

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company has made continued efforts to incorporate key elements of good corporate governance with emphasis on transparency, independence and accountability. During the financial 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”) of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), save for the segregation of the responsibilities of the Chairman of the Board and the Chief Executive of the Company subsequent to the year end on 20 January 2006. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

### Board of Directors

The board of directors of the Company comprises:

Executive Directors:	Pang Man Kin, Nixon ( <i>Chairman</i> ) Tsao Ke Wen, Calvin ( <i>Chief Executive Officer</i> ) Lam Shu Chung Law Fei Shing So Chi Keung
Non-executive Director:	Ma Chung Wo Cameron
Independent Non-executive: Directors	Poon Chiu Lum Pak Sum Li Chak Hung

The Chairman and the Chief Executive of the Company are Mr. Pang Man Kin, Nixon and Tsao Ke Wen, Calvin respectively. The Chairman of the board is responsible for the leadership and effective running of the board, while the Chief Executive is delegated with the authorities to manage the business of the Group in all aspects effectively. The segregation of responsibilities between the Chairman and the Chief Executive have been clearly established and set out in writing

The board formulates overall strategy of the Group, monitors its financial performance and maintains effective oversight over the management. The board members are fully committed to their roles and have acted in good faith to maximise the shareholders’ value in the long run, and have aligned the Group’s goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

The three independent non-executive directors are persons of high calibre, with academic and professional qualifications in the fields of accounting, law, banking and business management, and provide checks and balances so that the interests of all shareholders are adequately and fairly represented. The Company has received a confirmation of independence from each of its independent non-executive director, and considers these directors to be independent under Rule 3.13 of the Listing Rules.

## CORPORATE GOVERNANCE REPORT

Pursuant to article 108 of the Articles of Association of the Company, all directors are subject to retirement by rotation and re-election at annual general meetings of the Company every three years. The Company has not entered into any service contract with any of its non executive directors . The biographical details of all directors are presented on pages 9 to 11 of this annual report.

During the year, 8 full board meetings were held and the attendance of each of its directors is set out as follows:

	<b>Number of Board meetings attended/ eligible to attend BOARD AUDIT COMMITTEE</b>
<b>Executive Directors</b>	
Pang Man Kin, Nixon (Note 1)	3/3
Tsao Ke Wen, Calvin (Note 1)	3/3
Lam Shu Chung	8/8
Law Fei Shing	8/8
So Chi Keung (Note 2)	4/5
<b>Non-Executive Director</b>	
Ma Chung Wo Cameron (Note 3)	2/3
<b>Independent non-executive Directors</b>	
Poon Chiu (Note 3)	1/3
Lum Pak Sum (Note 4)	2/3
Li Chak Hung (Note 4)	0/4
Ha Chun, Michael (Note 5)	1/1
Ho wing Yiu (Note 6)	0/1
Lee Siu Leung (Note 7)	3/4
Liu Ngai Wing (Note 8)	3/4
Yu Tak Shing, Eric (Note9)	1/4

Note 1: appointed on 16 August 2005

Note 2: appointed as independent non-executive Director on 31 March 2005 and re-designed as Executive Director on 6 June 2005

Note 3: appointed on 30 June 2005

Note 4: appointed on 16 September 2005

Note 5: resigned on 31 March 2005

Note 6: appointed on 6 June 2005 and resigned on 16 September 2005

Note 7: resigned on 6 June 2005

Note 8: resigned on 30 June 2005

Note 9: appointed on 31 March 2005 and resigned on 16 September 2005

## CORPORATE GOVERNANCE REPORT

---

Every board member have full and timely 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.

### **Directors' Securities Transactions**

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2005.

### **Remuneration Committee**

The Remuneration Committee of the Company, formed during the year, comprises the Chairman and all three Independent Non-executive Directors namely Mr. Poon Chiu, Mr. Lum Pak Sum and Mr. Li Chak Hung . The Remuneration Committee held one meeting in 2005 to review the overall pay trend in Hong Kong of 2005, and to review and recommend adjustments in remuneration of the Executive Directors and the Chief Executive of the Company. The meeting was attended by the Chairman, Mr Poon Chiu and Mr Lum Pak Sum..

