

## CORPORATE GOVERNANCE REPORT

### CORPORATE GOVERNANCE PRACTICES

The Board believes that corporate governance is essential to the success of the Company. Since the Company was listed on the Main Board of the Stock Exchange on 15 July 2005, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, except for certain deviations as disclosed in this report. The Board will review and update the current practices regularly to follow the latest practices in corporate governance so as to protect and maximize the interests of shareholders.

### DIRECTORS' SECURITIES TRANSACTIONS

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 (the "Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2005.

### THE BOARD OF DIRECTORS AND BOARD MEETINGS

The Board's primary responsibilities are to formulate the Group's long-term corporate strategy, to oversee the management of the Group and to evaluate the performance of the Group. The Board is also responsible for the approval of annual and interim results, risk management, major acquisitions, and other significant operational and financial matters. The Board currently comprises four executive Directors, one non-executive Director and three independent non-executive Directors as follows:

#### **Executive Directors**

Mr. Lam Yin Kee, *Chairman*

Ms. Yeung Po Wah

Mr. Toshio Daikai

Mr. William Peter Shelley

#### **Non-executive Director**

Mr. Fan, William Chung Yue

#### **Independent Non-executive Directors**

Mr. Barry John Buttifant

Mr. Leung Kam Wah

Ms. Yeung Chi Ying

Mr. Lam Yin Kee is the Chairman and an executive Director of the Group. Ms. Yeung Po Wah is an executive Director of the Group and the wife of Mr. Lam Yin Kee. Apart from this, there is no other relationship among the members of the Board.

The background and qualification of the Chairman of the Company and the other directors are set out on pages 10 to 12. All directors have sufficient experience to hold the position so as to carry out his/her duties effectively and efficiently, and all of them have given sufficient time and attention to the affairs of the Group.

## CORPORATE GOVERNANCE REPORT (Continued)

### THE BOARD OF DIRECTORS AND BOARD MEETINGS (Continued)

The non-executive Director and the three independent non-executive Directors are person of high caliber with academic and professional qualifications in the fields of accounting, law and business management. They bring a broad range of financial, regulatory and commercial experience and skills to the Board, which contributes to the effective strategic management of the Group. All of the non-executive Director and independent non-executive Directors are appointed for a term of one year commencing from 17 June 2005, and such appointment shall continue thereafter from year to year until terminated by either party with one month's written notice served to the other party.

All independent non-executive Directors have confirmed their independence to the Company.

The Board schedules to hold at least four full board meetings a year at approximately quarterly intervals. Since the shares of the Company were listed on the Main Board of the Stock Exchange on 15 July 2005, four full board meetings were held and the attendance of the Board of Directors is set out as follows:

Name of Director	Number of board meetings attended	Attendance rate
Mr. Lam Yin Kee	4/4	100%
Ms. Yeung Po Wah	4/4	100%
Mr. Toshio Daikai	4/4	100%
Mr. Peter Shelley	4/4	100%
Mr. Fan Chung Yue	4/4	100%
Mr. Barry Buttifant	4/4	100%
Mr. Leung Kam Wah	4/4	100%
Ms. Yeung Chi Ying	4/4	100%

The board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value and interests. Apart from the above regular meetings of the year, the Board will meet on the other occasions when a board-level decision on a particular matter is required. Daily operations and administration are delegated to the management.

### CHAIRMAN AND CHIEF EXECUTIVE

As mentioned in the 2005 interim report, Code Provision A.2.1 of the Code stipulates that the role of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive and Mr. Lam Yin Kee currently holds both positions. The Board believes that vesting the roles of both chairman and chief executive in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. However, the Board will review the roles of Mr. Lam Yin Kee acting as the chairman and chief executive regularly and may segregate the roles to two directors if the Board believes that it is for the best interest of the Company and the shareholders.

## CORPORATE GOVERNANCE REPORT (Continued)

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Company's Bye-laws, at each annual general meeting one-third of the directors for the time being (or, if the number is not a multiple of three, the number nearest to not less than one-third) shall retire from office by rotation.

All the executive Directors of the Company had been appointed for nearly three years and the non-executive Director and all independent non-executive Directors were appointed by the Board pursuant to Article 86(3) of the Company's Articles of Association. Accordingly, all Directors of the Company shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

### REMUNERATION COMMITTEE

According to the Code, the Company has set up a remuneration committee on 22 June 2005. The remuneration committee shall have a minimum of five members, comprising a majority of independent non-executive Director. The Chairman of the committee is Mr. Lam Yin Kee and other current members include Ms. Yeung Po Wah, Mr. Barry John Buttifant, Mr. Leung Kam Wah and Ms. Yeung Chi Ying. The remuneration committee schedules to meet at least once every year and the quorum necessary for the transaction of business is two.

The duties of the remuneration committee include:

- (a) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- (b) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors. The remuneration committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;
- (c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (d) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
- (e) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and
- (f) to ensure that no director or any of his associates is involved in deciding his own remuneration;

## CORPORATE GOVERNANCE REPORT (Continued)

### REMUNERATION COMMITTEE (Continued)

- (g) to advise shareholders on how to vote with respect to any service contracts of directors that required shareholders' approval under rule 13.68 of the Listing Rules; and
- (h) to consider other topics, as defined by the Board.

