

Corporate Governance Report

The Group is dedicated to maintaining a credible framework of corporate governance with a view to being transparent, open and accountable to our shareholders.

On 1 January 2005, the Code of Best Practices was replaced by the Code on Corporate Governance Practices (“the Code”) contained in Appendix 14 of the Listing Rules. The Company adopted all the code provisions in the Code as its own code on corporate governance practices.

The Company has complied with code provisions as set out in the Code with the exception of code provision A.2.1 that an individual chief executive officer is not appointed during the year ended 31 December 2005. The Board considers that based on the existing size and structure of the Company, the appointment of an individual chief executive officer of the Company is not necessary. Furthermore, the Company has engaged Hua Yu as its investment manager.

THE BOARD

Composition

The Board consists of four executive directors, two non-executive directors and three independent non-executive directors (“INED(s)”). All of the INEDs have the appropriate professional accounting experience and expertise. The names and biographical details of each director are disclosed on pages 6 to 8 of this Annual Report.

Each INED has, pursuant to the guidelines set out in rule 3.13 of the Listing Rules, confirmed he/she is independent of the Company and the Company also considers that they are independent. The term of office of each INED is not more than three years from date of appointment subject to the requirement that one-third of all the directors shall retire from office by rotation at each AGM pursuant to the Bye-Laws of the Company.

Mr. Zhou Chao, Chairman and executive director of the Company, is the brother-in-law of Ms. Huang Song, executive director of the Company. Save as aforesaid, there is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

Function

The Board is responsible both for how the Company is managed and the Company’s direction. Approval of the Board is required for the strategy of the Group, major acquisition and disposal, major capital investment, dividend policy, appointment and retirement of directors, remuneration policy and other major operational and financial matters.

Corporate Governance Report

The Board held twelve regular monthly Board meetings during the year 2005. Additional board meetings were held when necessary. Due notice and board papers were given to all directors prior to the meeting in accordance with the Listing Rules and the Code. Details of individual attendance of directors are set out in the table below:

Attendance of individual directors at Board meetings in 2005

Number of meetings	42
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Executive Directors

Zhou Chao (Chairman) (appointed on 1 June 2005)	12/42
Huang Song (appointed as Non-executive directors on 7 July 2005 and re-designated as executive director on 16 September 2005)	16/42
Phang Yul Cher Yeow (appointed on 20 July 2004)	34/42
Chu Kin Wang, Peleus (appointed on 16 September 2005)	9/42
Tsun Kok Chung, Richard (appointed on 7 March 2005 and resigned on 1 November 2005)	9/42
Wong Fong Kim (former Chairman) (not being re-elected at the AGM on 24 May 2005)	0/42
Tham Ming Yong (resigned on 7 July 2005)	22/42
Tai Ah Lam, Michael (resigned on 16 Sep 2005)	2/42

Non-Executive Directors

Fong Chi Hou (appointed on 1 November 2005)	1/42
Wang Yao Dong (appointed on 1 November 2005)	4/42
Cui Zan Ming (appointed on 7 March 2005 and resigned on 31 May 2005)	2/42

INEDs

Lam Lin Chu (appointed on 4 April 2005)	5/42
Liu Wing Ting, Stephen (appointed on 7 July 2005)	4/42
Tse Po Chu (appointed on 16 September 2005)	4/42
Wong Wing Hang, Henry (resigned on 31 March 2005)	4/42
Chang Kin Man (did not offer himself for re-election at the AGM on 24 May 2005)	5/42
Wong Yun Kuen, Edward (resigned on 7 July 2005)	5/42
Hsieh Dominick (resigned on 16 September 2005)	3/42

The Board has established procedures to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense.

BOARD COMMITTEES

To strengthen the functions of the Board and to enhance its expertise, there are three Board committees namely, the Audit Committee, Remuneration Committee and Nomination Committee formed under the Board, with each performing different functions.

Corporate Governance Report

AUDIT COMMITTEE

The Audit Committee comprises three INEDs.

The role and function of the Audit Committee include:

- to serve as a focal point for communication between other directors and the auditors in respect of the duties relating to financial and other reporting, internal controls, audits, and such other matters as the Board may determine from time to time.
- to review the appointment of auditors on an annual basis including the review of the audit scope and approval of the audit fees.
- to review the annual and interim financial statements prior to their approval by the Board, and recommend application of accounting policies and changes to the financial reporting requirements.
- to assist the Board in fulfilling its responsibility by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group and the adequacy of the audits.

Set out below is the summary of work done in year 2005:

- to review of the financial statements for the year ended 31 December 2004 and for the six months ended 30 June 2005; and
- to review of the effectiveness of the internal controls system.

The Audit Committee held three meetings during the year. Details of individual attendance of its members are set out in the table below:

Attendance of individual members at Audit Committee meetings in 2005

Number of meetings	3
INEDs	
Lam Lin Chu	3/3
Liu Wing Ting, Stephen (Chairman of Audit Committee)	2/3
Tse Po Chu	2/3
Chang Kin Man	1/3
Hsieh Dominick	1/3
Wong Yun Kuen, Edward	1/3

Corporate Governance Report

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee, comprising three INEDs and the Chairman of the Company, which meets at least once a year. The role and function of the Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the directors.

Set out below is the summary of work of the Remuneration Committee done in year 2005:

- to review of the remuneration policy for 2005/2006; and
- to review of the remuneration of the executive directors and the INEDs.

The Remuneration Committee held one meeting during 2005. Details of individual attendance of its members are set out in the table below:

Attendance of individual members at Remuneration Committee meetings in 2005

Number of meetings	1
Lam Lin Chu	1/1
Liu Wing Ting, Stephen (Chairman of Remuneration Committee)	1/1
Tse Po Chu	1/1
Zhou Chao	1/1

NOMINATION COMMITTEE

The Board has established a Nomination Committee, comprising three INEDs and the Chairman of the Company, which meets at least once a year. The role and function of the Nomination Committee include reviewing the structure, size and composition of the Board, to assess the independence of INEDs and recommend to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors.

Set out below is the summary of work of Remuneration Committee done in year 2005:

- to review the nomination policy for 2005/2006; and
- to review of the suitability and qualifications of the executive directors, non-executive directors and the INEDs.

The Nomination Committee held one meeting during 2005. Details of individual attendance of its members are set out in the table below:

Corporate Governance Report

Attendance of individual members at Nomination Committee meetings on 2005

Number of meeting	1
Lam Lin Chu (Chairman of Nomination Committee)	1/1
Liu Wing Ting, Stephen	1/1
Tse Po Chu	1/1
Zhou Chao	1/1

OTHER INFORMATION

Please refer to Directors' report in page 10 to 16 for changes of directors during 2005. There was no removal of director during the year.

The Company had not established its own website. Full text of the terms of reference of Audit Committee, Remuneration Committee and Nomination Committee will be supplied upon request.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the codes of conduct regarding securities transactions by directors and by relevant employees (as defined in the Code). All directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year 2005.

AUDITORS' REMUNERATION

During the year, the fees paid to the Company's auditors amounted to HK\$120,000 in respect of audit services.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include AGM, annual report, various notices, announcements and circulars. Procedure for voting by poll has been included in circular of the Company accompanying notice convening general meeting and has been read out by the Chairman at the general meeting.

DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The directors acknowledge that it is their responsibilities in preparing the Financial Statements. The statement of the auditors about their reporting responsibilities on the Financial Statements is set out in the Auditors' Report on page 22.