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

1. To review annually and recommend to the board the overall remuneration policy for the directors, the Chief Executive and key senior management officers.
2. To review annually the performance of the executive directors, the Chief Executive and key senior management officers and recommend to the board specific adjustments in remuneration and/or reward payments.
3. To ensure that the level of remuneration for Non-executive Directors and Independent Non-executive Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the board of the respective companies in the Group.
4. To review and approve the compensation payable to executive directors, the Chief Executive and key senior management officers in connection with any loss or termination of their office or appointment.
5. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct.
6. To ensure that no director is involved in deciding his own remuneration.

# CORPORATE GOVERNANCE REPORT

---

## **Nomination Committee**

The Nomination Committee of the Company, formed during the year,, comprises the Chairman and all three Independent Non-executive Directors, namely Mr. Poon Chiu, Mr. Lum Pak Sum and Mr. Li Chak Hung. The Nomination Committee has not held any meetings in 2005 as there has not been any changes to the board composition since the formation of the Nomination Committee.

The major roles and functions of the Group's Nomination Committee are as follows:

1. To assess and recommend the appointment and re-appointment of directors and Chief Executive to the board.
2. To oversee the overall composition of the board, in terms of the appropriate size and skills, and the balance of authority among Executive Directors, Non-executive Directors and Independent Non-executive Directors through annual review.
3. To assess the independence of Independent Non-executive Directors.
4. To establish a mechanism for the formal assessment on the effectiveness of the board as a whole and the performances of each director, the Chief Executive and other key senior management officers.
5. To oversee the appointment, management succession planning and performance evaluation of key senior management officers.

## **Accountability and Audit**

The directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Company and the Group and of the Group's results and cash flow for that period. In preparing the financial statements 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 issued by the Hong Kong Institute of Certified Public Accountants which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on the going concern basis. The Company has received acknowledgements from all directors of their responsibility for preparing the financial statements. It is the responsibility of the auditors to form an independent opinion, based on their audit, on these financial statements and to report their opinion to the members of the Company, as a body, and for no other purpose. The auditors do not assume responsibilities toward or accept liability to any other person for the contents of this report.

## CORPORATE GOVERNANCE REPORT

---

### **Audit Committee**

The Audit Committee of the Company is responsible for review of the Group's accounting principles and practices internal control procedures and financial reporting matters including the review of the interim and final results of the group prior to recommending to the Board for approval. The Audit Committee comprises the three independent non-executive directors of the Company, namely Mr. Poon Chiu, Mr. Lum Pak Sum and Mr. Li Chak Hung. In 2005, The Audit Committee held two meetings at which it reviewed the final results for the year ended 2004, which was attended by Mr. Liu Ngai Wing and Mr. Lee Siu Leung, and the interim accounts for the 6 months ended 30 June 2005 which was attended by Mr. Lum Pak Sum and Mr. Poon Chiu.

The major roles and functions of the Group's 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 of directors.
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 Group companies' statements on internal control systems (where one is included in the annual report) prior to endorsement by the respective board of directors.
7. To review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group.
8. To consider the major findings of internal investigations and management's response.

# CORPORATE GOVERNANCE REPORT

## Auditors' Remuneration

During the year under review, Grant Thornton, Certified Public Accountants, was appointed as the auditors of the Company, to fill the vacancy left by the resignation of RSM Nelson Wheeler and to hold office until the conclusion of the next annual general meeting of the Company.

The following table sets forth the type of, and fees for, the principal audit services and non-audit services provided by Grant Thornton to the Group for the year ended 31st December 2005:

	<b>Services rendered Fees paid/payable</b> HK\$'000
Audit services	400
Non-audit services i.e. consultancy	120
	<hr/> 520 <hr/>

## Management of Risks

The respective boards of directors of the subsidiaries are responsible for the oversight of risks and approval of risk management policies. The Internal Audit of the Group performs regular audits to ensure compliance with the policies and reports directly to the Audit Committee.

## Communications with Shareholders and Investors

The board recognises the importance of good communications with all shareholders. Extensive information on the Company's activities is provided in the annual and interim reports, which are sent to shareholders. The Company's annual general meeting is a valuable forum for the board to communicate directly with the shareholders. The Chairman of the board as well as Chairmen of the Audit, Nomination and Remuneration Committees together with the external auditors are present to answer shareholders' questions. Details of major transactions undertaken by the Group are also disclosed on a timely manner to shareholders through press announcements to facilitate shareholders' understanding of the Group's activities.