

# Report of the Corporate Governance

## CORPORATE GOVERNANCE PRACTICES

The Board considers that good corporate governance of the Company is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Board is committed to maintain and ensure high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) for the year ended 31 December 2005, except for the deviations from provisions A.2.1 and A.4.1 of the CG Code in respect of segregation of the roles of Chairman and Chief Executive Officer, and appointment of Independent Non-executive Directors for specific terms. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules for securities transactions by Directors of the Company in 2004. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2005.

## THE BOARD

Member Attendance of Board and committee meetings for the year 2005

Name of Directors	Board	Meetings Attended/Held		Nomination Committee
		Audit Committee	Remuneration Committee	
<i>Executive Directors</i>				
Mr. LIN Chun Kuei	4/4		2/2	1/1
Mr. Andree HALIM	2/4			
Mr. NG Kin Nam	4/4			
Mr. LI Chien Kuan	4/4		2/2	1/1
Mr. LIN Chun Fu	3/4			
Mr. Graeme Stanley POPE**	2/4			
Mr. GUO Yah Taur	0/4			
Ms. LIN HUANG Su Feng *	2/2			
Mr. LIN Wei-Hung *	0/2			
Mr. Daniel HALIM*	0/2			
Mr. CHEUNG Kwok Ping*	1/2			
<i>Non-executive Director</i>				
Mr. TAN Kong King*	0/2			
<i>Independent Non-executive Directors</i>				
The Hon. Bernard Charnwut CHAN	4/4	2/2	2/2	1/1
Mr. GOH Gen Cheung	4/4	2/2	2/2	1/1
Mr. MA Chiu Cheung, Andrew	4/4	2/2	2/2	1/1

\* Appointment dated 1 July 2005

\*\* Resignation dated 9 March 2006

As on the date of this report, the Board comprised fourteen Directors. There are ten Executive Directors including one Chairman and Chief Executive Officer, and two Co-vice Chairmen; one Non-executive Director; and three Independent Non-executive Directors. In addition, one of the Independent Non-executive Directors possesses appropriate professional accounting qualifications and financial management expertise. Detailed biographies outlining each individual Director's range of specialist experience can be found on pages 14 to 16.

The Board meets regularly throughout the year, the principal focus of the Board is on the overall strategic development of the Group. The Board also monitors the financial performance and the internal controls of the Group's business operations, and delegates responsibility for individual Director and management for overseeing the Group's business operations, implementing the strategies laid down by the Board and making day-to-day operating decisions.

The Chairman and Chief Executive Officer of the Company is Mr. Lin Chun Kuei. This deviates from provision A.2.1 of the CG Code which stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Lin Chun Kuei is the one of the founders of the Group and is primarily responsible for leadership of the Board, ensuring the effectiveness on all aspects of its role and setting its agenda, whereas clearly established executive responsibilities for running of the business operations of the Group lie with different designated senior executives. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a professional and independent non-executive element on the Board and a clear division of responsibility for the running of the business of the Group. The Board believes that the structure outlined above is beneficial to the Company and its business.

The Non-executive Director, with a wide range of expertise and a balance of skills, brings independent judgment on issues of strategic direction, development, performance and risk management.

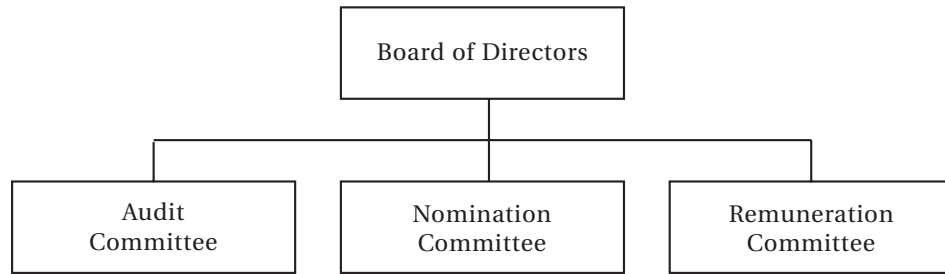
The Independent Non-executive Directors also serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. The Board considers that each Independent Non-executive Director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules. The Company has received from each Independent Non-executive Director an annual confirmation or confirmation of his independence pursuant to Rule 3.13 of Chapter 3 of the Listing Rules and the Company still considers such Directors to be independent. The Independent Non-executive Directors are explicitly identified in all corporate communications.

The three Independent Non-executive Directors of the Company are not appointed for a specific term. This deviates from provision A.4.1 of the CG Code which provides that Non-executive Directors should be appointed for a specific term, subject to re-election. Currently, the three Independent Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Bye-laws of the Company.

The Board has established audit, remuneration and nomination committees in accordance with the CG Code and all or a majority of the members of the committees are Independent Non-executive Directors.

Minutes of Board meetings and meetings of committees are kept by duly appointed secretaries of the respective meetings and all Directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

The Board considers that the Group has sufficient and appropriate liability insurance to cover its Directors and senior management team against any legal liability arising from their performance of their duties.



