

## CORPORATE GOVERNANCE REPORT

### CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. Throughout the year ended 31 December 2005, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code on CGP") listed out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

### BOARD OF DIRECTORS

The Board comprises:

#### Executive Directors

Ms. Chong Sok Un (*Chairman*)

Dato' Wong Peng Chong

Mr. Kong Muk Yin

#### Independent Non-executive Directors

Mr. Lo Wai On

Mr. Lau Siu Ki

Mr. Yu Qi Hao

The Board members have no financial, business, family or other material/relevant relationships with one another. Such balanced board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the Code on CGP for the Board to have at least one-third in number of its members comprising Independent Non-executive Directors.

The Independent Non-executive Directors possess appropriate professional qualifications or accounting or related financial management expertise. Having made specific enquiry with all Independent Non-executive Directors, all such Directors confirmed that they have met the criteria of Rule 3.13 of the Listing Rules regarding the guidelines for assessment of independence. The biographical details of the Directors are set out in page 7 of this Annual Report.

## CORPORATE GOVERNANCE REPORT

During the year, 4 full board meetings were held and the attendance of each Director is set out as follows:

| <b>Name of Directors</b>             | <b>Number of<br/>board meetings<br/>attended in 2005</b> | <b>Attendance<br/>rate</b> |
|--------------------------------------|--|----------------------------|
| Ms. Chong Sok Un ( <i>Chairman</i> ) | 4/4  | 100%                       |
| Dato' Wong Peng Chong                | 4/4  | 100%                       |
| Mr. Kong Muk Yin                     | 4/4  | 100%                       |
| Mr. Lo Wai On                        | 4/4  | 100%                       |
| Mr. Lau Siu Ki                       | 4/4  | 100%                       |
| Mr. Yu Qi Hao                        | 4/4  | 100%                       |

The board meeting schedule for a year is planned in the preceding year. At least 14 days notice of all board meetings is given to all Directors and they can include matters for discussion in the agenda if the need arises. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying board papers are sent to all Directors at least 3 days before the date of every board meeting so that the Directors have the time to review the documents.

Every Board member is entitled to have access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required. The Company Secretary continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group. In addition to its overall supervisory role, the Board also retains specific responsibilities such as approving specific senior appointments, approving financial accounts, recommending dividend payments, approving policies relating to the Board's compliance, etc whilst managing the Group's business is the responsibility of the management of the Group (the "Management").

When the Board delegates aspects of its management and administration functions to the Management, it has given clear directions, to the powers of the Management, in particular, with respect to the circumstances where the Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

### **Chairman and Chief Executive Officer**

The Chairman of the Company is Ms. Chong Sok Un. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by separate individuals who have no relationship with each other, except as fellow Directors, to strike a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the Board is responsible for the leadership and effective running of the Board, while the function of the Chief Executive Officer is performed by the two Executive Directors, namely Dato' Wong Peng Chong who is in charge of day-to-day business operations of the Group and Mr. Kong Muk Yin who is in charge of finance and accounts aspect of the Group. The functions and responsibilities between the Chairman and the two Executive Directors performing the function of Chief Executive Officer are clearly segregated.

## CORPORATE GOVERNANCE REPORT

### Appointment and Re-election of Directors

The Independent Non-executive Directors have been appointed for a specific term, 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, one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting. As the Board currently composes of six Directors, one-third of them shall retire subject to rotation, and barring unforeseen resignation or removal during a year, each Director is effectively appointed for an average term of not more than 3 years. The provision A.4.2 of the Code on CGP requires all Directors, including those appointed for a specific term, to be subject to retirement by rotation at least once every three years. This created a potential conflict with the Bye-laws, which exempt a Director, being the Chairman or Managing Director, from retirement by rotation. Having reviewed the relevant Bye-laws, the Board proposed to put forth a special resolution in the forthcoming annual general meeting of the Company to amend the Bye-laws to remove such potential conflict.

### BOARD COMMITTEES

The Board establishes committees to assist it in carrying out its responsibilities. The Board has appointed 4 Board committees, viz, the Executive Committee, Investment Committee, Remuneration Committee and Audit Committee to oversee particular aspects of the Group's affairs. Each of the committees has defined terms of reference setting out its duties, powers and function. The committees report regularly to the Board and, where appropriate, make recommendations on matters discussed.

#### Executive Committee

The Executive Committee was established on 23 May 1998 with terms of reference. The Committee is composed of the Chairman and two Executive Directors of the Board. The Executive Committee is responsible for approving and monitoring the daily operations of the Group. The Executive Committee held 11 meetings during the year.

#### Investment Committee

The Investment Committee was established on 2 February 2000 with terms of reference. The Committee is composed of the Chairman and two Executive Directors of the Board. The Investment Committee is responsible for approving and monitoring the Group's investment related activities. The investment committee met 4 times during the year.

#### Remuneration Committee

The Remuneration Committee was established on 15 April 2005 with terms of reference. The Committee comprises three Independent Non-executive Directors and two Executive Directors.

## CORPORATE GOVERNANCE REPORT

The meeting of the Remuneration Committee shall be held at least once a year. A meeting was held in 2005. The attendance of each member is set out as follows:

| <b>Name of member</b>              | <b>Number of meetings attended in 2005</b> | <b>Attendance rate</b> |
|------------------------------------|--|------------------------|
| Mr. Lau Siu Ki ( <i>Chairman</i> ) | 1/1  | 100%                   |
| Mr. Lo Wai On                      | 1/1  | 100%                   |
| Mr. Yu Qi Hao                      | 1/1  | 100%                   |
| Dato' Wong Peng Chong              | 1/1  | 100%                   |
| Mr. Kong Muk Yin                   | 1/1  | 100%                   |

The remuneration policy of the Group is to ensure all its employees are remunerated in line with market terms and individual performance.

