

# Corporate Governance Report

The Group is committed to high standards of corporate governance for the enhancement of shareholder value. The Company believes that good corporate governance is not only in the interest of investors but also in the interest of the Company. It is also of the view that good corporate governance is a reflection of the standard and quality of the management and operations of the Company and it also helps sustain the long-term support of shareholders on which the Company's success is dependent upon.

The Company closely monitors corporate governance development in Hong Kong and overseas, and with this objective, it regularly reviews its corporate governance practices in light of experience and evolving regulatory requirements to ensure that the Company keeps abreast of shareholders' expectations. The principles of corporate governance adopted by the Group emphasize a quality board, sound internal control, and transparency and accountability to shareholders.

## Code on Corporate Governance Practices

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices ("Code on CG Practices") contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2005, with deviations from code provisions B.1.1, B.1.3, C.3.3 and D.2.1 of the Code on CG Practices as summarised below.

Under the code provisions B.1.1 and B.1.3 of the Code on CG Practices, a remuneration committee should be set up with specific written terms of reference which should include, as a minimum, the duties specified in code provision B.1.3 of the Code on CG Practices and a majority of the members of the remuneration committee should be independent non-executive directors. Although the remuneration committee of the Company ("Remuneration Committee") was set up in 2000 whose members comprise a majority of Non-executive Directors, there was no written terms of reference. However, during the year, the Company adopted a written terms of reference which includes the terms set out in code provision B.1.3 of the Code on CG Practices for the Remuneration Committee and the members of the Remuneration Committee have been changed so that a majority of the members comprise of Independent Non-executive Directors.

Under the code provision C.3.3 of the Code on CG Practices, the terms of reference of the audit committee shall include at least the duties specified therein. Previously, the terms of reference adopted by the audit committee ("Audit Committee") did not include all the duties specified in code provision C.3.3 of the Code on CG Practices. During the year, the terms of reference of the Audit Committee have been revised so as to comply with the aforesaid code provision.

Under the code provision D.2.1 of the Code on CG Practices, where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly. The Company has established an executive board committee ("Exco Committee"). Previously, the Exco Committee has no written terms of reference. During the year, the Company has adopted a written terms of reference for the Exco Committee.

As at 31 December 2005, the Company was in compliance with all the code provisions set out in the Code on CG Practices.

## Model Code for Securities Transactions by Directors

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

## Board of Directors

The principal duty of the board of directors of the Company ("Board") is to ensure that the Company is properly managed in the interest of shareholders.

The Board, led by the Chairman, is responsible for the formulation of Group wide strategies and policies, including an oversight of the management. Management is responsible for the day-to-day operations of the Group under the leadership of the Executive Directors.

As at 31 December 2005, the Board comprised 11 Directors, including the Chairman, Chief Executive Officer, Chief Financial Officer, 5 Non-Executive Directors and 3 Independent Non-executive Directors. One of the Independent Non-executive Director has appropriate professional qualifications, or accounting or related financial management expertise. Biographical details of the Directors are set out on pages 32 to 33.

For a Director to be considered independent, the Board must determine whether the Director has any direct or indirect material relationship with the Group. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that they are independent.

The position of the Chairman and the Chief Executive Officer are held by separate individuals. The roles of the Chairman are separate from that of the Chief Executive Officer. Such division of responsibilities helps to reinforce their independence and accountability.

The Chairman is responsible for providing leadership to, and overseeing the functioning of, the Board to ensure that the Board acts in the best interest of the Company. To ensure that Board meetings are planned and conducted effectively, the Chairman is primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account, where appropriate, any matters proposed by other Directors for inclusion in the agenda. With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. The Chairman also actively encourages Directors to be fully engaged in the Board's affairs and make contribution to the Board's functions. To this end, the Chairman holds meetings with the Non-executive Directors at least annually without the Executive Directors present. With the support of all other members of the Board, the Chairman procures that good corporate governance practices and procedures are established and that appropriate steps are taken to provide effective communication with shareholders.

