



# CORPORATE GOVERNANCE REPORT

## Corporate Governance Practices

The Board and the Management of the Company are committed to maintain a high standard of corporate governance. The Board recognizes that to uphold an accountable and transparent corporate culture will ultimately maximize the long-term value to shareholders and stakeholders.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has promulgated the Code on Corporate Governance Practices (the "Code") as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") that has been effective in January 2005. The Company has already put in place corporate governance practices to meet all the provisions of the Code Provision in the Code throughout the year under review with a derivation in the service term of the non-executive Directors. The Company has also complied with, to a certain extent, the Recommended Best Practices in the Code.

## Key Corporate Governance Principles and Practices

### A. Board of Directors

#### A.1 The Board

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company.

The Board is accountable for the supervision of the Management in the business and affairs of the Company and the Group. Apart from its statutory and fiduciary duties, the Board sets the Group's objective and approves strategic plans, key operational targets, capital expenditure, major investments and financing decisions. The Board regularly reviews businesses and performance of the Group.

The Board is also continuously reviewing the adequacy and effectiveness of the Group's internal control system. The Board recognizes that the maintenance of a sound system of controls covering not only financial controls but also operational and compliance controls would safeguard the best interests of the shareholders.

The Board meets regularly and as and when required. In the year under review, four meetings had been held at approximately quarterly intervals. Details of Directors' attendance records in 2005 are set out below:

	<b>Attendance (%)</b>	
<b>Executive Directors</b>		
Dr. Tsang Hin Chi	(2/4)	50%
Mr. Tsang Chi Ming, Ricky	(4/4)	100%
Mdm. Wong Lei Kuan	(2/4)	50%
<b>Non-Executive Director</b>		
Mr. Ng Ming Wah, Charles	(4/4)	100%
<b>Independent Non-Executive Directors</b>		
Dr. Wong Yu Hong, Philip	(3/4)	75%
Dr. Lau Yue Sun	(4/4)	100%
Mr. Wong Ying Ho, Kennedy	(3/4)	75%

The Company Secretary assists the Chairman in establishing the meeting agenda, and each of the Directors may request inclusion of items in the agenda.

Board members are provided with timely and adequate information prior to the Board meetings, and on an on-going basis, can have separate and independent access to the Group's Senior Management.

At the Board meetings, there is open atmosphere for Directors to contribute alternative views and major decisions would only be taken after a full discussion at the meetings.

For matters on transactions where Directors are considered having conflict of interests, the Directors concerned would not be counted in quorum of meeting and shall abstain from voting of the relevant resolution.

The Directors can have separate and independent access to the Company Secretary. Minutes of the meetings are kept by the Company Secretary and are open for inspection by Directors.



# CORPORATE GOVERNANCE REPORT

## Key Corporate Governance Principles and Practices *(continued)*

### A. Board of Directors *(continued)*

#### A.2 *Chairman and Chief Executive Officer*

The roles of Chairman and Chief Executive Officer of the Company are segregated and are not performed by the same individual.

Currently, Dr. Tsang Hin Chi serves as the Chairman of the Board. Mr. Tsang Chi Ming, Ricky, a son of Dr. Tsang Hin Chi and an executive Director of the Company since May 2001, has been appointed as the Company's Chief Executive Officer on 6th April 2005.

There are clear definitions of the responsibilities and functions between the Chairman and the Chief Executive Officer. The Chairman focuses on the Group's strategic development and provides leadership to the Board. The Chief Executive Officer is being assisted by Senior Management of the Group in assuming his executive duties and responsibility for the Group's operation and performance.

#### A.3 *Board composition*

The Board has a balance of skills and experience appropriate for the requirements of the Group's business. Currently, the Board comprises totally seven members including three executive Directors, one non-executive Director and three independent non-executive Directors. The presence of independent non-executive Directors ensures that the Board functions effectively and independently.

Biographical details of the Directors are set out in the "Report of the Directors" on pages 24 to 25.

Each of the independent non-executive Directors has confirmed in writing to the Company their independence in particular in regard to the requirements under Rule 3.13 of the Listing Rules. The Board considers that the independent non-executive Directors are free from any business or other relationship that may inference their exercise of independent judgement.

#### A.4 *Appointments, re-election and removal of directors*

In order to comply with Code Provision A.4.2, the Company's Articles of Association have been amended at the Extraordinary General Meeting held on 20th May 2005. According to the amended Articles of Association, Directors appointed to fill casual vacancy should be subject to election at the first general meeting after their appointment and every Director should be subject to retirement by rotation at least once every three years.

