

## CORPORATE GOVERNANCE REPORT

This Corporate Governance Report is issued pursuant to Appendix 23 of the Listing Rules.

The Board of Directors is pleased to report that throughout the year up to 31st December, 2004 (i.e., the date the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules replaced the Code of Best Practice), the Company was in compliance with the Code of Best Practice as set out in the then Appendix 14 of the Listing Rules.

To further improve the overall standards of corporate governance of listed issuers, the Stock Exchange introduced the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code") in replacement of the Code of Best Practice, which became effective from 1st January, 2005. The Board responded promptly in early 2005 and took appropriate actions to improve the Company's corporate governance practices so as to comply with the Code.

The corporate governance practices of the Group are in substantial compliance with the principles of the Code. In particular, the Group has ensured that:

- the appointment to and the composition and operation of the board of Directors;
- the remuneration of Directors and senior management;
- accountability and audit;
- delegation by the Board; and
- communication with shareholders,

are in compliance with the Code.

The following detailed discussion sets out the manner by which the Group has met with the Mandatory Disclosure Requirements of the Code from 1st January, 2005 up to 31st March, 2005.

### **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has, upon listing, adopted a code of conduct rules (the "Model Code") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules, and that having made specific enquiry of all Directors, the Company confirms that all the Directors have complied with the Model Code.

**BOARD OF DIRECTORS**

The board of Directors (the "Board") comprises of seven members, of which four members are executive Directors and three members are independent non-executive Directors. Biographical details of the Directors are set out on page 8 of this Annual Report.

The Board supervises the management of the business and affairs of the Group. It has established self-regulatory and monitoring mechanisms to ensure that effective corporate governance is practiced. The Board oversees the Group's overall strategic plans, approves major funding and investment proposals and reviews the financial performance of the Group.

The Board meets regularly and additional meetings are convened when deemed necessary by the Board. Board members are provided with complete, adequate and timely information to allow the Directors to fulfill their duties properly.

The Chairman and Managing Director of the Company perform separate functions to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The Chairman is the father of the Managing Director. Both gentlemen are relatives of the other two executive Directors, Mr. Lin Chick Kwan and Mr. Lin Wing Chau. Save and except for these relations, the Directors are not otherwise related to each other.

**DIRECTORS' ATTENDANCE AT BOARD AND AUDIT COMMITTEE MEETINGS**

| <b>Directors</b>          | <b>Board Meetings</b> | <b>Audit Committee Meetings</b> |
|---------------------------|-----------------------|---------------------------------|
| Mr. Cheng Chi Tai         | 4/5                   | N/A                             |
| Mr. Cheng Kwai Chun, John | 5/5                   | 2/2                             |
| Mr. Lin Chick Kwan        | 2/5                   | N/A                             |
| Mr. Lin Wing Chau         | 2/5                   | N/A                             |
| Ms. Ko Hay Yin, Karen     | 2/5                   | 2/2                             |
| Mr. Chow Chan Lam         | 3/5                   | 2/2                             |
| Ms. Ho Man Yee, Esther    | 2/5                   | 2/2                             |

## BOARD COMMITTEES

### Nomination Committee

The Nomination Committee was formed on 23rd March, 2005. The terms of reference of the Nomination Committee include making recommendations for all appointment and re-appointment of Directors to the Board. It comprises of four members, three of whom are independent non-executive Directors. The members are:

Ms. Ko Hay Yin, Karen (*independent non-executive Director*)  
Mr. Chow Chan Lum (*independent non-executive Director*)  
Ms. Ho Man Yee, Esther (*independent non-executive Director*)  
Mr. Cheng Kwai Chun, John (*executive Director*)

The Nomination Committee has established a formal and transparent process for the Company in the appointment of new Directors and re-nomination and re-election of Directors at regular intervals. It is also responsible for determining the independence of each Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board. In evaluating the Board's performance, the Nomination Committee considers a number of factors, including those set out in the Code.

In accordance with the Company's Bye-laws, one-third of the Directors will retire from office at the Company's annual general meeting. Ms. Ko Hay Yin, Karen and Mr. Chow Chan Lum will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election. None of the independent non-executive Directors has served as Directors for more than five years.

### Remuneration Committee

The Remuneration Committee was formed on 23rd March, 2005. The Remuneration Committee consists of a majority of independent non-executive Directors and its members are:

Ms. Ko Hay Yin, Karen (*independent non-executive Director*)  
Mr. Chow Chan Lum (*independent non-executive Director*)  
Ms. Ho Man Yee, Esther (*independent non-executive Director*)  
Mr. Cheng Kwai Chun, John (*executive Director*)

The Remuneration Committee is charged with the responsibility of determining the specific remuneration packages of all executive Directors and senior management, including benefits-in-kind, pension rights, and compensation payments, and to advise the Board on the remuneration of the independent non-executive Directors. In developing remuneration policies and making recommendation as to the remuneration of the Directors and key executives, the Remuneration Committee takes into account of the performance of the Group as well as those individual Directors and key executives.

## ACCOUNTABILITY AND AUDIT

The Directors have acknowledged by executing a management representation letter with the Auditors that they bear the ultimate responsibility of preparing the financial statements of the Group.

## AUDIT COMMITTEE

The Audit Committee was formed on 9th November, 2001 to review and supervise the financial reporting process and internal control of the Company. The Audit Committee comprises of three members, all of whom are independent non-executive Directors. The members are:

Ms. Ko Hay Yin, Karen  
Mr. Chow Chan Lum  
Ms. Ho Man Yee, Esther

The Audit Committee has reviewed with management and auditors of the Company the accounting principles and practices adopted by the Group and discussed the audited financial statements for the year ended 31st March, 2005.

The amount of audit fee for the year ended 31st March, 2005 was HK\$638,000 (2004: HK\$696,000). The amount of non-audit fees payable to the auditors of the Company for the year ended 31st March, 2005 was HK\$20,000 (2004: HK\$10,000). The Audit Committee is of the view that the auditors' independence was not affected by the provision of these non-audit related services.

The Audit Committee has recommended to the Board of Directors that Deloitte Touche Tohmatsu, *Certified Public Accountants*, be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

## INTERNAL CONTROLS

Management had implemented a system of internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purposes and investment and business risks affecting the Group are identified and managed.

The Board reviews the effectiveness of the Group's material internal controls. 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.

## SHAREHOLDERS' RIGHTS

The Company is in regular and effective communication with shareholders. It strives for timeliness and transparency in its disclosures to the shareholders and the public.

Shareholders are given the opportunity to participate and vote in shareholders' meetings. According to Bye-law 58 of the Bye-laws of the Company, shareholders holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to require a special general meeting to be called by the Board.