

## CORPORATE GOVERNANCE REPORT

### CORPORATE GOVERNANCE PRACTICE

The Company is committed to maintaining a high standard of corporate governance and has applied the principles of the Code Provisions as set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which became effective 1 January 2005.

Throughout the year ended 31 December 2005 (the "year under review"), the Company has complied with the Code Provisions set out in the CG Code, except for the deviation from provision A.4.2 in respect of the rotation of directors. Explanations for such non-compliance are provided below.

### BOARD OF DIRECTORS

The Board's primary responsibilities are to formulate the Company's long-term corporate strategy, to oversee the management of the Group, to evaluate the performance of the Group and to assess the achievement of targets periodically set by the Board.

In addition, the Board has also established Board Committees and has delegated to these Board Committees various responsibilities set out in their terms of reference respectively.

The Board comprises twelve Directors, whose biographical details are set out in the "Directors' and Senior Management's Biographies" section in the Report of the Directors. Eight of the Directors are executive, three are independent non-executive and one is non-executive.

The members of the Board for the year under review are :

#### Executive

Dr. Charles Yeung, SBS, JP (*Chairman*)

Mr. Yeung Chun Fan (*Vice-chairman*)

Mr. Yeung Chun Ho

Mr. Pau Sze Kee, Jackson

Mr. Hui Chung Shing, Herman, JP

Ms. Cheung Wai Yee

Mr. Chan Wing Kan, Archie (appointed on 31 August 2005)

Mr. Teo Heng Kee, Peter (appointed on 31 August 2005)

## CORPORATE GOVERNANCE REPORT

### **Independent non-executive**

Mr. Wong Man Kong, Peter, BBS, JP  
Mr. Lau Hon Chuen, Ambrose, GBS, JP  
Mr. Chung Shui Ming, Timpson, GBS, JP

### **Non-executive**

Dr. Lam Lee G.

The relationship among the members of the Board are disclosed under the "Directors' and Senior Management's Biographies" section in the Report of the Directors.

### **THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER**

The roles of Chairman and Chief Executive Officer are separate and are performed by Dr. Charles Yeung, SBS, JP and the General Manager of the Group, Mr. Yeung Chun Fan, respectively. Their respective responsibilities are clearly defined and are set out in writing. Mr. Yeung Chun Fan is also the Vice-chairman of the Board.

The Chairman takes the lead in formulating and setting Group strategies and policies in conjunction with the Board; oversees the function of the Board and encourages and facilitates constructive relations between executive and non-executive Directors.

The General Manager, supported by other Board members and the senior management, is responsible for overseeing the Group's business operation, implementing the strategies laid down by the Board and managing day-to-day operation.

### **INDEPENDENCE**

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors to be independent.

## CORPORATE GOVERNANCE REPORT

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board reviews its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the needs of the business of the Company and therefore it has not established a nomination committee. In the year under review, Mr. Chan Wing Kan, Archie and Mr. Teo Heng Kee, Peter were appointed executive Directors with the unanimous approval by the Board members.

The Board recommended the appointment of the Directors standing for re-election at the forthcoming annual general meeting of the Company which is to be held on 26 May 2006.

All the non-executive Director and independent non-executive Directors are appointed for a specific term of two years and are required to retire and eligible for re-election at the annual general meeting of the Company in the year of expiry of the term.

Under the provision A.4.2 of the CG Code, every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. However, in accordance with the Bye-laws of the Company, Dr. Charles Yeung, SBS, JP, the Chairman of the Board, shall not be subject to retirement by rotation. The Board considers that due to the fact that Dr. Charles Yeung, SBS, JP is the founder of the Group, he is eligible for being the Chairman of the Board during his lifetime and he need not be subject to retirement by rotation.