The Chief Executive Officer is responsible for managing the businesses of the entire Group, attending to the formulation and successful implementation of company policies and assuming full accountability to the Board for all Group operations. Acting as the principal navigator of the Group's businesses, the Chief Executive Officer attends to developing strategic operating plans that reflect the longer-term objectives and priorities established by the Board and is directly responsible for maintaining the operational performance of the Company. The Chief Executive Officer, in conjunction with Chief Financial Officer, Chief Operating Officer and senior management of each business unit, ensures that the Board is fully apprised of the funding requirements of the businesses of the Group and presents annual budgets to the Board. The Chief Executive Officer, with the assistance of the Chief Financial Officer, procures that the funding requirements of the businesses of the Group are met and closely monitors the operating and financial results against plans and budgets and takes remedial actions when necessary and advises the Board of significant development and issues. Moreover, the Chief Executive Officer maintains ongoing dialogue with the Chairman and all Directors to keep them fully informed of all major business development and issues. He is also responsible for building and maintaining an effective executive team to support him in his role. Furthermore, he also represents the Group in government bodies and professional and trade associations.

# Corporate Governance Report

The Board meets regularly, and at least 4 times a year. Between scheduled meetings, senior management of the Group from time to time provides to Directors information on the activities and development of the businesses of the Group. In addition, Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

The Board held 4 regular meetings in 2005 with an average attendance rate of approximately 78.26%.

The attendance records of the Board meetings held in 2005 are set out below:

	<b>Attended</b>
<b>Chairman</b>	
Mr. Frank John Sixt	4/4
<b>Executive Directors</b>	
Mr. Sing Wang ( <i>Chief Executive Officer</i> ) ( <i>Note 1</i> )	4/4
Ms. Tong Mei Kuen, Tommei ( <i>Chief Financial Officer</i> ) ( <i>Note 2</i> )	4/4
<b>Non-executive Directors</b>	
Ms. Chang Pui Yee, Debbie	3/4
Mrs. Chow Woo Mo Fong, Susan	4/4
Mr. Ip Tak Chuen, Edmond	3/4
Mrs. Lee Pui Ling, Angelina	3/4
Mr. Holger Kluge ( <i>Note 3</i> )	2/2
Mr. Wang Lei Lei	0/4
<b>Independent Non-executive Directors</b>	
Mr. Cheong Ying Chew, Henry	3/4
Ms. Wu Hung Yuk, Anna	3/4
Mr. James Sha	3/4

Notes:

1. Resigned as Chief Executive Officer and Executive Director on 27 January 2006.
2. Appointed as Chief Executive Officer on 27 January 2006 and the position of Chief Financial Officer has been relinquished.
3. Resigned as Non-executive Director on 30 June 2005.

Apart from the regular Board meetings, a meeting between the Chairman and the Non-executive Directors and the Independent Non-executive Directors without the presence of the Executive Directors was held in the second quarter in 2005.

Each of the Non-executive Directors (including the Independent Non-executive Directors) has entered into a letter of service with the Company for a term of 12-month period. The appointment will be automatically renewed for successive 12-month periods unless terminated by either party in writing prior to the expiry of the term. All the Non-executive Directors are subject to re-election at each annual general meeting of the Company.

Upon appointment, Directors receive a package of orientation materials and extensive review of the Company and its business from senior executives. Information and updates are provided to Directors regularly to ensure that Directors keep up with the latest changes in the commercial and regulatory environment in which the Group conducts its businesses.

### **Directors' Responsibility for the Financial Statements**

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

With the assistance of the Finance Department which is under the supervision of the Chief Financial Officer, the Directors ensure the financial statements of the Group are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group is made in a timely manner. The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 69.

### **Audit Committee**

The Company has established the Audit Committee in January 2000. The Audit Committee consists of 3 Independent Non-executive Directors and 1 Non-executive Director. One of the Independent Non-executive Director has the appropriate professional qualifications, accounting or related financial management expertise. The Audit Committee is chaired by Mr. Cheong Ying Chew, Henry and the other members include Ms. Wu Hung Yuk, Anna, Mr. James Sha and Mrs. Lee Pui Ling, Angelina.

During the year, the terms of reference of the Audit Committee have been revised to include the duties specified in the Code on CG Practices. The revised terms of reference of the Audit Committee is published on the Company's website. The principal duties of the Audit Committee include, among other things, oversight of the relationship with external auditors, review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures.

The Audit Committee held 5 meetings in 2005 with an attendance rate of 100%.

