

## Corporate Governance Report

### Corporate Governance Practices

The Board considers that good corporate governance of the Company is crucial to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. Save the exception below, the Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out 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") for the year ended 31 December 2005.

#### **Code Provision A.4.2**

*Pursuant to Article 87(1) of the Company's Articles of Association, the Chairman of the Board is not required to retire by rotation. Resolution will be proposed at the forthcoming annual general meeting to amend the Company's Articles of Association to comply with the CG Code.*

### The Board of Directors

The Board comprises five Executive Directors, one Non-Executive Director and three Independent Non-Executive Directors. The brief biographic details of and the relationship among Board members is set out in the Directors' and Senior Management's Profiles on pages 10 and 11. The Board has established three Board Committees, namely Audit Committee, Nomination Committee and Remuneration Committee. Attendance of the Board Meetings and the meetings of the Board Committees (except for Nomination Committee where no meeting has been held in 2005) is given below and their respective responsibilities are discussed later in this report:

|   | No. of meetings attended / held |                 |                        |
|---|---------------------------------|-----------------|------------------------|
|   | Board Meeting                   | Audit Committee | Remuneration Committee |
| <b>Executive Directors</b>  |                                 |                 |                        |
| Cheng Kwok Woo, <i>Chairman</i>   | 4/4                             |                 | 1/1                    |
| Cheng Kwong Cheong,<br><i>Vice-Chairman and Chief Executive Officer</i> | 4/4                             |                 | 1/1                    |
| Cheng Wai Ying  | 4/4                             |                 |                        |
| Chow Yin Kwang  | 3/4                             |                 |                        |
| Chan Yim Fan  | 4/4                             |                 |                        |
| <b>Non-Executive Director</b>   |                                 |                 |                        |
| Zheng Jin Hong  | 1/4                             |                 |                        |
| <b>Independent Non-Executive Directors ("INEDs")</b>                    |                                 |                 |                        |
| Anthony Francis Martin Conway   | 4/4                             | 2/2             | 1/1                    |
| Leung Yuen Wing   | 4/4                             | 2/2             | 1/1                    |
| Lam Hon Ming Edward   | 4/4                             | 2/2             | 1/1                    |

The Board sets the Group's objectives and strategies and monitors its performance. The Board also decides on matters such as annual and interim results, major transactions, director appointments, and dividend and accounting policies and monitors the internal controls of the Group's business operation. The Board has delegated the authority and responsibility of overseeing the Group's day to day operations to management executives.

## Corporate Governance Report (Continued)

All Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company in discharge of their duties.

During the year, four regular board meetings were held. Notice of at least 14 days has been given to all Directors for all regular board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying board papers in respect of regular board meetings are sent out in full to all directors within reasonable time before the meeting. Draft minutes of all board meetings are circulated to Directors for comment within a reasonable time prior to confirmation.

Minutes of board meetings and meetings of Board Committees are kept by duly appointed secretaries of the respective meetings and all directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

### Chairman and Chief Executive Officer

Details of the Chairman, Mr. Cheng Kwok Woo, and Chief Executive Officer, Mr. Cheng Kwong Cheong, are set out in the Directors' and Senior Management's Profiles. The roles of the Chairman and the Chief Executive Officer were segregated throughout the financial year.

### Non-Executive Directors

The Board currently has four Non-Executive Directors, three of whom are INEDs. Two of the INEDs hold appropriate professional qualifications, or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. All Non-Executive Directors of the Company have been appointed for a specific term and are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association.

Each of the INEDs has given the Company an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all INEDs are independent and meet the independence guidelines set out in Rule 3.13 of the Listing Rules.

### Remuneration Committee

The Company has set up a Remuneration Committee to ensure that there are formal and transparent procedures for setting policies on the remuneration of Directors and senior management. The Remuneration Committee comprises the Board's Chairman, Mr. Cheng Kwok Woo, Chief Executive Officer, Mr. Cheng Kwong Cheong and three INEDs, namely Mr. Anthony Francis Martin Conway, Mr. Leung Yuen Wing and Mr. Lam Hon Ming Edward. The Remuneration Committee is chaired by Mr. Anthony Francis Martin Conway.

During the year, one Remuneration Committee meeting was held, advising the Board on the Group's overall policy and structure of the remuneration of the Directors and senior management. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration. The terms of reference of the Remuneration Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

## Corporate Governance Report (Continued)

### Nomination Committee

The Company has set up a Nomination Committee to ensure fair and transparent procedures for the appointment, re-election and removal of Directors to the Board. The Nomination Committee comprises the Board's Chairman, Mr. Cheng Kwok Woo, and two INEDs, namely Mr. Anthony Francis Martin Conway and Mr. Leung Yuen Wing. The Nomination Committee is chaired by Mr. Cheng Kwok Woo.

During the year, no Nomination Committee meeting was held as the Committee was duly constituted in December 2005. The terms of reference of the Nomination Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

### Audit Committee

The Audit Committee comprises three INEDs, namely Mr. Anthony Francis Martin Conway, Mr. Leung Yuen Wing and Mr. Lam Hon Ming, Edward. The Audit Committee is chaired by Mr. Anthony Francis Martin Conway.

The principal duties of the Audit Committee are to review and provide supervision over the financial reporting process and internal controls of the Group. During the year, two Audit Committee meetings were held, reviewing the financial reporting matters of the Group. The terms of reference of the Audit Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

### Code for Securities Transactions by Directors and Relevant Employees

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the Directors. Following a specific enquiry, all Directors confirmed they have complied with the standards set out in the Model Code throughout the year ended 31 December 2005.

To comply with the code provisions A.5.4 of the CG Code, the Company has also established and adopted the Model Code as the code of conduct for securities transactions by Relevant Employees to regulate the dealings in the securities of the Company by certain employees of the Group who are considered to be likely in possession of unpublished price sensitive information of the Company.

### Accountability and Internal Control

The Directors acknowledge their responsibility for preparing the financial statements of the Group. As at 31 December 2005, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

To ensure implementation of an effective and sound internal controls system, a committee, which comprises Chief Executive Officer, Mr. Cheng Kwong Cheong, one Executive Director, Mr. Chow Yin Kwang, and two INEDs, Messrs. Anthony Francis Martin Conway and Lam Hon Ming Edward, was set up in December 2005. The major tasks of the committee are to review and make recommendations on the Group's financial, operational and compliance controls and risk management functions.

## Corporate Governance Report (Continued)

### Auditors' Remuneration

For the year ended 31 December 2005, the auditors of the Company only provided audit services to the Company.

The Statement of the Auditors of the Company regarding their reporting responsibilities on the financial statements is set out on page 18 of the annual report.

The auditors' remuneration for the year amounted to HK\$830,000.

On behalf of the Board

**Cheng Kwok Woo**

*Chairman*

Hong Kong, 25 April 2006