



## Corporate Governance Report

The Board of Directors (the “Board”) is pleased to present this Corporate Governance Report in the Company’s annual report for the year ended 31 December 2005.

Good corporate governance has always been recognised as vital to the Company’s success and to sustain development to the Company. We commit ourselves to a high standard of corporate governance as an essential component of quality and has introduced corporate governance practices appropriate to the conduct and growth of its business.

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 of Hong Kong Limited (the “Stock Exchange”) sets out the principles of good corporate governance (the “Principles”) and two levels of corporate governance practices:

- (a) code provisions (the “Code Provisions”) which listed issuers are expected to comply with or to give considered reasons for any deviation; and
- (b) recommended best practices for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

During the year ended 31 December 2005 under review, the Company has applied the Principles and the Code Provisions as set out in the Code and complied with most of the Code Provisions save for certain deviations from the Code Provisions in respect of Code Provisions A.1.1, A.4.1 and E.1.1, details of which will be explained below.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the Code, and acknowledges the important role of its Board in providing effective leadership and direction to Company’s business, and ensuring transparency and accountability of Company’s operations.

The key corporate governance principles and practices of the Company are summarised as follows:

### **THE BOARD**

#### **Responsibilities**

The Board provides leadership, approves policies, strategies and plans, and oversees their implementation to ensure the healthy growth of the Company, in the interests of Company’s shareholders.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company secretary, with a view to ensuring that the Board procedures and all applicable rules and regulations are followed. In general, each director is able to seek independent professional advice in appropriate circumstances at the Company’s expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the General Manager/Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers. The Board has the full support of the General Manager/Chief Executive Officer and the senior management to discharge its responsibilities.



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## COMPOSITION

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board currently comprises six members, consisting of three executive directors and three independent non-executive directors.

The Board of the Company comprises the following directors:

### **Executive directors:**

Mr Tam Wai Keung, Billy  
Mr Wu Tse Wai, Frederick  
Mr Fong Chi Wah (Appointed on 1 November 2005)  
Mr. Li Sze Tang (Resigned on 1 November 2005)

### **Independent non-executive directors:**

Mr Tang King Fai, Kelvin  
Mr Wong Che Man, Eddy (Appointed on 20 February 2006)  
Mr Lam Yuk Lau (Appointed 20 February 2006)  
Mr Chow Wan Hoi, Paul (Resigned on 20 February 2006)  
Mr Hui Wing Sang, Wilson (Resigned on 20 February 2006)

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under "Biographies of Directors" on page 10.

During the year ended 31 December 2005, the Board at all times met the requirements of the Listing rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

## APPOINTMENT AND SUCCESSION PLANNING OF DIRECTORS

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.



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

With respect to Code Provision A.4.1, the non-executive directors of the Company have not been appointed for any specific terms since they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Memorandum and Articles of Association of the Company.

To enable the Company's Articles of Association (the "Articles") to be in line with Code Provision A.4.1 and A.4.2, a special resolution will be proposed at the next forthcoming annual general meeting of the Company to amend the Articles so that all directors will be subject to retirement by rotation once every three years.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

### BOARD MEETINGS

#### Number of Meetings and Directors' Attendance

Code Provision A.1.1 stipulates that regular Board meetings should be held at least four times a year at approximately quarterly intervals.

The reasons for the Company to hold only two regular Board meetings are that the business operations were under the management and supervision of the executive directors of the Company, who had from time to time held meetings to resolve all material business or management issues. Transactions with material impact on the financial position of the Company were also reviewed by the independent non-executive directors of the Company. As a result, two regular Board meetings were held in 2005.

The individual attendance record of each director at the meetings of the Board and the Audit Committee during the year ended 31 December 2005 is set out below:

Name of Directors	Attendance/Number of Meetings	
	Board	Audit Committee
Tam Wai Keung, Billy	11	0
Wu Tse Wai, Frederick	11	0
Fong Chi Wah	0	0
Li Sze Tang	11	0
Tang King Fai, Kelvin	6	2
Chow Wan Hoi, Paul	8	2
Hui Wing Sang, Wilson	8	2



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## PRACTICES AND CONDUCT OF MEETINGS

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors as soon as practicable before each Board meeting or committee meeting to allow the directors to read the papers and information, to keep them abreast of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Company secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Articles also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

## REMUNERATION COMMITTEE

The Company has not established a Remuneration Committee. The Board is responsible for determine the Company's policy on remuneration of directors and reviewing all remuneration packages of directors and senior management. The Company currently does not have any plan to set up a Remuneration Committee considering the small size of the Board. The principle elements of the Company's remuneration policy for directors and senior management are:

- (1) No individual should determine his or her own remuneration package.
- (2) Remuneration packages should be on a par with companies with whom the Company competes for human resources.
- (3) Remuneration packages should reflect the performance and responsibility of an individual, as well as the complexity of work.
- (4) Remuneration packages should be structured in such a way that can provide incentives to directors and senior management to improve their individual performance.

## NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of an individual to act as a Director and approving and terminating the appointment of a Director. The Company has not established a Nomination Committee. The Company currently does not have any plans to set up a Nomination Committee considering the small size of the Board.

The Chairman is responsible for identifying suitable candidates for member of the Board when there is a vacancy or an additional director is considered necessary. The Chairman proposes the appointment of such candidates to each member of the Board for consideration. Each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Company on the basis of his or her qualifications, experiences and background.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted its own code of conduct regarding directors' securities transactions (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as asset out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the requirements of the Code of Conduct and the Model Code throughout the year ended 31 December 2005.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "Written Guidelines") for securities transactions by the employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Written Guidelines by the employees was noted by the Company.

## **AUDITORS' REMUNERATION**

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Company is required to pay any aggregate of approximately HK\$200,000 to the external auditors. During the year, the auditors only perform the work of statutory audit and do not involved any non-audit assignment of the Company.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Directors are responsible for the preparation of the financial statements, which give a true and fair view. The auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

## **LOOKING FORWARD**

The Company will keep on reviewing its corporate governance standards on a timely basis and the Board endeavors to take the necessary actions to ensure the compliance with the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.