

## Report on Corporate Governance Practices

The Board of Directors of the Company (the “Board”) continues to achieve high standards of corporate governance which it believes is crucial to the development of the Company and to safeguard the interests of the Company’s shareholders.

To ensure objectivity and impartiality in the management of the Company, the Board is made up of a balance of Executive Directors and Non-executive Directors such that no individual or small group can dominate the Board’s decision making. The Board comprises a total of 8 members, with a Chairman, also the Managing Director, one Executive Director and six Non-executive Directors, of whom three are Independent Non-executive Directors. The Board, headed by Mr. Tan Boon Seng, is mainly responsible for overseeing the Company’s strategic development and monitoring the Company’s day-to-day management and operation. During the reporting period, Mr. Tan Boon Seng acted as an Executive Director, the Chairman and Managing Director. Although this arrangement constitutes a deviation from the Code on Corporate Governance Practices (the “Code”), the Board considers that this structure, where the leadership of the Board is distinct from the executive responsibilities for running of the business operations, will not impair the balance of power and authority between the board and the management of the business, especially given that there is a strong and independent non-executive element on the board and a clear division of responsibility for running the business of the Company. The Board further believes that vesting the roles of Chairman and Managing Director in the same person provides the Company with strong and consistent leadership in the development and execution of long-term business strategies.

Details of the composition of the Board, relationship among members of the Board, and biographical information of the Directors are set out in the section “Corporate Information” of this annual report.

The Board has adopted the terms of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the “Model Code”). None of the Directors is aware of any information that would reasonably indicate that the Company or any of its Directors is not or was not in compliance with the Model Code and upon specific enquiry of all Directors, the Directors confirmed that they have complied with the Model Code for the year ended 31 December 2005. The Board held ten meetings during the year with attendance record as follows:

Directors	Full Board	Audit Committee
Chairman and Managing Director		
Mr. Tan Boon Seng	10/10	–
Executive Director		
Mr. Chan Kai Kwok	10/10	–
Non-executive Directors		
Mr. Ang Guan Seng	0/10	–
Mr. Tan Choon Keat, Tony	0/10	–
Mr. Tan Kai Seng	1/10	–
Independent Non-executive Directors		
Mr. Ho Hau Chong, Norman	6/10	2/2
Mr. Fung Ka Pun	5/10	2/2
Mr. Yeung Chik Kin	6/10	2/2

## **Report on Corporate Governance Practices** (Cont'd)

The Company has taken effective measures to ensure that it is in compliance with the principles and provisions of the Code, effective for the reporting financial year after 1 January 2005. In the opinion of the Board, except for the deviations as disclosed on this report, the Company, has, throughout the year ended 31 December 2005, complied with the Code.

In compliance with the Code, the Company's Articles of Association ("Articles") have been amended on 7 June 2005 to provide that one-third of the Directors shall be subject to retirement by rotation at the each annual general meeting of the Company. In the opinion of the Directors, this meets the principle set out in Code provision A.4.2. Also on the same day, an amendment was made to the Articles to specify that any Director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting, which is in accordance with Code provision A.4.2. According to Code provision A.4.1, Non-executive Directors should be appointed for a specific term and be subject to re-election. During the reporting period, none of the existing Non-executive Directors of the Company was appointed for a specific term. This constitutes a deviation from the Code but in the opinion of the Directors, since one-third of the Directors (Executive and Non-executive) will retire from office by rotation at each annual general meeting, this arrangement meets the same objective and is no less exacting than the Code. With respect to the appointment and removal of Directors, the Board considers such determination to be the Board's collective decision and thus does not intend to adopt the recommended best practice of the Code to set up a Nomination Committee. Details of nomination of Directors are set out in the section "Nomination of Directors" below.

The Directors acknowledge their responsibilities for overseeing the preparation of financial statements of the Company. The Board is mindful of its responsibility to present a balanced and clear assessment of the Company's financial position and prospects. The Board is satisfied that it has met this obligation.

### **Audit Committee**

The Audit Committee comprises Mr. Norman Ho Hau Chong, Mr. Fung Ka Pun and Mr. Yeung Chik Kin, being all the three Independent Non-executive Directors. Mr. Norman Ho Hau Chong is the Chairman of the Audit Committee. The Audit Committee has adopted terms of reference, which are in line with the Code. The Audit Committee met two times during the year to review the completeness, accuracy and fairness of the Company's financial statements, the Company's financial reporting system and internal control procedures, the scope and nature of the external audit and matters concerning the engagement of external auditors. The Company's financial statements for the year ended 31 December 2005 have been reviewed by the Audit Committee, who is of the opinion that such statements comply with applicable accounting standards and legal requirements, and that adequate disclosures have been made. The attendance record is noted above.

### **Remuneration Committee**

The Company established a Remuneration Committee in January 2005 and has not held any meeting during the year. The Remuneration Committee comprises three Independent Non-executive Directors, Mr. Norman Ho Hau Chong, Mr. Fung Ka Pun and Mr. Yeung Chik Kin. The Remuneration Committee has adopted terms of reference, which are in line with the Code. The first Remuneration Committee Meeting of the Company was held in April 2006 reviewing the remuneration policy and remuneration packages of the Executive Directors and members of the senior management.

Directors' interests and short positions in shares, along with Directors' interests in contracts, are listed in the section "Directors' Report" of this annual report. Directors' remuneration is listed in the "Notes to the Financial Statements" of this annual report.

## **Report on Corporate Governance Practices (Cont'd)**

### **Nomination of Directors**

The Board will meet to discuss nomination of Directors when circumstances required. Upon receipt of a nomination from members of the Board, a board meeting will then be convened to consider and discuss the nominated candidate(s) for the directorship. Criteria adopted by the Board in considering the suitability of a candidate for directorship includes his/her qualifications, experience, expertise and knowledge as well as the requirement under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. Subsequent to the reporting period, Mr. Richard Seow Yung Liang and Mr. Ashish Jaiprakash Shastry were appointed as Non-executive Directors to replace Mr. Tony Tan Choon Keat and Mr. Tan Kai Seng, being Non-executive Directors, as representatives of Parkway Holdings Limited ("Parkway") on the Board of the Company. As disclosed in the circular dated 22 December 2003, for so long as any of the loan notes of the Company held by Parkway remains outstanding, Parkway has the right to nominate two representatives to the Board and that right was exercised on 28 February 2006.

### **Fees for Audit and Non-audit Services**

During the year, the Company engaged H. C. Watt & Company Limited to perform audit and non-audit related services and incurred audit related service fees of approximately HK\$499,000 (2004: HK\$508,000) and non-audit service fees of approximately HK\$195,000 (2004: HK\$206,000).

### **Corporate Communication**

The Code requires the Company to have a dialogue with shareholders and it is the responsibility of the Board as a whole to ensure that satisfactory dialogue takes place. The primary communication channel between the Company and its shareholders is through the publication of its interim and annual reports. The Company's Registrars serve the shareholders with respect to all share registration matters. The Company's annual general meeting provides a further opportunity for investors to exchange views with the Board. The Chairman as well as Chairman of the Audit Committee is available to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors. Details of the poll voting procedures and rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. The circular also includes details of the procedures and the timetable of proposing appropriate candidates to stand for election as Directors at annual general meetings, and relevant details of proposed resolutions, including biographies of each candidates standing for re-election and whether such candidates are considered to be independent.

### **Looking Forward**

The Company will keep on reviewing its corporate governance standards on a timely basis and the Board endeavors to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.