

# Corporate Governance Report

The Board of Directors (the “Board”) is committed to maintain sound corporate governance standard and procedures to ensure integrity, transparency and quality of disclosure in order to enhance the shareholders’ value.

## CORPORATE GOVERNANCE PRACTICES

During the year, the Company has complied with the applicable code provisions set out in 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 except the following deviations from Code A.4.1 and A.4.2:

1. subsequent to the publication of the Corporate Governance Report in the 2005 Annual Report and at the 2006 Annual General Meeting, a special resolution was passed to amend the bye-laws of the Company to the effect that (a) any director elected in general meeting by ordinary resolution to fill a casual vacancy or as an addition to the Board shall be subject to rotation and retirement requirement at annual general meeting, at which one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the nearest but no less than one-third, shall retire from office by rotation; (b) any director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election at the meeting; and (c) every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years; and
2. the Independent Non-executive Directors were not appointed for specific terms but are subject to retirement by rotation and re-election at the Company’s annual general meeting in accordance with the bye-laws of the Company.

To further strengthen the communication between the Board and the committees of the Company, Mr. Yip Chi Hung, Chairman of the Board, was appointed as additional committee member of the Remuneration and Nomination Committees in May 2006. Currently, both the Remuneration and Nomination Committees consist of four members namely, Messrs Wong Chi Keung (chairman), Cheng Hok Ming, Albert, Ma Kwai Yuen and Yip Chi Hung.

## DIRECTORS’ SECURITIES TRANSACTIONS

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 to regulate the directors’ securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year ended 31 December 2006, and they have all confirmed their respective full compliance with the required standard set out in the Model Code.

# Corporate Governance Report

## THE BOARD

The Board currently comprises 5 Directors, of which 2 are Executive Directors and 3 are Independent Non-executive Directors. The number of independent non-executive directors has met the minimum requirement of the Listing Rules and represented more than one-third of the total board members. Further, all the Independent Non-executive Directors possesses appropriate professional accounting qualifications and/or financial management expertise. The members of the Board are as follows:

### Executive Directors

Mr. Yip Chi Hung (*Chairman*)

Mr. Chen Che Yuan (*Chief Executive Officer*)

### Independent Non-executive Directors

Mr. Wong Chi Keung

Mr. Cheng Hok Ming, Albert

Mr. Ma Kwai Yuen

The biographical details of the Directors are contained in the section headed “Directors and Senior Management Biographies”.

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors are independent.

When the Board considers any material proposal or transaction in which a substantial shareholder or a Director has a conflict of interest, the Director who has interests declares his interest and is required to abstain from voting and is not counted in the quorum.

Other than the regulatory and statutory responsibilities of the Board, the key functions of the Board are to formulate strategy and to monitor and control operating and financial performance in pursuit of the Group’s strategic objective. The Board, led by the Chairman, retains full responsibility for setting objective and business development plans. All Directors (including Independent Non-executive Directors) have been consulted on major and material matters of the Company. The Board is committed to make decisions in the best interests of both the Company and its subsidiaries.

The Board currently has three board committees (“Board Committees”) namely, Audit Committee, Remuneration Committee and Nomination Committee sole to assist the Board in discharge of its duties and to oversee particular aspects of the Group’s affairs.

All the Board Committees have clear written terms of reference and have to report on their decisions and recommendations to the Board.

# Corporate Governance Report

## THE BOARD *(Continued)*

The Board convened 7 meetings during the year. The attendance of individual Directors to the Board meetings in 2006 is summarised below.

	<b>Attendance</b>
<b>Executive directors</b>	
— Mr. Yip Chi Hung ( <i>Chairman</i> )	7/7
— Mr. Seto Yee Woon, John <sup>1</sup>	0/7
— Mr. Chen Che Yuan ( <i>Chief Executive Officer</i> ) <sup>2</sup>	7/7
<b>Independent non-executive directors</b>	
— Mr. Wong Chi Keung	7/7
— Mr. Cheng Hok Ming, Albert	7/7
— Mr. Ma Kwai Yuen	6/7

<sup>1</sup> Mr. Seto Yee Woon, John was resigned as Chairman and Executive Director with effect from 9 March 2006.

<sup>2</sup> Mr. Chen Che Yuan was appointed as Executive Director and Chief Executive Officer with effect from 9 March 2006.

