

# CORPORATE GOVERNANCE REPORT

This Corporate Governance Report is issued pursuant to Appendix 23 of the Listing Rules.

The Company is firmly committed to statutory and regulatory corporate governance standards and adheres to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness.

The Board of Directors is pleased to report that throughout the year up to 31st December, 2005, the corporate governance practices of the Group are in compliance with the Code Provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, except for the deviations set out in the following detailed discussion.

The following detailed discussion sets out the manner by which the Group has met the Code Provisions in the Code for the year ended 31st December, 2005.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made thorough enquiry of the Directors, the Company can reasonably confirm that the Directors have complied with the required standard set out in the Model Code during the year ended 31st December, 2005.

## BOARD OF DIRECTORS

The Board of Directors (the "Board") comprises of nine members, of which four members are executive Directors, one member is a non-executive Director and four members are independent non-executive Directors. Biographical details of the Directors are set out on page 8 of this Annual Report.

The Board supervises the management of the business and affairs of the Group. It has established self-regulatory and monitoring mechanisms to ensure that effective corporate governance is practiced. The Board oversees the Group's overall strategic plans, approves major funding and investment proposals and reviews the financial performance of the Group.

The Board meets regularly and additional meetings are convened when deemed necessary by the Board. Board members are provided with complete, adequate and timely information to allow the Directors to fulfill their duties properly.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should separate and should not be performed by the same individual. Mr. Billy K. Yung is currently the Chairman of the Board and the Managing Director of the Company. The Board considers that the present structure is more suitable to the Company because it can promote the efficient formulation and implementation of the Company's strategies.

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

Name of director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting
Mr. Billy K Yung	5/5	3/3	1/1
Dr. Leo Tung-Hai Lee	4/5	3/3	N/A
Mr. Shiu-Kit Ngai	5/5	3/3	N/A
Madam Yung Ho Wun Ching	4/5	N/A	N/A
Mr. Leung Chun Wah	4/5	N/A	N/A
Mr. Plato Poon Chak Sang	5/5	N/A	N/A
Mr. Simon Yung Kwok Choi	5/5	N/A	N/A
Mr. Peter Wong Chung On	5/5	3/3	1/1
Mr. Peter Lam (appointed as member of audit committee on 21st December 2005)	4/5	0/3	1/1

## NOMINATION OF DIRECTORS

The Board of Directors has established a formal and transparent process for the Company in the appointment of new Directors and re-nomination and re-election of Directors at regular intervals.

In accordance with Article 103 of the Company's Article of Association, one-third of the Directors will retire from office at the Company's annual general meeting. Madam Yung Ho Wun Ching, Mr. Leung Chun Wah and Mr. Plato Poon Chak Sang shall retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

None of the independent non-executive Directors has been appointed for a term of more than three years. Mr. Peter Lam, who was appointed as an addition to the Board on 6th September, 2004, retired at the annual general meeting of the Company for 2005 and was re-elected as a director of the Company.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Mr. Simon Yung Kwok Choi, the Non-executive director of the Company, has not been appointed for a specific term but is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

## REMUNERATION COMMITTEE

The Remuneration Committee was formed on 20th January, 2005. The Remuneration Committee consists of a majority of independent non-executive Directors and its members are:

Mr. Peter Lam (*independent non-executive Director*) (*Chairman*)  
 Mr. Peter Wong Chung On (*independent non-executive Director*)  
 Mr. Billy K Yung (*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 independent non-executive Directors. In developing remuneration policies and making recommendation as to the remuneration of the Directors and key executives, the Remuneration Committee takes into account the performance of the Group as well as those individual Directors and key executives.

The Remuneration Committee Meeting held considered and approved the pay rise of the executive directors, reviewed the share option scheme and recommended/approved the granting of share option.

## ACCOUNTABILITY AND AUDIT

The Directors have acknowledged by executing a management representation letter with the Auditors that they bear the ultimate responsibility of preparing the Group's financial statements in accordance with statutory requirements and applicable accounting standards. The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 18.

## AUDIT COMMITTEE

The Audit Committee was formed on 22nd September, 1998 to review and supervise the financial reporting process and internal control mechanism of the Company. The Audit Committee comprises four members, all of whom are independent non-executive Directors. The members are:

Dr. Leo Tung-Hai Lee (*Chairman*)  
 Mr. Shiu-Kit Ngai  
 Mr. Peter Wong Chung On  
 Mr. Peter Lam (*appointed on 21st December, 2005*)

The Audit Committee has reviewed with the management and the auditors of the Company the accounting principles and practices adopted by the Group and discussed the audited financial statements for the year ended 31st December, 2005.

The amount of audit fee for the year ended 31st December, 2005 was HK\$2,543,000 (2004: HK\$1,871,000). The amount of non-audit fees payable to the auditors of the Company for the year ended 31st December, 2005 was HK\$533,000 (2004: HK\$888,000). In addition, in respect of the acquisition of Tigerlily Overseas Limited in year 2005, the amount of audit fee and non-audit fee were HK\$4,000,000 and HK\$2,000,000 respectively. The Audit Committee is of the view that the auditors' independence was not affected by the provision of these non-audit related services.

The Audit Committee has recommended to the Board of Directors that Grant Thornton, *Certified Public Accountants*, be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

## INTERNAL CONTROLS

Management has 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 and investment and business risks affecting the Group are identified and properly managed.