

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board is committed to upholding a high standard of corporate governance practices and business ethics in the firm belief that they are essential for maintaining and promoting investors' confidence and maximising shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

The Code on Corporate Governance Practices ("CG Code") issued by the Stock Exchange of Hong Kong Limited ("Stock Exchange") came into effect on 1 January 2005. The CG Code sets out two levels of corporate governance practices namely, mandatory code provisions that a listed company must comply with or explain its non-compliance, and recommended best practices that listed companies are encouraged to comply with but need not disclose in the case of non-compliance. For the year ended 31 December 2005, the Company is in compliance with the mandatory code provisions of the CG Code except for certain areas of non-compliance that are discussed later in this report.

THE BOARD AND THE MANAGEMENT

The Board lays down corporate strategies, approves overall business plans and, on behalf of the shareholders, supervises the company's financial performance, its management and organization. The Board is also responsible for overseeing the preparation of financial statements of each financial period, which give a true and fair view of the state of affairs the Group and of the results and cash flow of that period. The Board defines the scope within which the management team carries out day-to-day management tasks. Each of executive directors oversees specific areas of our business.

The Board determines the Company's overall objectives, strategies and business plans based on the recommendations of the management team and approves the key figures underlying the budgets prepared by the management team.

The Board reviews and approves the Company's budgets and checks to see if the targets are being achieved. It also monitors the Company's liquidity and cash positioning. It approves the Company's significant transactions.

The Board and management team handle price sensitive information with strict confidence. Public announcements are made in a timely manner to keep shareholders and the public abreast with the latest developments.

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BOARD COMPOSITION

The Board comprises seven Directors, more than one-third of the Directors are non-executive and independent of management, thereby promoting critical review and control of the management process. The Board are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The Board has a balance of skill and experience appropriate for the requirements of the Group's businesses. As at the date of this report, four of the Directors are executive, namely Mr. TSANG Chiu Mo Samuel, Executive Chairman, Mr. TSANG Chiu Ching, Ms. CHU Ming Tak Evans Tania and Mr. WU Binqun, and three of the Directors are independent non-executive, namely Mr. HUI Yan Kit, Mr. YU Yun Kong and Mr. HUNG Sui Kwan. Each of Directors' respective biographical details is set out in the "Biographical Details of Directors" of this annual report. It is the opinion of the Directors that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company.

During the year ended 31 December 2005, the Board at all time met the minimum requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, and complied with the requirement that these should include one such director with appropriate professional qualifications of accounting or related financial management expertise. Both of Mr. YU Yun Kong and Mr. HUNG Sui Kwan have the appropriate professional qualifications and experience in financial matters required. Pursuant to the requirement in the Listing Rules, the Company has received a written confirmation from each of the independent non-executive Directors of his independence to the Company.

BOARD PRACTICES

The Board meets at least four times each year at approximately quarterly intervals to discuss the Group's business development, operation and financial performance. Notice of at least 14 days is given to all Directors for all regular Board meetings to give all Directors an opportunity to attend. All regular Board meetings adhere to a formal agenda in which a schedule of matters is addressed to the Board. All Directors have access to board paper and related materials, and are provided with adequate information which enable the Board to make an informed decision on the matters to be discussed and considered at the Board meetings. Minutes of Board meetings are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

To facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information, when required and the Directors can obtain independent professional advice at the Company's expense.

To the best knowledge of the Company, there is no financial, business, family relationship among the members of the Board except that Mr. TSANG Chiu Mo Samuel is a brother of Mr. TSANG Chiu Ching. Each of Directors also does not have any direct or indirect material relationship with the Group.

No insurance coverage has been purchased for any of the Directors as the Board does not foresee any contingent liabilities against the Group.

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During the year ended 31 December 2005, 8 Board meetings have been held. Details of the attendance of the Directors are as follows:

	Number of Board meeting attended/ Number of Board meeting held			
	Board	Audit Committee	Nomination Committee	Remuneration Committee
<i>Executive Directors</i>				
Mr. TSANG Chiu Mo Samuel (<i>Chairman and the Chief Executive Officer</i>)	7/8	0/0	0/0	0/0
Mr. TSANG Chiu Ching	8/8	0/0	0/0	0/0
Ms. CHU Ming Tak Evans Tania	8/8	0/0	0/0	0/0
Mr. WU Binquan (appointed on 1 February 2006)	0/0	0/0	0/0	0/0
<i>Independent non-Executive Directors</i>				
Mr. HUI Yan Kit	5/8	1/2	0/1	0/1
Mr. YU Yun Kong	3/8	2/2	1/1	1/1
Mr. HUNG Sui Kwan	3/8	2/2	1/1	1/1

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of 2 years and will continue thereafter unless and until terminated by either party giving not less than six months' prior notice in writing to the other. With the exception of Mr. TSANG Chiu Mo Samuel as the Executive Chairman of the Company, all Directors are subject to retirement from office by the rotation at each annual general meeting as required by the bye-laws of the Company ("Bye-laws").