# Corporate Governance Report

The attendance records of the Audit Committee meetings held in 2005 are set out below:

Name of Members	Attended
Mr. Cheong Ying Chew, Henry ( <i>Chairman</i> )	5/5
Ms. Wu Hung Yuk, Anna	5/5
Mr. James Sha	5/5
Mrs. Lee Pui Ling, Angelina	5/5

For 2005, the Audit Committee reviewed with senior management and the Company's internal and external auditors their respective audit findings, the accounting principles and practices adopted by the Group, legal and regulatory compliance, and internal control, risk management and financial reporting matters (including the interim and annual financial statements for the year ended 31 December 2005 before recommending them to the Board for approval). In particular, the Audit Committee monitored the integrity of financial statements of the Company and the annual report and accounts and interim report and accounts of the Company, discussed such annual report and audited accounts and interim report and accounts with management and the external auditors and reviewed significant financial reporting judgments contained in them. In this regard, in reviewing such reports and accounts of the Company before submission to the Board, the Audit Committee focused particularly on:

- (a) any changes in financial reporting and accounting policies and practices;
- (b) major judgmental areas;
- (c) significant adjustments resulting from audit;
- (d) the going concern assumption and any qualifications;
- (e) compliance with accounting standards; and
- (f) compliance with the Listing Rules and any other legal requirements in relation to financial reporting.

The audited consolidated results of the Group for the year ended 31 December 2005 have been reviewed by the Audit Committee.

## Auditors' Remuneration

The amount of fees charged by the Auditors generally depends on the scope and volume of the auditors' work. For the year ended 31 December 2005, the remuneration to the Auditors of the Company were approximately HK\$11,000,000 for audit services and HK\$8,000,000 for non-audit services comprising tax and consultancy services.

## Remuneration Committee

The Company has established a Remuneration Committee in March 2000. The Remuneration Committee consists of 2 Non-executive Directors (one is an alternate member) and 2 Independent Non-executive Directors. The Remuneration Committee is chaired by Mr. Frank John Sixt (his alternate, Mrs. Chow Woo Mo Fong, Susan) and the other members include Mr. Cheong Ying Chew, Henry and Ms. Wu Hung Yuk, Anna. Normally, the remuneration packages of Directors and senior management of the Group will be approved by the written resolutions signed by all members of the Remuneration Committee at the end of each year. The Remuneration Committee will also meet as and when required to consider remuneration related matters.

The Remuneration Committee will assist the Board to develop and administer a fair and transparent procedure for setting policy on the remuneration of Directors and senior management of the Company and for determining their remuneration packages and also responsible for the administration of the share option schemes adopted by the Company. Terms of reference of the Remuneration Committee are available on the website of the Company.

Executive Directors, assisted by the Human Resources Department, are responsible for reviewing all relevant remuneration data and market conditions as well as the performance of the individual and the profitability of the Group, and propose to the Remuneration Committee for consideration and approval, remuneration packages for Directors and senior management. Executive Directors, however, do not participate in determining their remuneration.

Consistent with the principles applied in the past, for the year ended 31 December 2005, the remuneration of Directors and senior management was determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other local and international companies and the prevailing market conditions. Directors and employees also participate in bonus arrangements determined in accordance with the performance of the Group and the individual's performance.

Details of Director's emoluments for the year ended 31 December 2005 are set out in note 14 to the accounts.

## Internal Control

Internal control system, being an integral part of the Group's operations, is a process effected by the Board and management team to provide reasonable assurance on the effectiveness and efficiency of operations in achieving the established corporate objectives, safeguarding Group assets, providing reliable financial reporting, and complying with applicable laws and regulations.

The Board is responsible for making appropriate assertions on the adequacy of internal controls over financial reporting and the effectiveness of disclosure controls and procedures. Through the Audit Committee, it regularly reviews the effectiveness of the system.

## Investor Relations and Shareholders' Rights

The Company proactively promotes investor relations and communications by setting up regular meetings between our senior management and institutional shareholders and analysts. General presentations are also made when the financial results are announced.

The Board is committed to providing clear and full performance information of the Group to shareholders through the publication of interim and annual reports. In addition to dispatching circulars, notices and financial reports to shareholders, additional information is also available to shareholders on the website of the Company.

## Corporate Governance Report

The annual general meeting provides a useful forum for shareholders to raise comments and exchange views with the Board. Shareholders are encouraged to attend the annual general meetings for which the Company gives at least 21 days' notice. The Chairman and Directors and external auditors are available to answer questions on the Group's businesses at the meeting.

Shareholders have statutory rights to call for extraordinary general meetings by serving written requisition to the Company and put forward agenda items for consideration by shareholders. Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders despatched together with the annual report. The results of the poll are published in the newspapers and on the Company's website. Financial and other information is available on the Company's website, which is updated regularly.

The Company values feedback from shareholders on its effort to promote transparencies and foster investor relationships. Comments and suggestions are welcome and can be addressed to our Investor Relations Manager by mail or by e-mail.