



## Shareholder Value

The Company is committed to upholding the principles of good corporate governance that supports wealth creation, which in turn drives more investment and employment. These principles highlight an effective board, a sound internal control system as well as transparency and accountability. The board considers such commitment essential in balancing the interests of investors, customers and employees while advancing shareholder wealth through greater efficiency. The Company sees to it that the corporate governance agenda is focused on improving performance and not just bogged down in conformity and compliance.

## Corporate Governance Practices

The Stock Exchange of Hong Kong Limited announced its amendments to the Main Board Listing Rules (the “Listing Rules”) introducing the Code on Corporate Governance Practices (the “CG Code”) in place of the Code of Best Practice in Appendix 14. Subject to the implementation and transitional arrangements set out in Appendix 2 to the Exposure Conclusions Report, the rule amendments came into effect on 1 January 2005.

The Company has put in place corporate governance practices to meet the code provisions in the CG code throughout the year, except for the deviations from code provisions B.1.1, C.3.3 and A.4.2.

Code provision B.1.1 stipulates that issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties and that a majority of the members of the remuneration committee should be independent non-executive directors. Compliance with code provision B.1.1 was achieved on 30 June 2005.

Code provision C.3.3 stipulates that the terms of reference of the audit committee should include at least the duties set out under sub-paragraphs C.3.3 (a) to (n) of the CG Code. Compliance with code provision C.3.3 was achieved on 30 June 2005.

Code provision A.4.2 stipulates that all directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Under the Company’s articles of association: (a) any director appointed to fill a causal vacancy or as an addition to the board shall hold office only until the next following annual general meeting (article 94); and (b) all directors except the chairman shall be subject to retirement by rotation at least once every three years (articles 81, 82). In the latter connection, Mr. Cheung Chung Kiu, chairman of the directors, has never been subject to retirement by rotation since his appointment on 21 March 2001; nor has he been taken into account in determining the number of directors to retire each year.

In order to ensure compliance with code provision A.4.2, the board proposes to pass a special resolution to give effect to the necessary amendments to the articles of association at the forthcoming annual general meeting. Particulars of the proposed amendments are set out in a circular incorporating the notice of annual general meeting to be sent to shareholders in due course.



## Directors' Securities Transactions

The Company has laid down a code (the "Securities Code") for directors' dealings in its securities (of which the model code for dealings by directors contained in Appendix 10 to the Listing Rules (the "Model Code") forms part) at least as exacting as the Model Code. Each director is given a copy of the Securities Code on appointment (or has been given one for those appointed before the adoption of the Securities Code) and thereafter twice annually, one month before the date of the board meeting to approve the Company's half-year results or annual results, notification of the restraint period during which the directors (and their spouses and infant children) must not deal in any of the Company's securities.

The Company has also laid down a code of conduct for relevant employees (within the meaning of the CG Code) regarding securities transactions on no less exacting terms than the Model Code. Notification of the restraint period is given to the relevant employees at the same time as it is given to the directors.

All directors have confirmed, following specific enquiries by the Company, that they have complied with the required standard set out in the Model Code and the Securities Code throughout the year.

## Board of Directors

The Company is governed by a board of directors which assumes responsibility for leadership and control of the Company. The directors are collectively responsible for promoting the success of the Company by directing and supervising its affairs. In discharging their duties, the directors exercise care, diligence and skill and act in good faith and in the best interests of the Company and its shareholders as a whole.

The board is structured so that it makes the maximum contribution to the overall objective of preserving and creating wealth for shareholders. As at the date of this report, it comprises the chairman, the managing director and four other executive directors; and four non-executive directors, three of whom are independent non-executive directors. Biographical details of the directors, which show a good balance of skills and experience among them, are given on pages 13 and 14.

The board met four times during the year at approximately quarterly intervals. Individual attendance of each director at these regular board meetings is set out in the table below.



