

# CORPORATE GOVERNANCE REPORT

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## CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the “Board”) is of the view that corporate governance is vital to the continued success of the Company and has therefore adopted various measures to ensure that a high standard of corporate governance is upheld. With effect from 1st January, 2005, the Company has applied the principal and complied with the requirements of the Code on Corporate Governance Practices (the “Code”) of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “SEHK”) save and except certain deviations as more specifically described below. The current practices will be reviewed and updated regularly so that the latest development in corporate governance can be followed and observed.

## DIRECTORS

### Directors’ Securities Transactions

The Company has adopted the code of conduct regarding directors’ securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules. Having made specific enquiry of all directors, they all have confirmed that they have complied with the required standard as set out in the Model Code throughout the year.

### Board of Directors

The Board is responsible for the leadership and control of the Company and oversees the Company’s businesses, strategic decisions and performances while the Board has delegated the day-to-day management and operations of the Company’s businesses to the management of the Company and its subsidiaries.

The Board currently comprises:

Executive Directors	:	Wong Pak Ming ( <i>Chairman</i> ) Wong Kit Fong Wong Yee Kwan, Alvina Ko Tin Chow
Independent Non-executive Directors	:	Wan Ngar Yin, David Lai Voon Wai Tang Kai Kui, Terence

Each independent non-executive director gives an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 3.13 of the Listing Rules.

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For the financial year ended 31st December, 2005, 4 full Board meetings were held and the attendance of each director is set out as follows:

Name of director	Number of Board meetings attended in the financial year ended 31st December, 2005	Attendance rate
Wong Pak Ming	4	4/4
Wong Kit Fong	4	4/4
Wong Yee Kwan, Alvina	4	4/4
Ko Tin Chow	1	1/1 (after appointment on 1st December, 2005)
Wan Ngar Yin, David	4	4/4
Lai Voon Wai	3	3/4
Tang Kai Kui, Terence	1	1/1 (after appointment on 1st December, 2005)
Alan Woo (before resignation on 1st December, 2005)	2	2/3 (before resignation on 1st December, 2005)

The Board held meeting from time to time whenever necessary and at least 4 regular Board meetings will be held each year. Minutes of every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes at the following Board meeting. The Board also ensures that it is supplied in a timely manner with the agenda and all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations are followed.

## CHAIRMAN AND CHIEF EXECUTIVE

Mr. Wong Pak Ming (“Mr. Wong”) is both the chairman and founder of the Company. The Company has no such title as the chief executive officer and therefore the daily operation and management of the Company is oversight by Mr. Wong with the assistance of the executive directors as well as the senior management.

The Board considers that Mr. Wong, being the founder of the Group, possesses in-depth knowledge of the Group and has developed extensive and valuable network in the film production industry and therefore can enable the Group to make and implement decision promptly and efficiently which is beneficial to the business prospects of the Group. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management as the Board, comprises experienced and high caliber individuals, meets regularly to discuss issues affecting the operation of the Group.

Ms. Wong Kit Fong is Mr. Wong’s sister while Ms. Wong Yee Kwan, Alvina is Mr. Wong’s daughter.

## **APPOINTMENT AND RE-ELECTION OF DIRECTORS**

All the independent non-executive directors are appointed for a fixed term. As regards the executive directors, only Mr. Ko Tin Chow is appointed for an initial fixed term of one year commencing from 1st December, 2005 while Mr. Wong, Ms. Wong Kit Fong and Ms. Wong Yee Kwan, Alvina are under no specific term of service. Having said that, all the directors (including the executive and independent non-executive directors) are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the bye-laws of the Company (the “Bye-laws”).

According to the Bye-laws, the chairman whilst holding such office is currently not subject to retirement by rotation while one third of the director for the time being shall retire from office by rotation at each annual general meeting and any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall retire and be subject to re-election. The above practice deviates from the provision A.4.2 of the Code which requires all directors appointed to fill casual vacancy be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years. Having reviewed the relevant Bye-laws, the Board proposed to put forth a special resolution in the coming annual general meeting to amend the Bye-laws to comply with the said code provision.

## **REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT**

### **Remuneration Committee**

The remuneration committee of the Company (the “Remuneration Committee”) was established with specific written terms of reference on 21st September, 2005 comprising 1 executive director and 2 independent non-executive directors. Mr. Tang Kai Kui, Terence is the chairman of the Remuneration Committee.

According to the terms of reference of the Remuneration Committee, its major roles and functions, inter alia, include making recommendations to the Board on the Company’s policy and structure for all remuneration of directors of the Company and senior management as well as reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

Since the Remuneration Committee was only set up in late September, 2005, therefore, during the financial year ended 31st December, 2005, the Remuneration Committee did not hold any meeting. The Company intends to schedule the first meeting of the Remuneration Committee within the second quarter of the financial year 2006.

The Company has adopted a share option scheme on 21st August, 2001, which serves as an incentive to attract, retain and motivate staff, including directors. Details of the share option scheme are set out in note 30 to the financial statements. The emolument payable to directors depends on their respective contractual terms under the service contracts (if any), and as recommended by the Remuneration Committee. Details of the directors’ emolument are set out in note 12 to the financial statements.

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## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The directors are responsible for overseeing the preparation of accounts and financial statements of each financial period. A statement by the auditors about their reporting responsibilities is set out on page 25 of this Annual Report.

### Internal Control

The Company has designed a set of internal control policy and the Board is responsible for overseeing the Company's system of internal control.

The Board has conducted review of the effectiveness of the system of internal control.

### Audit Committee

The audit committee of the Company (the "Audit Committee") has been established with specific written terms of reference comprising 3 independent non-executive directors. 1 member has appropriate professional qualifications or accounting or related financial management expertise. Mr Wan Ngar Yin David is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditors of the Company.

The existing terms of the reference of the Audit Committee was adopted in 2001 and the Board is considering of adopting a revised terms of reference to conform to and to implement the principles set out in the Code.

According to the existing terms of reference of the Audit Committee, its major roles and functions, inter alia, is to review the half-year and annual financial statements before submission to the Board and to review the Company's statement on internal control system. 2 meetings were held in 2005. The attendance of each member is set out as follows:

<b>Name of director</b>	<b>Number of Board meetings attended in the financial year ended 31st December, 2005</b>	<b>Attendance rate</b>
Wan Ngar Yin David	2	2/2
Lai Voon Wai	2	2/2
Alan Woo	2	2/2

At the meetings held during the year, the Audit Committee reviewed the financial reports for the year ended 31st December, 2004 and six months ended 30th June, 2005 and reviewed the effectiveness of internal control system of the Company.

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## Auditors' Remuneration

During the financial year ended 31st December, 2005, the remuneration paid to the Company's auditors, Deloitte Touche Tohmatsu, is set out as follows:

	<b>Services rendered Fees paid/ payable (HK\$'000)</b>
Audit services	850
Non-audit services	<u>155</u>
	<u><u>1,005</u></u>