The independent non-executive Directors were not appointed for a specific term but subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws. In order to comply with the CG Code, on 16 September 2005, service contracts have been entered between the Company with each of the independent non-executive Directors providing, amongst other things, their term of offices for an initial period of 1 year and will continue thereafter unless and until terminated by either party giving not less than one months' prior notice in writing to the other. Moreover, they would also be subject to retirement by rotation at each annual general meeting of the Company.

In accordance with the Bye-laws, all Directors (except the Chairman and/or Managing Director) are subject to retirement by rotation and re-election at annual general meetings of the Company. Directors appointed by the Board during the year are required to retire and submit themselves for re-election at the first annual general meeting immediately following their appointments. Further, at each annual general meeting, one-third of Directors (excluding the Chairman and/or Managing Director), or, if their number is not a multiple of three, then the number nearest to but not greater than one-third are required to retire from office.

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Since the existing Bye-laws governing the retirement of Directors deviate from the CG Code provisions in the following aspects: (i) unlike the other Directors, the Chairman and/or Managing Director is not subject to retirement by rotation; (ii) new Directors appointed to fill casual vacancies are subject to election by shareholders at the first annual general meeting instead of the first general meeting after their appointments; and (iii) the Directors who are subject to retirement by rotation are not explicitly subject to retirement at least once every three years, the Board has proposed to the shareholders of the Company to amend the Bye-laws to bring them in compliance with the CG Code at the coming annual general meeting.

Each newly appointed Director is provided with a package of orientation materials setting out the duties and responsibilities of Directors under the Listing Rules, related ordinances and relevant regulatory requirements of Hong Kong. Orientation meeting with newly appointed Director would be held for briefing on business and operations of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors (the "Model Code"). Having made specific enquiry with all Directors, the Company confirmed that all the Directors have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 December 2005.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same person. Mr. TSANG Chiu Mo Samuel is the Executive Chairman of the Company and no Chief Executive Officer has been appointed. The responsibilities of Chief Executive Officer have been carried out by Mr. TSANG Chiu Mo Samuel. The Board believes that it is in the best interest of the Company and the Shareholders as a whole for Mr. TSANG Chiu Mo Samuel, who is knowledgeable in the business of the Group and possesses the essential leadership skills to guide discussions of the Board in an effective manner, to continue to carry out the responsibilities of Chief Executive Officer, which ensures on the effectiveness and efficiency of the decision making process of the Board.

COMMITTEES OF THE BOARD

Nomination Committee

The Nomination Committee was established on 16 September 2005 with a written terms of reference which are available from the Company Secretary at any time. The terms of reference of the Nomination Committee include making recommendations for all appointment, re-designation and re-appointment of Directors to the Board. It comprises of three members, all of whom are independent non-executive directors, namely Mr. HUNG Sui Kwan (Chairman of the Committee), Mr. YU Yun Kong and Mr. HUI Yan Kit.

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The Nomination Committee is also responsible for determining the independence of each Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board. In evaluating the Board's performance, the Nomination Committee considers a number of factors, including those set out in the Code.

The Nomination Committee meets at least once a year. During the year, the Nomination Committee has held its first meeting on 16 September 2005 to define its terms of reference, to review the structure, size and composition of the existing Board, and to recommend to the Board that the structure, size and composition (including the skills, knowledge and experience) of the Board members and senior staffs of the Company are able to running the business of the Group steadily.

The attendance of each member of the Nomination Committee, on named basis and by category, at committee meetings during the year is set out in the section "Board Practices" of this report above.

Subsequent to the year ended 31 December 2005 and prior to the date of this report, Mr. WU Binquan was appointed as an executive Director on 1 February 2006. The Nomination Committee recommended Mr. WU being appointed as executive Director to the Board and the appointment was in the best interest of the Company because Mr. WU can contribute to the Company with his over 20 years experience in hotel industry.

In accordance with the Bye-laws, one-third of the Directors will retire from office at the Company's annual general meeting. In accordance with Bye-law 87(1) of the Bye-laws, Mr. TSANG Chiu Ching will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election. In addition, according to Bye-law 86(2) of the Bye-laws, Mr. WU Binquan will retire at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election. None of the independent non-executive Directors has served as Directors for more than six years.