## Board of Directors (continued)

| Board of Directors                                 | Regular Board Meetings Attended / Held |
|--|--|
| <i>Executive Directors</i>                         |  |
| Cheung Chung Kiu ( <i>Chairman</i> )               | 4/4                                    |
| Yeung Hin Chung, John ( <i>Managing Director</i> ) | 4/4                                    |
| Yuen Wing Shing                                    | 4/4                                    |
| Wong Chi Keung                                     | 4/4                                    |
| Leung Wai Fai                                      | 4/4                                    |
| Tung Wai Lan, Iris                                 | 3/4                                    |
| <i>Non-executive Director</i>                      |  |
| Lee Ka Sze, Carmelo ( <i>Note 1</i> )              | 3/4                                    |
| <i>Independent Non-executive Directors</i>         |  |
| Wong Wai Kwong, David ( <i>Note 1</i> )            | 4/4                                    |
| Wong Yat Fai ( <i>Note 2</i> )                     | 4/4                                    |
| Ng Kwok Fu ( <i>Note 2</i> )                       | 4/4                                    |

### Notes:

1. The term of office for Mr. Lee Ka Sze, Carmelo and Mr. Wong Wai Kwong, David is currently two years, commencing 29 April 2005. Both retire at the annual general meeting in 2007 and shall then be subject to re-election.
2. The term of office for Mr. Wong Yat Fai and Mr. Ng Kwok Fu is currently one year, commencing 29 April 2005. Both retire at the forthcoming annual general meeting and shall then be subject to re-election.
3. Notwithstanding their terms of appointment, all the four non-executive directors are subject to retirement by rotation at least once every three years under the Company's articles of association and the Listing Rules.

The board's primary role is to protect and maximize long-term shareholder value and to balance broader stakeholder interests. It sets the business strategy of the Group and monitors its development in pursuit of the overall objective of wealth preservation and creation.

The board, led by the chairman, is accountable to shareholders for the management of the Company. It appoints management and delegates thereto the powers and the authority to manage the Company while reserving certain decisions and actions for itself, and performing them effectively. The managing director in turn delegates aspects of management and administrative functions to executives who report directly to him on a regular basis.

Besides management appointments, the types of decisions to be taken by the board include the following: board and senior management; relations with the members and stakeholders; financial matters; business strategy; capital expenditures; lease or purchase of buildings; major transactions not included in the budget; actions or transactions involving legality or propriety; and internal control and reporting systems.



## Board of Directors *(continued)*

The directors acknowledge their responsibility for preparing the accounts. Such responsibility extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

The board is also responsible for the integrity of financial information and for ensuring its timely disclosure. Arrangements are made which will allow them to be satisfied that the accounts are true and fair, which accurately disclose the financial position of the Company, and which comply with statutory requirements and applicable accounting standards.

The board has delegated the day-to-day operations of the Company to a committee comprising all the executive directors and given clear directions as to the powers of management conferred thereon. The executive committee so established forms the core of the management team, with additional members from the second line of management.

The main responsibilities of management are to execute the business strategies and initiatives adopted by the board; to consider and approve investments and divestments; and to manage the assets and liabilities of the Group in accordance with the policies and directives of the board.

Management reviews the operating and financial performance of the Group against agreed budgets and targets on a monthly basis. Major matters that are specifically discharged by management are the preparation of annual and interim reports, the implementation of systems of internal control and risk management, and compliance with all applicable rules and regulations.

The board has ratified a written statement giving clear directions as to the functions reserved for itself and those delegated to management. It reviews these arrangements on an annual basis to ensure that they remain appropriate to the needs of the Company.

In addition to the executive committee, the board has appointed two board committees (the remuneration committee and the audit committee) to deal with specific matters and to advise the board or, where appropriate, decide on behalf of the board on such matters. Both these committees have terms of reference which accord with the principles set out in the CG Code and are posted on the Company's website. The secretary of each appointed committee minutes all matters discussed or decided at each meeting and the work of each committee is reported to the board. Further information relating to the remuneration committee and the audit committee is provided in the remainder of this report.