The Board has established three committees with clearly-defined written terms of reference. The main roles and responsibilities of these committees, including all authorities delegated to them by the Board, as set out in the terms of reference, are dispatched to all members already. The different committees' independent views and recommendations not only ensure proper control of the Group but also the continual achievement of the high corporate governance standards expected of a listed company. The Chairman of each committee reports the outcome of the committee's meetings to the Board for further discussion and approval.

### AUDIT COMMITTEE

The audit committee was set up on 1 January 1999 and provides the Board with advice and recommendations. All audit committee members are Independent Non-executive Directors. The audit committee is chaired by Mr. Ma Chiu Cheung, Andrew which is currently a director of Andrew Ma DFK (CPA) Limited and has over 30 years of experience in accounting and finance. All members of this committee hold the relevant industry and financial experience necessary to advise on Board strategies and other related matters.

#### Composition of the audit committee:

Mr. Ma Chiu Cheung, Andrew (*Chairman*)  
 The Hon. Bernard Charnwut Chan  
 Mr. Goh Gen Cheung

The audit committee's functions are:

- to decide on the appointment, terms of engagement of the external auditors;
- to review and monitor financial reporting and the reporting judgment contained in them; and
- to review financial and internal controls, accounting policies and practices with management, and external auditors.

Every year, the Chairman of the audit committee meets with the Group's external auditors to discuss the annual audit plan. The meetings of the audit committee are attended by members of the committee, and where necessary, the external auditors. External auditors made presentations to the audit committee on the implications of the introduction of new accounting standards in Hong Kong. The audit committee subsequently reported its recommendations to the Board for further review and approval. The audit committee is also entrusted with monitoring and assessing the independence and objectivity of the external auditors and the effectiveness of the audit process. All external audit partners are subject to periodic rotations, and where necessary, and the ratio of annual fees for non-audit services and for audit services is subject to close scrutiny by the audit committee.

During the year under review, the fees paid to the Group's external auditors were as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Auditors fees	<b>3,216</b>	3,375

The audit committee has concluded that it is satisfied with the findings of its review of the audit and non-audit service fees, process and effectiveness, independence and objectivity.

The Group's annual report for the year ended 31 December 2005 has been reviewed by the audit committee.

### **NOMINATION COMMITTEE**

The nomination committee was set up on 12 April 2005, which is responsible for nominating and affirming candidates approved by the Board, reviewing the structure and composition of the board on a regular basis, ensuring the competitive position of the organization, evaluating the leadership abilities of Executive and Non-executive Directors and ensuring fair and transparent procedures for the appointment of directors to the Board. The committee holds regular meetings every year and provides advice and suggestions to the Board. The majority of the nomination committee members are Independent Non-executive Directors.

#### **Composition of the nomination committee:**

The Hon. Bernard Charnwut Chan (*Chairman*)

Mr. Goh Gen Cheung

Mr. Ma Chiu Cheung, Andrew

Mr. Lin Chun Kuei

Mr. Li Chien Kuan

### **REMUNERATION COMMITTEE**

The remuneration committee was set up on 12 April 2005, which is responsible for formulating and making recommendation to the Board on the Group's policy and structure for all the remunerations of the Directors and senior management and on the establishment of a formal and transparent procedures for developing policy on such remuneration. The committee holds regular meetings every year and provides advice and suggestions to the Board of the Group. The majority of the remuneration committee members are Independent Non-executive Directors.

#### **Composition of the remuneration committee:**

Mr. Goh Gen Cheung (*Chairman*)

The Hon. Bernard Charnwut Chan

Mr. Ma Chiu Cheung, Andrew

Mr. Lin Chun Kuei

Mr. Li Chien Kuan

### **Executive Directors, Non-executive Director, Independent Non-executive Directors and Senior Management's Remuneration:**

The remuneration committee annually reviews and approves the basic salary of all individual Directors and senior management of the Group. Details of each Director's salary are set out in note 8 to the financial statements.

## **INTERNAL CONTROL**

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control systems and reviewing their effectiveness. The role of the Group's management is to implement all Board policies on risk and control.

The Group's internal control systems are designed to provide reasonable protection of the Group's assets, and to safeguard these assets against unauthorized use or disposition by ensuring that all such transactions are executed in accordance with management's authorisation. The systems also ensure that accounting records are sufficiently accurate for the preparation of financial information used for operation and for reporting purposes. The Group has adopted proper procedures with duly assigned levels of authority in areas of financial, operational and compliance controls and risk management to ensure that its assets and resources remain secure at all times.

## **DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors are responsible for the preparation of accounts for each financial period which give a 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 applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

## **INVESTORS RELATIONSHIP AND COMMUNICATION**

The Company endeavours to maintain a high level of transparency in communicating with shareholders and investors at large. The Company is committed to continue to maintain an open and effective investors communication policy and to update investors on relevant information on its business in a timely manner, subject to relevant regulatory requirements. In order to ensure effective, clear and accurate communications with the investors and analysts, all corporate communications are arranged and handled by the Executive Directors and designated senior executives according to established practices and procedures of the Company.