## CORPORATE GOVERNANCE REPORT

### MEETINGS AND ATTENDANCE

The Board met on four occasions during the year under review. The attendance of individual Directors at the Board meetings and two other Board Committees (the Audit Committee and the Remuneration Committee) meetings is set out in the table below :

Directors	Meetings Attended/Held		
	Board	Audit Committee	Remuneration Committee
<i>Executive</i>			
Dr. Charles Yeung, SBS, JP	4/4		
Mr. Yeung Chun Fan	4/4		
Mr. Yeung Chun Ho	4/4		
Mr. Pau Sze Kee, Jackson	4/4		
Mr. Hui Chung Shing, Herman, JP	4/4		
Ms. Cheung Wai Yee	1/4		
Mr. Chan Wing Kan, Archie	1/1	2/2*	
Mr. Teo Heng Kee, Peter	1/1		
<i>Independent non-executive</i>			
Mr. Wong Man Kong, Peter, BBS, JP	0/4	2/2	1/1
Mr. Lau Hon Chuen, Ambrose, GBS, JP	3/4	2/2	
Mr. Chung Shui Ming, Timpson, GBS, JP	4/4	1/2	1/1
<i>Non-executive</i>			
Dr. Lam Lee G.	3/4	0/1	

\* Mr. Chan Wing Kan, Archie is a member of the Audit Committee prior to his appointment as an executive Director

### BOARD COMMITTEES

The Board has established Audit and Remuneration Committees in accordance with the CG Code and all or a majority of the members of the Committees are independent non-executive Directors.

## CORPORATE GOVERNANCE REPORT

### **The Audit Committee**

The Audit Committee has been established since 1998. Currently it consists of three independent non-executive Directors (Mr. Lau Hon Chuen, Ambrose, GBS, JP (Committee Chairman), Mr. Wong Man Kong, Peter, BBS, JP and Mr. Chung Shui Ming, Timpson, GBS, JP), the non-executive Director (Dr. Lam Lee G.) and one executive Director (Mr. Chan Wing Kan, Archie). Written terms of reference of the Audit Committee were formulated and adopted in 1998 and subsequently amended in 2005 in order to comply with the Code Provisions of the CG Code.

The main responsibilities of the Audit Committee are to review the accounting principles and practices adopted by the Group and to review the effectiveness of the financial reporting process and internal control system of the Group.

The Audit Committee held two meetings during the year under review. The work of the Audit Committee in 2005 included the following :

- review of 2004 annual results
- review of 2005 interim results
- review of the internal audit reports and discussion of the approach to internal controls
- review of connected transactions occurred for the year 2004 and for the six months ended 30 June 2005

During the year under review, the Audit Committee met with the external auditors once.

### **The Remuneration Committee**

The Remuneration Committee consists of two independent non-executive Directors, namely Mr. Wong Man Kong, Peter, BBS, JP (Committee Chairman) and Mr. Chung Shui Ming, Timpson, GBS, JP. Written terms of reference of the Remuneration Committee were formulated in accordance with the Code Provision of the CG Code.

The main responsibilities of the Remuneration Committee are to review and endorse the remuneration policy of the Directors and senior management and to make recommendations to the Board for the remuneration of the Directors and senior management. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration.

## CORPORATE GOVERNANCE REPORT

The Remuneration Committee held one meeting during the year under review. The work of the Remuneration Committee in 2005 included the following matters :

- review of the definition of "senior management" within the Group
- review of the remuneration policy of the Directors and senior management

### **DIRECTORS' SECURITIES TRANSACTIONS**

The Board has adopted the code of conduct regarding Directors' securities transaction as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

The Board confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standards set out in the Model Code throughout the year under review.

### **EMPLOYEES' SECURITIES TRANSACTIONS**

Those employees of the Group who are likely to be in possession of unpublished price-sensitive information in relation to the Group have adopted rules based on the Model Code (the "Dealing Rules"). These employees have been individually notified and provided with a copy of the Dealing Rules.

### **ACCOUNTABILITY AND INTERNAL CONTROL**

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. The Board is not aware of any material uncertainties relating to the events or condition that might cast doubt upon the Company's ability to continue as a going concern. Accordingly, the Board has prepared the financial statements of the Company on a going concern basis.

The Board acknowledges its responsibility to present a balanced, 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 the regulators.

## CORPORATE GOVERNANCE REPORT

The Board has overall responsibility for the system of internal control of the Group and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has delegated to the management the implementation of the system of internal control and reviewing of all relevant financial, operational, compliance controls and risk management function within an established framework.

**AUDITORS' REMUNERATION**

Remuneration payable to the external auditors of the Company, Messrs. Ernst & Young, for services provided for the year ended 31 December 2005 is as follows :

	<i>HK\$'000</i>
Audit services	4,300
Non-audit services	<u>139</u>
Total	<u><u>4,439</u></u>