The board has separate and independent access to information and to executives at all times. Management ensures that the board and its committees receive adequate information in a timely manner to enable them to make informed decisions. The right of access extends to board papers and related materials, as well as to the secretary of the Company who regularly updates the board on governance and regulatory matters. Any director, wishing to do so in furtherance of his or her duties, may seek through the chairman at the Company's expense such independent professional advice as may be recommended by the Company or as deemed fit by the independent non-executive directors provided that such approval may not be unreasonably withheld or delayed. The provision of independent professional advice is also available to the remuneration and audit committees.



## Board of Directors *(continued)*

New directors, together with existing board members, are provided with the opportunity to visit the operating divisions and meet up with management to gain a proper understanding of the Group's business and operations. Each newly appointed director is given a package of materials comprising the latest quarterly management reports, annual and interim reports of the Company, as well as guidelines on directors' duties and on corporate governance. In addition, the mini-library maintained by the company secretarial department, open to directors and senior management during office hours, is well stocked with publications of the Company and all applicable rules, codes, ordinances and acts to the Group. Directors are welcome to borrow these materials and make copies of them.

The Company has in force appropriate insurance cover on directors' and officers' liabilities arising from the Group's business. The extent of insurance cover is reviewed by management each year.

## Chairman and Managing Director

The positions of chairman and managing director are held by separate individuals with the defined roles of managing the board and managing the affairs of the Company respectively. The board considers that vesting the roles in different individuals is essential in ensuring a balance of power and authority and in upholding independence, accountability and responsibility with respect to the management of the Company. The division of responsibilities between the chairman and managing director has been clearly established and set out in writing.

The chairman provides leadership for the board, ensuring its effectiveness in all aspects of its role. The managing director, supported by the management team, provides planning and implementation.

The chairman ensures that all directors are properly briefed on issues arising at board meetings and that all key and appropriate issues are discussed by the board in a timely manner. Board meetings for each year are scheduled in advance to give all directors an opportunity to attend, and are structured to encourage open discussion. All board members are encouraged to update their knowledge and familiarity with the Group through active participation at board meetings.

The chairman settles the agenda for each individual board meeting, taking into account any additional items proposed by the managing director and arising from current operating issues, as well as such other matters as may be raised by the other directors with him, who can include them on the agenda. The agenda and accompanying board papers are sent in full to all directors where possible at least 3 days before the time appointed for the meeting.

It is also the chairman's responsibility to control board meetings, to lead the board's discussions to clear conclusions, and to satisfy himself that the secretary of the meeting has understood each conclusion reached. Both the secretary and the qualified accountant of the Company attend board meetings to advise on corporate governance practices and accounting and financial matters, where appropriate.

Minutes of board meetings and meetings of board committees are kept by a duly appointed secretary of the meeting and open for inspection by any director.



## Remuneration of Directors

The Company established the remuneration committee on 30 June 2005 to discharge remuneration related duties, namely, to make proposals on remuneration policy and structure (and where appropriate, determine remuneration packages) and other human resources issues relating to directors and senior management.

As at the date of this report, the remuneration committee comprises the chairman of the board, Mr. Cheung Chung Kiu who is also chairman of the committee, and two independent non-executive directors, Mr. Wong Yat Fai and Mr. Ng Kwok Fu.

The remuneration committee met once during 2005 with attendance rate of 100%. No member took part in any discussion about his own remuneration at the meeting.

The principal elements of the executive remuneration package include basic salary, discretionary bonus without capping and share option (if any). The emoluments received by every executive director and senior executive are based on time commitment and responsibilities to be undertaken, and are determined with reference to corporate and individual performance as well as remuneration benchmark in the industry and the prevailing market conditions.

The primary goal of the remuneration policy on executive remuneration packages is to enable the Company to retain and maintain a stable, motivated and high-calibre management team by linking their remuneration with performance as measured against corporate objectives. Under the policy, no director is allowed to approve his or her own remuneration.