Remuneration Committee

The Remuneration Committee was established on 16 September 2005 with written terms of reference no less exacting terms than the CG Code. The terms of reference of the Remuneration Committee are available from the Company Secretary at any time. The Remuneration Committee currently comprises three independent non-executive Directors, namely Mr. HUI Yan Kit, Mr. YU Yun Kong and Mr. HUNG Sui Kwan. Mr. HUI Yan Kit is the Chairman of the committee.

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The duties of the Remuneration Committee includes making recommendations to the Board on the remuneration policy and structure of the Directors and senior management, approving the remuneration, determining the remuneration packages of all Directors and senior management and approving the compensation to Directors and senior management on termination or dismissal provided that no Director was involved in deciding his/her own remuneration. Remuneration package for executive Directors are as follows:

1. The remuneration for the executive Directors comprises basic salary and pensions.
2. Salaries are reviewed annually. Salary increases are made where the Remuneration Committee believes that adjustments are appropriate to reflect performance, contribution, increased responsibilities and/or by reference to market/sector trends.
3. In addition to basic salary, executive Directors and employees of the Company and its subsidiaries are eligible to received a discretionary bonus taking into consideration factors such as market conditions as well as corporate and individual performances.
4. Details of the amount of Directors' emoluments during the financial year ended 31 December 2005 are set out in note 14 to the financial statements in this annual report.

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence. The emoluments of the Directors are determined with reference to the Company's operating results, individual performance and the prevailing market rates.

The Remuneration Committee meets at least once a year. During the year, the Remuneration Committee has held its first meeting on 16 September 2005 to define its terms of reference, to review the existing remuneration packages of each Directors and senior managements of the Company, and to recommend the remuneration packages for each Directors and senior managements of the Company. The recommended remuneration packages have been approved by the entire Board.

The attendance of each member of the Remuneration Committee, on named basis and by category, at committee meetings during the year is set out in the section "Board Practices" of this report above.

Audit Committee

The Audit Committee was established with written terms of reference which are available from the Company Secretary at any time. The Audit Committee currently comprises of three members, all of whom are independent non-executive Directors. The members are Mr. YU Yun Kong (the chairman of the committee), Mr. HUI Yan Kit and Mr. HUNG Sui Kwan, all of whom are not involved in the day-to-day management of the Company.

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The Audit Committee convenes meetings at least twice a year. The Audit Committee is responsible for reviewing the Company's financial information (including the Company's financial statements, annual reports, interim reports and major comments on financial reporting contained in the financial statements and reports), examining and studying the Company's financial reporting system and procedures for internal supervision and control, and making recommendations to the Board on matters regarding the appointment of external auditors and auditing fee etc.

During the year under review, the Audit Committee held two meetings, during which the annual report for the year ended 31 December 2004 and the interim report for the six months ended 30 June 2005 were reviewed. Please refer to the table set out in the section "Board Practices" of this report for the attendance record of individual Audit Committee members. All these meetings were convened in accordance with Bye-laws.

Save as disclosed above, the Audited Committee has reviewed the audited financial statements of the Company for the year ended 31 December 2005.

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Hong Kong Companies Ordinance requires the Directors to prepare Financial Statements for each financial year that give a true and fair view of the Company's state of affairs as at the end of the financial year and of its profit or loss for the year then ended. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and apply them on a consistent basis, making judgements and estimates that are prudent, fair and reasonable;
- state the reasons for any significant departure from the relevant accounting standards; and
- prepare the Financial Statements on a going concern basis, unless it is not appropriate to presume that the Company will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The statement of the external auditors of the Company, Grant Thornton, about their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 27 to 28.

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AUDITORS AND THEIR REMUNERATION

Grant Thornton has been appointed as the external auditors of the Company for the year ended 31 December 2005 by shareholders at the annual general meeting and they will hold office until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statements for the year ended 31 December 2005 has been audited by Grant Thornton.

For the year ended 31 December 2005, Grant Thornton, the external auditors of the Company, provided the following services to the Company:-

	2005 HK\$'000	2004 HK\$'000
Audit services	638	563
Very Substantial Acquisition and right issue accounts reporting services	700	-
Total:	<u>1,338</u>	<u>563</u>

The Audit Committee reviews each year a letter from the external auditors confirming their independence and objectivity and holds meetings with Grant Thornton to discuss the scope of their audit.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

Procedures have been set up for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

In order to develop and maintain a continuing investors' relationship with the Company's shareholders, the Company has established various channels of communications with its shareholders such as publication of interim and annual reports, press release and announcement of the latest development of the Company in a timely manner. The annual general meeting provides an opportunity for shareholders to exchange views with the Board. The Chairman as well as chairmen of different Committees are available to answer shareholders' questions. Moreover, resolutions are proposed at annual general meeting on each substantially separate issue, including the election of individual Directors. In addition, details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders despatched together with the annual report. Details of the proposed resolutions are also set out in the circular.