Notice of at least 14 days has been given of regular Board meetings to give all Directors an opportunity to attend. For all other Board meetings, reasonable notice has been given. In case of time presses and unavailability of Board members, the Board adopts resolution in writing instead of meeting. The Board has passed resolutions in writing pursuant to the Bye-laws by the Directors in 6 occasions during the year.

In 2006, with the support of the company secretary of the Company (the “Company Secretary”), the newly appointed director received comprehensive briefing on the first occasion of his appointment to ensure that the newly appointed director of the Company has proper understanding of the operations and business of the Company and that they are fully aware of his responsibilities under applicable statutory and regulatory requirements.

With the support of the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. Agenda for meetings is set and board papers are prepared and disseminated to the Directors in a timely and comprehensive manner. All businesses transacted at the Board meetings were well-documented. Draft and final versions of Board minutes are sent to all Directors for their comments and records respectively.

Directors are entitled to have access to board papers and related materials and access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Directors have the liberty to seek independent professional advice, if so required, at the Company’s expenses as arranged by the Company Secretary.

# Corporate Governance Report

## **THE BOARD** *(Continued)*

The Company Secretary accounts to the Board directly for ensuring that board procedures and rules and regulations are followed and that activities of the Board are efficient and effective by assisting the Chairman to prepare agendas for meetings and by preparing and disseminating Board papers to the Directors and Board Committees in a timely and comprehensive manner.

The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Securities and Futures Ordinance and Companies Ordinance etc., including publication and dissemination of reports and financial statements and interim reports within the periods laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notification is made of Director's dealings in securities of the Group.

The Company Secretary also advises the Directors on their obligations for disclosure of interests in securities, connected transactions and price-sensitive information and ensures that the standards and disclosures required by the Listing Rules are observed and, where required, reflected in the annual report of the Directors.

## **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Directors acknowledge that they are primarily responsible for the preparation of the financial statements which give a true and fair view and that appropriate accounting policies are selected and applied consistently.

To the best knowledge of the Directors, there is no uncertainty relating to events or conditions that may cast significant count upon the Company's ability to continue as a going concern.

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The Chairman and the Chief Executive Officer are Messrs. Yip Chi Hung and Chen Che Yuan respectively. The Chairman bears primary responsibility for the works of the Board, by ensuring its effective function, while the Chief Executive Officer bears executive responsibility for the Company's business and the management of the day-to-day operations of the Company.

# Corporate Governance Report

## BOARD COMMITTEES

The Board established three board committees to assist the Board in discharge of its duties and to oversee particular aspects of the Group's affairs. Each committee has its terms of reference available for access at the principal place of business of the Company and each of the committee members was furnished with a copy of the respective terms of reference.

### 1. Audit Committee

In April 1999, the Company established an audit committee with written terms of reference adopted which were subsequently amended in early April 2006. The Audit Committee comprises solely independent non-executive directors, namely Messrs. Wong Chi Keung (Chairman), Cheng Hok Ming, Albert and Ma Kwai Yuen.

The Audit Committee is responsible for the following:

- reviewing and supervising the Company's financial reporting process and internal control systems;
- reviewing the accounting principle and practices adopted by the Group and other financial reporting matters and ensure the completeness, accuracy and fairness of the financial statements;
- making recommendations as to the effectiveness of internal control and risk management; and
- monitoring the compliance with statutory and listing requirements and to oversee the relationship with the external auditors.

The Audit Committee meets the external auditors and the senior management at least twice a year to discuss any areas of concern during the audits.

In 2006, the Audit Committee has reviewed the Group's (i) annual report for the year ended 31 December 2005, (ii) interim report for the 6 months ended 30 June 2006, and (iii) external auditor's engagement letter with recommendation to the Board for approval.

During the year, 3 meetings were held with the management and/or the external auditors. Members of the Audit Committee and their respective attendance at committee meetings are listed below.

	<b>Attendance</b>
Committee members	
— Mr. Wong Chi Keung	3/3
— Mr. Cheng Hok Ming, Albert	3/3
— Mr. Ma Kwai Yuen	3/3

Draft and final versions of minutes of Audit Committee meetings are sent to all members of the Audit Committee for their comments and records respectively within reasonable time after the relevant meeting.

# Corporate Governance Report

## BOARD COMMITTEES *(Continued)*

### 2. Remuneration Committee

In early April 2006, the Company established a remuneration committee with written terms of reference adopted comprising solely independent non-executive directors, namely Messrs. Wong Chi Keung (Chairman), Cheng Hok Ming, Albert and Ma Kwai Yuen. To further strengthen the communication between the members of the Remuneration Committee and the management, Mr. Yip Chi Hung, Chairman of the Board, was appointed as additional member in May 2006. The Remuneration Committee currently consists of the Chairman of the Board and all the Independent Non-executive Directors with Mr. Wong Chi Keung acts as Chairman of the Remuneration Committee.