The remuneration committee has reviewed this policy, and determined individual remuneration packages of all executive directors in accordance therewith while delegating the approval of senior management's remuneration packages to Mr. Cheung Chung Kiu and Mr. Yuen Wing Shing. The committee considered that the executive directors' remuneration for 2005 was in line with comparators in peer group companies.

The remuneration of non-executive directors is subject to annual assessment and determined with reference to his qualifications, experience, involvement in the Company's affairs and the prevailing market level or remuneration of similar position.

Details of directors' remuneration, as determined by or on behalf of the board, are set out in note 7 to the financial statements on page 70.

## Nomination of Directors

The full board participates in the selection of individuals nominated for directorships and the Company has not established a nomination committee. Individuals, suitably qualified and expected to make a positive contribution to the performance of the Company, are identified by existing directors and nominated to the board. When assessing the suitability of a candidate, the board takes into consideration factors such as time commitment, professional knowledge, expertise and industry experience, integrity and skill as well as the ability to demonstrate a standard of competence commensurate with the position as a director of a listed company. A candidate to be appointed as independent executive director must also satisfy the independence criteria set out in rule 3.13 of the Listing Rules.



## Auditors' Remuneration

Auditors' remuneration for the year amounted to a total of HK\$0.9 million for the year, of which HK\$0.8 million was paid for audit service and HK\$0.1 million for tax and consultancy services.

## Audit Committee

The Company established an audit committee on 1 January 1999 with reference to the guidelines issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). As mentioned earlier in this report, new terms of reference were adopted on 30 June 2005 to meet the requirements of the CG Code.

The audit committee is tasked with responsibilities relating to the auditing of the accounts, the accounting policies and practices adopted by the Group as well as financial reporting and internal control matters. The committee meets regularly to discuss these matters and to this end has unrestricted access to the Company's management and external auditor. The committee is chaired by Mr. Wong Wai Kwong, David, an independent non-executive director with extensive experience in finance, accounting, corporate and taxation affairs. Other members are Mr. Wong Yat Fai and Mr. Ng Kwok Fu, who are independent non-executive directors, and Mr. Lee Ka Sze, Carmelo, non-executive director.

Regular meetings have been held by the audit committee since its establishment. The committee met twice, with management and the external auditor, during 2005. The attendance rate was 100% at both meetings.

The work performed by the audit committee during 2005 revolved around the above responsibilities. The committee reviewed the interim and annual reports and accounts, paying attention to any changes in accounting policies and practices, major judgmental areas and significant adjustments arising from audit. It also reviewed the external auditor's management letter and management's response, if any, and discussed with management internal controls and the need for an internal audit division. The work and findings of the audit committee for the year covered by the annual report were reported to the board.

At the meeting last held in March 2006, the audit committee considered the projected audit fees and discussed with the external auditor their independence and scope of the audit. The committee also received a report from management on their review of the effectiveness of the internal control system in respect of 2005. The control areas referred to in the report covered financial, operational and compliance as well as risk management. Management concluded, they were satisfied that the prevailing internal control system was adequately in place and had been properly implemented by the relevant personnel, and there revealed no significant areas of improvement which were required to be brought to the attention to the audit committee. The committee discussed the report and concurred with the conclusion reached.



## Audit Committee *(continued)*

The audit committee was satisfied with the findings of its review with respect to audit fees and other audit issues, including the external auditor's independence and objectivity and the effectiveness of the audit process. The committee was also satisfied that all issues raised at the committee meetings had been addressed by management, who confirmed that save as disclosed in the accounts, there existed no other matters which were required to be brought to the attention of the committee.

The audit committee has recommended to the board the re-appointment of KPMG as the Company's external auditor for 2006 and the adoption of the accounts in respect of 2005 at the forthcoming annual general meeting.

## Conclusion

The board believes that the Company has already in place a good corporate governance structure to ensure its effective supervision of management. The board continually reviews the effectiveness of these practices to assess whether any changes or improvements are necessary.