

Corporate Governance Report

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which became effective on 1 January 2005 as its own code of corporate governance practices. In the opinion of the Directors, the Company has met the code provisions set out in the CG Code for the year ended 31 December 2005, except for the deviation from provision E.1.2 in respect of the Chairman of the Board to attend the annual general meeting of the Company. The Directors will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making process are regulated in a proper and prudent manner.

CORPORATE GOVERNANCE PRACTICES

A Directors

A.1 The Board

The Board should assume responsibility for leadership and control of the Company, direct and supervise the Company's affairs. During the financial year ended 31 December 2005, the Board held eight meetings.

The attendance of the Directors at the board meetings are as follows:

	Attendance
Executive Directors:	
Lam Yat Keung	7/8
Lam Hung Kit	7/8
Lam Pik Wah	8/8
Independent non-executive Directors:	
Lo Wah Wai	2/8
Ho Chi Fai	2/8
Pai Te-Tsun	1/8

All Directors are given an opportunity to include matters in the agenda for regular board meetings. Notices of 14 days are given of a regular meeting and reasonable notices are given for other meetings. The Directors have access to the advice and services of the Company Secretary and agreed procedure for them to seek independent professional advice at the Company's expenses. Minutes of the board meetings in sufficient details are being kept by the Company Secretary and open for inspection by the Directors.

In case a substantial shareholder or a Director has a conflict of interest in a material matter, a board meeting should be held and such Director must abstain from voting and not be counted in quorum.

A.2 Chairman and Chief Executive Officer ("CEO")

A clear division of responsibilities helps to ensure a balance of power and authority, as a result the role of the President (i.e. the "Chairman" in the CG Code) and the CEO are separated. Mr. Lam Yat Keung has been appointed President of the Company to manage the Board while Mr. Lam Hung Kit has been appointed CEO to assume the responsibilities in the day-to-day management of the Company's business.

The President has briefed all Directors on issue arising at the board meetings and ensured that all Directors have received adequate information in a timely manner.

A.3 Board Composition

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company and a balanced composition of executive and non-executive directors which can effectively exercise independent judgment. The Independent Non-executive Directors, representing half of the Board, are expressly identified in all corporate communications.

The executive Directors of the Company have family relationship with one and other. Ms. Lam Pik Wah is the wife of Mr. Lam Yat Keung (the President) and she is the elder sister of Mr. Lam Hung Kit (the Chief Executive Officer).

A.4 Appointments, Re-election and Removal

The Company has established a formal, considered and transparent procedure for the appointment of new directors to the Board. According to the Bye-law of the Company, one-third of the Directors (including the Independent non-executive Directors) shall retire from office by rotation at each annual general meeting. That means that a Director's specific term of appointment cannot exceed three years.

Corporate Governance Report

A.5 Responsibilities of Directors

Every Director is required to keep abreast of his responsibilities, conduct, business activities and development of the Company. In case there is newly appointed director, a comprehensive, formal induction will be given to ensure that he has a proper understanding of the business and his responsibilities.

The non-executive Directors are required to bring an independent judgment at board meetings; take the lead where potential conflicts of interest arise; serve on committees if invited; and scrutinize the Company's performance. Every Director should ensure that he can give sufficient time and attention to the affairs of the Company.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company (the "Model Code"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standard as set out in the Model Code for the year ended 31 December 2005.

A.6 Supply of and Access to Information

An agenda of the board meeting is sent to Directors at least 3 days before the intended date of a meeting and they have separate and independent access to the Company's senior management to supply adequate information as board papers and related material and for them to make an informed decision.

B. Remuneration of Directors and Senior Management

B.1 The Level and Make Up of Remuneration and Disclosure

The Company has established a Remuneration Committee with specific written terms of reference. All the Independent Non-executive Directors and the CEO are the members of the committee and Mr. Lo Wah Wai was elected chairman of the committee. The purpose of the committee is to set out its recommendation on the remuneration package of the executive Directors. The Committee has met in 2005 to review and recommend the remuneration package of the executive Directors and senior management.

C. Accountability and Audit

C.1 *Financial Reporting*

The management has regularly provided 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 for preparing the financial statements and presenting a balance, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules and reports to regulators.

C.2 *Internal Control*

The Directors conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries. The review covered all material controls, including financial, operational and compliance controls and risk management functions.

C.3 *Audit Committee*

Currently, all members of the Audit Committee are Independent Non-executive Directors of the Company and Mr. Lo Wah Wai was elected chairman of the committee.

A clear terms of reference of the Audit Committee has been established in regarding the recommendation to the Board for appointment, removal of the Company's external auditors. Apart from monitoring the integrity of financial statements, the committee also review significant financial reporting judgments on the Company's annual reports and interim reports and overseeing the Company's financial reporting system and internal control procedures.

During the financial year 2005, two meetings were held and all the members have attended the meetings. Full minutes of the meetings are being kept by the Company Secretary after receiving comments from the members on the draft. The committee had also held a meeting with the Company's external auditors during the year.

The amount of external auditors' remuneration has been disclosed in Note 8 to the financial statements.

The committee has recommended to the Board that the shareholders be asked to re-appoint BDO as the Group's external auditors for 2006.

D. Delegation by the Board

D.1 Management Function

A clear direction to management is given as to the matters that must be approved by the Board before decisions are made on behalf of the Company. The daily operation of the Company is delegated to the Management, with division heads responsible for different aspects of the business. Major corporate matters that require Board decision includes long-term objectives and strategies; extension of group activities into new business areas; implementation of adequate systems of internal control and risk management procedures and compliance with relevant statutory requirements and rules and regulation.

D.2 Board Committees

The Company currently has two Board Committees, the Audit Committee and the Remuneration Committee. All Board Committees have clear and specific written terms of reference and they report their work to the Board after each meeting.

E. Communication with Shareholders

E.1 Effective Communication

Separate resolution has been proposed by the chairman of that meeting in respect of each substantially separate issue at a general meeting.

The President of the Board did not attend the Annual General Meeting in 2005 due to the fact that he was not in Hong Kong on that date. The President is aware that it deviated from the provision E.1.2 of the CG Code which stipulates that the President should attend the annual general meeting of the Company. However, the President has asked the CEO to act on behalf and be available to answer questions at the meeting.

E.2 Voting by Poll

The Company has informed the shareholders in its circular convening a general meeting the procedures for and the rights of shareholders to demand a poll and the chairman of a meeting has at the commencement of the meeting ensure that an explanation is provided of the procedure demanding a poll and the detailed procedures for conducting a poll.

The Company should count all proxy votes and except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company should also ensure that votes cast are properly counted and recorded.