At the meeting held during the year, the overall pay trend in Hong Kong of 2005 was reviewed and noted and the terms of reference of the Committee were revised.

The major roles and functions of the Remuneration Committee are as follows:

1. To review annually and recommend to the Board the overall remuneration policy for the Directors and senior management.
2. To review annually the performance of the Executive Directors and senior management and recommend to the Board specific adjustments in remuneration and/or reward payments.
3. To ensure that the level of remuneration for Independent Non-executive Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board.
4. To ensure that no Director is involved in deciding his own remuneration.

### **Nomination of Directors**

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors.

According to the Bye-Laws, notice in writing of the intention to propose a person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office of the Company at least seven days before the date of the general meeting, or else no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting.

## CORPORATE GOVERNANCE REPORT

The period for lodgment of the notices referred to above will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

During the year, no new members have been appointed to the Board.

The detailed information on election of Directors including detailed biography of all Directors standing for election or re-election to ensure shareholders to make an informed decision on their election has been set out in the circular regarding, inter alia, the share repurchase mandate, notice of annual general meeting and the amendment of Bye-laws (the "Share Repurchase Circular").

### Audit Committee

The Audit Committee of the Company comprises three Independent Non-executive Directors.

The Audit Committee shall meet at least twice a year. 5 meetings were held during the year. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate, the attendance of each member is set out as follows:

| Name of member                    | Number of meetings<br>attended in 2005 | Attendance<br>rate |
|-----------------------------------|--|--------------------|
| Mr. Lo Wai On ( <i>Chairman</i> ) | 5/5                                    | 100%               |
| Mr. Lau Siu Ki                    | 5/5                                    | 100%               |
| Mr. Yu Qi Hao                     | 5/5                                    | 100%               |

During the meetings held in 2005, the Audit Committee had performed the following work:

- (i) reviewed the financial reports for the year ended 31 December 2004 and for the six months ended 30 June 2005;
- (ii) reviewed the effectiveness of internal control system;
- (iii) reviewed the external auditors' statutory audit plan and engagement letter;
- (iv) reviewed the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2004; and
- (v) reviewed and recommended for approval by the Board the 2005 audit scope and fees.

## CORPORATE GOVERNANCE REPORT

The major roles and functions of the Audit Committee are as follows:

1. To consider the appointment of the external auditors, the audit fees, and any questions of resignation or dismissal of the external auditors of the Group.
2. To discuss with the external auditors the nature and scope of the audit.
3. To review the interim and annual financial statements before submission to the Board.
4. To discuss problems and reservations arising from the interim review and final audit, and any matters the auditors may wish to discuss.
5. To review the external auditors' management letters and management's response.
6. To review the Company's systems of financial controls, internal controls and risk management to ensure that they are appropriate and functioning properly.
7. To consider any findings of major investigations of internal control matters and management's response.

### AUDITORS' REMUNERATION

During the year under review, the remuneration paid or payable to the Company's auditors, Messrs Deloitte Touche Tohmatsu, is set out as follows:

| <b>Services rendered</b> | <b>Fees paid/payable<br/>HK\$</b> |
|--------------------------|-----------------------------------|
| Audit services           | 740,000                           |
| Non-audit services       | 207,937                           |
|                          | 947,937                           |

### INTERNAL CONTROL

The Board and senior management are responsible for establishing, maintaining and operating an effective system of internal control. The internal control system of the Company comprises a well-established organizational structure and comprehensive policies and standards. The Board has clearly defined the authorities and key responsibilities of each business and operational unit to ensure adequate checks and balances.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group's assets.

## CORPORATE GOVERNANCE REPORT

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

- a) The Executive Committee was established to ensure the effectiveness of the Group's daily operations and that the Group's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- b) The Audit Committee of the Company reviews internal control issues identified by external auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems.
- c) The Investment Committee was established to monitor the Group's investment related activities and respective operating and financial policies.
- d) The Remuneration Committee was established to ensure all the Directors and the senior management of the Group are remunerated in line with market terms and individual performance.
- e) The corporate reporting functions are delegated to the accounting department in terms of proper and regular reviews on the deployment of resources and financial reporting systems. The corporate governance practices and compliance with the Listing Rules, Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and other applicable regulations are delegated to the company secretarial department. The Management reviews the system of internal controls and briefs the reporting systems with the Executive Directors regularly and the Audit Committee annually.
- f) Every newly appointed Director was provided with a comprehensive handout detailing the responsibilities and duties of being a director of the Company. In particular highlighting the respective applicable rules and regulation, including the Listing Rules, which a director should aware and be informed on the first occasion of his appointment with the Company.
- g) 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 in Appendix 10 of the Listing Rules (the "Model Code"). A copy of the Model Code was sent to each Director and the relevant employees of the Group who are required to be provided under the Model Code. Enquiries have been made with Directors and all the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year.

## CORPORATE GOVERNANCE REPORT

### ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give to true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2005, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgments and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

### COMMUNICATION WITH SHAREHOLDERS

The Company establishes and maintains different communication channels with its shareholders through the publication of annual and interim reports and press announcement. Such information is also available on the Company website.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. At the Company's 2005 Annual General Meeting, Chairman of the Board as well as Chairman of the Audit Committee and Remuneration Committee were present to answer shareholders' questions.

Details of the poll voting procedures and the rights of shareholders to demand a poll were included in the Share Repurchase Circular to shareholders dispatched together with the annual report. The said circular also included relevant details of proposed resolutions, including biography of each candidate standing for re-election.

At the Company's 2005 Annual General Meeting, all the resolutions were dealt with on a show of hands. All resolutions were unanimously passed.