Code Provision A.4.1 stipulates that non-executive Directors should be appointed for a specific term, subject to re-election. However, all of the non-executive Directors of the Company have not been appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

Besides, there are formal procedures for the appointment of Directors including the establishment of Nomination Committee with specific terms of reference.

The Board has established a Nomination Committee on 6th April 2005, comprising three independent non-executive Directors, a non-executive Director and an executive Director. List of members of Nomination Committee is set out in the "Corporate Information" on page 2.

With a view to ensure that the Board has members with the right profile of expertise, skill and ability as well as an appropriate balance of independent directors, the Nomination Committee constantly reviews and assesses candidates for directorship before recommending to the Board. The terms of reference of the Committee are available on the Company's website.



# CORPORATE GOVERNANCE REPORT

## Key Corporate Governance Principles and Practices *(continued)*

### A. Board of Directors *(continued)*

#### A.4 *Appointments, re-election and removal of directors (continued)*

The Nomination Committee held one meeting during the year and the attendance was as follows:

Members	Attendance (%)	
Dr. Lau Yue Sun <i>(Chairman)</i>	(1/1)	100%
Dr. Wong Yu Hong, Philip	(1/1)	100%
Mr. Wong Ying Ho, Kennedy	(1/1)	100%
Mr. Ng Ming Wah, Charles	(1/1)	100%
Mr. Tsang Chi Ming, Ricky	(1/1)	100%

#### A.5 *Responsibilities of Directors*

The Company has clear policy to ensure that all Directors have a proper understanding of the business and operation of the Group and that they are fully aware their roles and responsibilities as Directors under relevant legislations and regulatory requirements.

On appointment, new Directors will be given a comprehensive introduction to the Group's major business activities, induction into their responsibilities and duties, and other regulatory requirements.

From time to time, non-executive Directors are updated with comprehensive briefings on the Group's strategic and business development, financial objective, plans and actions.

Where any member of the Board, whether individual or as a group, needs independent professional advice, the Company will appointed a professional advisor to render such service. The costs of such professional services will be borne by the Company.

A directors' and officers' liabilities insurance has also been arranged.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. During the year, all the Directors have complied with the relevant requirements under the Model Code regarding their dealing in the securities of the Company.

#### A.6 *Supply of and access to information*

All Directors have full and timely access to all relevant information about the Group so that they can discharge their duties and responsibilities as Directors effectively. There are established procedures for Directors to seek independent professional advice where appropriate. All costs associated with obtaining such advice will be borne by the Group.



# CORPORATE GOVERNANCE REPORT

## Key Corporate Governance Principles and Practices *(continued)*

### B. Remuneration of Directors and Senior Management

#### B.1 *The level and make-up of remuneration and disclosure*

The Board has established a Remuneration Committee on 6th April 2005, comprising three independent non-executive Directors, a non-executive Director and an executive Director. List of members of Remuneration Committee is set out in the "Corporate Information" on page 2.

The key role of the Committee is to formulate the remuneration policy, to review and recommend to the Board the annual remuneration policy, and to fix the remuneration packages of the executive Directors and members of the Senior Management. The primary objective of the remuneration policy is to ensure that the Company is able to attract, retain and motivate a high-calibre team of staff.

In determining remuneration packages, the Company mainly considers employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of the individual Directors.

To maintain a proper management control, no Director and members of the Senior Management can determine his own remuneration.

The Remuneration Committee reviews remuneration packages of the executive Directors and Senior Management regularly to ensure that those packages are commensurate with their performance.

The Chairman of the Committee will report the work, findings and recommendations to the Board after each meeting.

The terms of reference of the Committee are available on the Company's website.

Details of the remunerations of Directors and Senior Management for the year are set out in the "Notes to the Accounts" on pages 66 to 67.

The Remuneration Committee held two meetings during the year and the attendance records were as follows:

<b>Members</b>	<b>Attendance (%)</b>	
Mr. Wong Ying Ho, Kennedy ( <i>Chairman</i> )	(2/2)	100%
Dr. Wong Yu Hong, Philip	(2/2)	100%
Dr. Lau Yue Sun	(2/2)	100%
Mr. Ng Ming Wah, Charles	(2/2)	100%
Mr. Tsang Chi Ming, Ricky	(2/2)	100%



# CORPORATE GOVERNANCE REPORT

## Key Corporate Governance Principles and Practices *(continued)*

### C. Accountability and audit

#### C.1 *Financial reporting*

The Board is responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and the results for the corresponding period. In preparing the accounts for the year, the Directors have:

- selected suitable accounting policies and applied them consistently;
- adopted all accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants;
- make judgements and estimates that are reasonable; and have prepared the accounts on the going concern basis.

