM King Pui, the chairman of the Audit Committee, has professional qualifications and in-depth experience in accounting and related financial management expertise. No member of the Audit Committee is a member of the former or existing auditors of the Company.

According to the existing terms of reference of the Audit Committee, its major roles and functions are, amongst others, to consider the appointment of the external auditors, the audit fee, and any questions of resignation or dismissal of the external auditors; to review the half-year and annual financial statements before submission to the Board and to consider major findings of internal investigations and management's response.

The Audit Committee held four meetings in 2005, which were attended by all audit committee members.

At the meetings held during the year, in performing its duties in accordance with its terms of reference, the work performed by the Audit Committee included reviewing and supervising the financial reporting process and internal control system of the Company and its subsidiaries and reviewing the financial statements for the relevant period with reference to the scope of the terms of reference.

Auditors' Remuneration

During the financial year ended 31st December, 2005, the remuneration paid to the Company's joint auditors, Deloitte Touche Tohmatsu and Zhong Yi (Hong Kong) C.P.A. Company Limited, is set out as follows:

| Services rendered | Fees paid/payable (HK\$'000) |
|--------------------|---------------------------------|
| Audit services | 1,120 |
| Non-audit services | 13 |
| | <hr/> 1,133 |