Its primary responsibilities include recommending, reviewing and determining the remuneration policy and packages of directors. Directors do not participate in the determination of their own remuneration. All business transacted at the Remuneration Committee is recorded and maintained.

During the year, 1 Remuneration Committee meeting was held with the management to review and make recommendation to the Board on remuneration policy. Members of the Remuneration Committee and their respective attendance at committee meeting are listed below.

	<b>Attendance</b>
Committee members	
— Mr. Wong Chi Keung	1/1
— Mr. Cheng Hok Ming, Albert	1/1
— Mr. Ma Kwai Yuen	1/1
— Mr. Yip Chi Hung <sup>1</sup>	1/1

<sup>1</sup> Mr. Yip Chi Hung was appointed as member of the Remuneration Committee with effect from 19 May 2006.

Draft and final versions of minutes of Remuneration Committee meeting is sent to all members of the Remuneration Committee for their comments and records respectively within reasonable time after the relevant meeting.

# Corporate Governance Report

## BOARD COMMITTEES *(Continued)*

### 3. Nomination Committee

In early April 2006, the Company established a nomination committee with written terms of reference adopted comprising solely independent non-executive directors, namely Messrs. Wong Chi Keung (Chairman), Cheng Hok Ming, Albert and Ma Kwai Yuen. To further strengthen the communication between the members of the Nomination Committee and the management, Mr. Yip Chi Hung, Chairman of the Board, was appointed as additional member in May 2006. The Nomination Committee currently consists of the Chairman of the Board and all the Independent Non-executive Directors with Mr. Wong Chi Keung acts as Chairman of the Nomination Committee.

Its primary responsibilities include nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointment. All business transacted at the Nomination Committee is recorded and maintained.

In 2006, the Nomination Committee has discharged the duties of nomination committee by disseminating to the Board members the biography of the nomination candidate before the Board meeting held for consideration as soon as practicable. Consideration would be given to factors such as the candidate's experience and qualifications relevant to the Company's business.

During the year, 1 meeting was held with the management to discuss and make recommendation to the Board for re-election of Mr. Yip Chi Hung as Chairman of the Company in accordance with Bye-law 119. Members of the Nomination Committee and their respective attendance at committee meeting are listed below.

	<b>Attendance</b>
Committee members	
— Mr. Wong Chi Keung	1/1
— Mr. Cheng Hok Ming, Albert	1/1
— Mr. Ma Kwai Yuen	1/1
— Mr. Yip Chi Hung <sup>1</sup>	1/1

<sup>1</sup> Mr. Yip Chi Hung was appointed as member of the Nomination Committee with effect from 19 May 2006.

Draft and final versions of minutes of Nomination Committee meeting is sent to all members of the Nomination Committee for their comments and records respectively within reasonable time after the relevant meeting.

## AUDITORS' REMUNERATION

For the year ended 31 December 2006, fees payable for audit and audit-related services to PricewaterhouseCoopers and other auditors were HK\$1,080,000 and HK\$216,000 respectively.

# Corporate Governance Report

## INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective internal control system of the Group. The Group's internal control system includes a well defined management structure with limits of authority which is designed for the achievement of business objectives, safeguarding assets against unauthorised use or disposition, ensuring proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and ensuring compliance with relevant legislations and regulations.

The Board has conducted an annual review of the effectiveness of the internal control systems covering all material controls, including financial, operational and compliance controls and risk management functions of the Group.

## COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain a high level transparency in communicating with shareholders. The Company provides detailed information in its annual and interim reports.

The annual general meeting provides a useful forum for shareholders to exchange view with the Board. At the annual general meeting of shareholders, the Board always makes efforts to fully address any questions raised by shareholders.

Separate resolutions are proposed at the general meetings on each substantially separate issue, including the election of individual directors. In addition, details of proposed resolutions and procedures for demanding a poll are included in the circular to shareholders. Poll results are published in the newspapers and on the website of the Stock Exchange as well as the Company's website at <http://pacmos.etnet.com.hk>.

During the year, the Company held an annual general meeting on 27 June 2006 and a special general meeting on 29 November 2006. All Directors attended these meetings.