The Company announced its annual and interim results within the time limits as laid down in the Listing Rules. The unaudited interim results for the six months ended 30 June 2005 have been reviewed by the Group's external auditors in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Institute of Certified Public Accountants.

#### C.2 *Internal controls*

The Board has ultimate responsibility for the Group's internal control system and, through the Audit Committee, has reviewed the effectiveness of the system.

While no cost-effective internal control system can provide absolute assurance against misstatement or loss, the Group internal control system is designed to provide reasonable assurance that assets are safeguarded, operational controls are in place, business risks are suitably managed, proper accounting records are maintained and financial information used for management purposes and for publication are reasonable and accurate. There should also be a clearly defined delegation of authority from the Board to the Management and procedures are in place for the proper authorization of transactions.

During the year, the Audit Committee, on behalf of the Board, has reviewed the effectiveness of the various systems put in place by Management. No material suspected frauds and irregularities, internal control deficiencies or infringement of relevant regulations and rules have come to the Committee's attention to cause the Committee to believe that the system of internal control is inadequate.

#### C.3 *Audit Committee*

The Audit Committee was established in 1998. Currently the Committee comprises three independent non-executive Directors and a non-executive Director, and is primarily assisting the Board in fulfilling its oversight responsibilities for financial reporting, risk management and evaluation of internal controls and auditing processes. It also ensures that the Group complies with all applicable laws and regulations. List of members of Audit Committee is set out in the "Corporate Information" on page 2.

The Committee is also empowered to investigate any matter relating to the Group's accounting, auditing, internal controls and financial practices, with full access to records, resources and personnel, to enable it to discharge its functions properly.

In respect of maintaining an appropriate relationship with the Company's auditors, the Committee is responsible for making recommendation to the Board on the appointment, reappointment and removal of the Company's external auditors, and to approve their remuneration and terms of engagement, and any questions of resignation or dismissal of the auditors. The Committee reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee also discusses with the auditors the nature and scope of the audit and reporting obligations before the audit commences.



# CORPORATE GOVERNANCE REPORT

## Key Corporate Governance Principles and Practices *(continued)*

### C. **Accountability and audit** *(continued)*

#### C.3 *Audit Committee (continued)*

The Committee had held a meeting with the external auditors without the presence of the Management to discuss and review the scope and planning of the audit and its effectiveness. The Committee has also conducted regular reviews on the nature and extent of non-audit services supplied by the external auditors. In this respect, apart from the auditors' remuneration as disclosed in the "Notes to Accounts" on page 64, the Group also paid \$36,000 to its external auditors for taxation services rendering to certain subsidiaries of the Company during the year.

The Chairman of the Committee will report the work, findings and recommendations to the Board after each meeting.

The terms of reference of the Committee are available on the Company's website.

The Audit Committee held three meetings during the year and the attendance records were as follows:

<b>Members</b>	<b>Attendance (%)</b>	
Dr. Wong Yu Hong, Philip ( <i>Chairman</i> )	(3/3)	100%
Mr. Wong Ying Ho, Kennedy ( <i>Deputy Chairman</i> )	(2/3)	66.7%
Dr. Lau Yue Sun	(3/3)	100%
Mr. Ng Ming Wah, Charles	(3/3)	100%

### D. **Delegation by the Board**

#### D.1 *Management functions and Board Committees*

The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorized, undertaken and monitored. Significant corporate matters including policy formulation, material transactions or transactions where there is a conflict of interests are reserved for full Board decision.

The Board has delegated its responsibility on daily operation of the Group to the Group's Management headed by the Chief Executive Officer. The task of the Company's Management and staff is the successful implementation of the strategy and directions as determined by the Board. In doing so, they must apply business principles and ethics that are consistent with those expected by the Board and the Company's stakeholders as a whole.

To assist in the execution of its responsibilities, the Board has established a number of Committees including the Audit Committee, the Remuneration Committee and the Nomination Committee. All of these Board Committees have clear written terms of reference.

### E. **Communication with shareholders**

#### E.1 *Effective communication*

The Company engages in regular, effective and fair communications with shareholders. The Board strives for timeliness and transparency in its disclosures to shareholders and the public. Regular meetings are held with investors, analysts, bankers and the press. The Group has a corporate website where shareholders and members of the public are able to access to up-to-date corporate information and events related to the Group.

The Annual General Meeting of the Company also provides a useful platform for dialogue and interaction with all the shareholders. At the Annual General Meeting, the Chairman as well as chairmen of the Board Committees, or in their absence, members of the Committees are available to answer shareholders' questions.

#### E.2 *Voting by poll*

Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circulars to shareholders. Separate resolutions are proposed at general meetings on each substantially separate issue including the election of individual Directors. The results of the poll are published on the website of the Stock Exchange.