

## CORPORATE GOVERNANCE REPORT

### CODE OF BEST PRACTICE AND CODE ON CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the "Board") is committed to maintaining high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, maintain high standards of accountability and protect shareholders' interests in general.

The Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited was replaced by the Code on Corporate Governance Practices (the "Code") which has become effective for accounting periods commencing on or after 1 January 2005, with the exception for those relating to internal controls which will be implemented for accounting periods commencing on or after 1 July 2005.

The Company has complied with the Code throughout the year ended 31 December 2005 except the following:

- (a) Under the Code Provisions A.4.1 and A.4.2, Non-executive Director should be appointed for a specific term and every Director should be subject to retirement by rotation at least once every three years. The existing Non-executive Directors of the Company were not appointed for a specific term but are subject to retirement by rotation in accordance with the Company's existing Articles of Association (the "Articles of Association").
- (b) According to the Articles of Association, not exceeding one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting and the Directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. The appointment of Non-executive Directors and the Articles of Association do not comply fully with the Code Provisions.

The Company and the Independent Non-executive Directors have entered into service agreements for a thirty-six month period in December 2005. In addition, a special resolution has been proposed at the Company's forthcoming annual general meeting for amendments to be made to the Articles of Association in order to comply with the Code Provisions.

### MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

### BOARD OF DIRECTORS

The Board comprises eleven members, including Chairman, Deputy Chairman (who is also the Chief Executive Officer), six Executive Directors and three Independent Non-executive Directors. Biographical details of the Directors are set out in the section of Directors and Senior Management Profiles on pages 19 to 21.

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The Board is responsible for approving and monitoring the Group's strategies and policies, approval of annual budgets and business plans, reevaluating the performance of the Group and supervising the work of management. The management is responsible for the daily operations of the Group under the leadership of the Chief Executive Officer.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. The Board follows the requirements set out in the Listing Rules to determine the independence of Directors. The Company has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and considers the Independent Non-Executive Directors to be independent.

The roles of the Chairman and the Chief Executive Officer are segregated in order to reinforce their independence and accountability. Mr. Xu Da Zuo, an Executive Director, is a cousin of Mr. Hui Lin Chit, the Chief Executive Officer and a substantial shareholder. Save as disclosed above, the Directors are not otherwise related to each other.

### REMUNERATION COMMITTEE

The Remuneration Committee was formed in July 2005. The Remuneration Committee consists of a majority of Independent Non-executive Directors and its members are:

- Mr. Hui Lin Chit (Chief Executive Officer)
- Mr. Chan Henry (Independent Non-executive Director) — Chairman of the Committee
- Mr. Chu Cheng Chung (Independent Non-executive Director)
- Ms. Ada Ying Kay Wong (Independent Non-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 Non-executive Directors. In developing remuneration policies and making recommendation as to the remuneration of the Directors and senior management, the Remuneration Committee takes into account the performance of the Group as well as individual Directors and key executives.

No Directors can determine their own remuneration package. The Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference which are set out in accordance with the requirements of the Listing Rules. The detail terms of reference of the Committee are published on the Company's website.

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director of the Company for 2005 are showed in Note 13 to the accounts.

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### AUDIT COMMITTEE

The Audit Committee was formed in March 1999 to review and supervise the financial reporting process and internal controls of the Company. The Audit Committee comprises three Independent Non-executive Directors and one of whom possesses the appropriate business and financial experience and skills to understand the accounts of the Group. The Committee is chaired by Ms. Ada Ying Kay Wong and other members are Mr. Chu Cheng Chung and Mr. Chan Henry.

Under its terms of reference, which were prepared and adopted with reference to the Code and "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's interim and annual results, to review the scope, extent and effectiveness of internal controls of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determines is necessary and to perform investigations. The detail terms of reference of the Audit Committee is published on the Company's website.

### DIRECTORS ATTENDANCE AT BOARD, REMUNERATION COMMITTEE AND AUDIT COMMITTEE MEETINGS

| Directors   | Attendance/Number of Meetings Held |                          |                                |
|---|------------------------------------|--------------------------|--------------------------------|
|   | Full Board Meetings                | Audit Committee Meetings | Remuneration Committee Meeting |
| <b>Executive Directors</b>  |                                    |                          |                                |
| Mr. Sze Man Bok ( <i>Chairman</i> )                                     | 4/4                                | N/A                      | N/A                            |
| Mr. Hui Lin Chit ( <i>Vice-chairman &amp; Chief Executive Officer</i> ) | 4/4                                | N/A                      | 1/1                            |
| Mr. Yeung Wing Chun   | 4/4                                | N/A                      | N/A                            |
| Mr. Zhang Shi Pao   | 2/4                                | N/A                      | N/A                            |
| Mr. Hung Ching Shan   | 4/4                                | N/A                      | N/A                            |
| Mr. Xu Da Zuo   | 4/4                                | N/A                      | N/A                            |
| Mr. Xu Chun Man   | 3/4                                | N/A                      | N/A                            |
| Mr. Loo Hong Shing Vincent  | 4/4                                | 2/2                      | N/A                            |
| <b>Independent Non-executive Directors</b>                              |                                    |                          |                                |
| Mr. Chan, Henry   | 4/4                                | 2/2                      | 1/1                            |
| Ms. Ada Ying Kay Wong   | 3/4                                | 2/2                      | 0/1                            |
| Mr. Chu Cheng Chung   | 4/4                                | 2/2                      | 1/1                            |
| Ms. Guan Tao*   | 1/4                                | 1/2                      | N/A                            |

\* Ms. Guan Tao resigned on 4 May 2005.

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### NOMINATION OF DIRECTORS

The Board has established formal and transparent procedures for the appointments of new Directors and re-nomination and re-election of Directors at regular intervals. In accordance with the Company's Articles of Association, one-third of the Directors will retire from office at the Company's annual general meeting. Mr. Chu Cheng Chung, Mr. Zhang Shi Pao and Mr. Xu Da Zuo retire, and being eligible, offer themselves for re-election.

### AUDITORS' REMUNERATION

The amount of audit fee for the year ended 31 December 2005 was HK\$2,837,000. The auditors did not provide any non-audit services to the Company for the year ended 31 December 2005. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the accounts of the Group. With the assistance of the accounting department, which is under the supervision of the Qualified Accountant of the Company, the Directors ensure that the accounts of the Group have been properly prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure that the publication of the accounts of the Group is in a timely manner.

A report of the independent auditors on the Group's accounts is set out in this annual report.

### 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, investment and business risks affecting the Group are identified and managed.

The Group has an independent and subjective internal audit department which critically reviews and monitors all critical aspects of the Group's authorities and its internal controls. The head of internal audit reports to the Board and the Audit Committee on a quarterly basis.

### INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with shareholders and investors: (i) dispatching printed copies of corporate communication documents to shareholders; (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) key information of the Group are available on the website of the Company, (iv) regular press conferences and briefing meetings with investors, shareholders and analysts are set up from time to time on updated information of the Group, and (v) the Company's Registrars serve the shareholders respecting all share registration matters.