As the Company's remuneration committee was newly established in June 2005, no meeting was held during the year ended 31 December 2005. However, an informal meeting was held in January 2006 to discuss and review the pay trend of the Group in 2006.

The Company has adopted a share option scheme on 22 June 2005, which serves as an incentive to attract, retain and motivate talented eligible staff, including directors. Details of the share option scheme are set out in the Report of the Directors on pages 22 to 23. The emoluments payable to directors will depend on their respective contractual terms under employment contracts. Details of the directors' emoluments are set out in Note 9 to the financial statements.

### NOMINATION COMMITTEE

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. The Chairman is responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Chairman will propose the appointment of such candidates to each member of the Board for consideration and each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background. The decision of appointing a director must be approved unanimously by the members of the Board and make recommendation to the shareholders' meeting for approval.

All Directors (including executive, non-executive and independent non-executive Directors) are subject to election for appointment by shareholders at the annual general meeting at every three years. None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within three years without payment of compensation (other than statutory compensation).

The notice period for the termination of the service contracts with executive Directors by either party is not less than three months. The notice period for the termination of appointment of non-executive Directors and independent non-executive Directors by either party is not less than one month.

During the year under review, the Company has not set up any nomination committee although the Company is considering to set up such committee in 2006.



## CORPORATE GOVERNANCE REPORT (Continued)

### AUDIT COMMITTEE

The Company established an audit committee on 22 June 2005 with written terms of reference in compliance with Listing Rules. The audit committee must comprise members of independent non-executive Directors only, namely Mr. Barry John Buttifant, Mr. Leung Kam Wah and Ms. Yeung Chi Ying. Mr. Barry John Buttifant is the chairman of the audit committee.

The audit committee shall meet at least twice every year and the quorum necessary for the transaction of business is two. The external auditors may request a meeting if they consider that one is necessary. Two meetings were held during the year under review. Details of the attendance of the audit committee meetings are as follows:

Name of Member	Number of meetings attended	Attendance rate
Mr. Barry John Buttifant	2/2	100%
Mr. Leung Kam Wah	2/2	100%
Ms. Yeung Chi Ying	2/2	100%

The primary duties of the audit committee are as follows:

#### Relationship with the Company's auditors

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee should discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. The audit committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity;

## CORPORATE GOVERNANCE REPORT (Continued)

### AUDIT COMMITTEE (Continued)

#### Review of financial information of the Company

- (d) to monitor integrity of financial statements of the Company and the Company's annual reports and accounts, half-yearly reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them, before submission to the Board.
- (e) In regard to d) above:–
  - (i) members of the audit committee must liaise with the Company's Board, senior management and the person appointed as the Company's qualified accountant and the audit committee must meet, at least once a year, with the Company's external auditors;
  - (ii) the audit committee should consider any significant or unusual items that are, or may need to be, reflected in such report and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors; and
  - (iii) the audit committee should discuss problems and reservation arising from the financial statements, annual reports and accounts, half-yearly reports and quarterly reports (if applicable) and any other matters the external auditor may wish to discuss (in the absence of management of the Company where necessary);

#### Oversight of the Company's financial reporting system and internal control procedures

- (f) to review the Company's financial controls, internal control and risk management systems, and its statement in relation thereto prior to endorsement by the Board;
- (g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- (h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (i) where an internal audit function exists, to review the internal audit programme, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
- (j) to review the Company and its subsidiaries' financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

## CORPORATE GOVERNANCE REPORT (Continued)

### AUDIT COMMITTEE (Continued)

#### Oversight of the Company's financial reporting system and internal control procedures (Continued)

- (m) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;
- (n) to act as the key representative body for overseeing the Company's relation with the external auditor;
- (o) to report to the Board on the matters set out in this term of reference; and
- (p) to consider other topics, as defined by the Board.

The Group's unaudited interim results and audited annual results for the year ended 31 December 2005 have been reviewed by the audit committee, which was the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosure have been made.

During the year ended 31 December 2005, the audit committee has met with the external auditors with no executive Directors present.

### AUDITORS' REMUNERATION

Remuneration payable to PricewaterhouseCoopers for services provided for the year ended 31 December 2005 is as follows:

	HK\$'000
Audit	1,000
Acting as reporting accountants for the Listing	2,450
Acting as reporting accountants on acquisition of additional interest in an associated company	900
Non-audit related	390
<b>Total</b>	<b>4,740</b>

## CORPORATE GOVERNANCE REPORT (Continued)

### DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

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 Group and of the results and cash flows 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 ("HKFRS") and Hong Kong Accounting Standards ("HKAS") 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 accounts on the going concern basis.

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out in the Auditors' Report on page 29.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cause significant doubt upon the Company's ability to continue as a going concern.

### INTERNAL CONTROLS

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened management meeting periodically to discuss financial, operational and risk management control. The audit committee also reviews the internal control systems and evaluates their adequacy, effectiveness and compliance on a regular basis.

### INVESTORS RELATIONS

The Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules and uses a number of formal communication channels to account to shareholders and investors for the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) meetings are held with media and investors periodically; (iv) the Company replying to enquiries from shareholders timely; and (v) the Company's share registrar in Hong Kong serves the shareholders regarding all share registration matters.

### LOOKING FORWARD

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavours to take necessary actions to ensure compliance with the required practices and standards including the provisions of the Code introduced by the Stock Exchange.