

The Board of Directors and senior management of the Company are committed to implement effective corporate governance policies to ensure that all decisions are made honestly and in accordance with the principles of transparency, fairness and integrity. Effective corporate governance policies have also provided for the necessary checks and balances. The Company will continue to improve its corporate governance structure, so as to strengthen corporate monitoring and management to meet the expectation of its shareholders and related persons.

#### **BOARD OF DIRECTORS**

As at 31 December 2005, the Board comprises three executive directors, namely Mr. Yiu Ching On (Chairman), Mr. Yiu Kwok Ming, Tommy (Vice Chairman and Managing Director) and Ms. Wong Kai Chun, and three independent non-executive directors, namely Mr. Cheung Wing Yui, Mr. Wong Shiu Hoi, Peter and Mr. Lo Wai Kon. The independent non-executive directors are all experienced individuals from a range of industries. Their mix of skills and experience is an important element in the proper functioning of the board and in ensuring a high standard of objective debate and overall input to the decision-making process. The independent non-executive directors may seek for professional advice at the Company's expenses in carrying out their functions. Pursuant to the Listing Rules, every non-executive director has confirmed his independence with the Stock Exchange. The biographical details of all directors and their family relationship, if any, are provided on page 11. The Board had arranged insurance cover for their directors.

The Board is accountable to shareholders. Its key responsibilities include the formulation of long-term business directions and strategies, monitoring of internal control, review of financial statements and approval of capital expenditures. The management is delegated with the authority to make decisions on daily operations related to the Company's business affairs. The Board reviews the performance of the management to ensure company policies are carried out properly and the business is run smoothly in the best interests of its shareholders.

The posts of Chairman and CEO are separate. There is a clear distinction between their responsibilities. The Chairman is responsible for the Company's overall business directions and coordination between the Board and the Company's management, and the CEO is responsible for the business operations and executions of decisions made by the Board.

Directors are entitled to seek independent professional advice at the Company's expense in connection with their duties and responsibilities as directors, subject to the prior consent of the Chairman.

At every annual general meeting ("AGM"), one third of the directors (other than the Chairman and CEO but including non-executive directors), or the nearest number to one third, shall retire from office and be eligible for re-election. A director appointed since the most recent AGM shall hold office only until the next AGM and shall then be eligible for re-election. The directors to retire each year shall be the directors longest in office since being elected or re-elected. We have appointed the non-executive directors at specific terms for three years commencing from 21 June 2005.

Four regular full board meetings were held during the year, two of which were held through telephone conference. Meeting agendas were settled by the Chairman or Vice-Chairman to ensure adequate coverage of financial, strategic and major risk areas throughout the year. In addition to the regular full board meetings, an ad hoc full board meeting was called to discuss a continuing connected transaction between one of the Company's subsidiary with a company substantially owned by Mr. Yiu Kwok Yung (an ex-director) who is a son of Mr. Yiu Ching On, a brother of Mr. Yiu Kwok Ming, Tommy and a substantial shareholder of the Company. Details about the continuing connected transaction was set out in a press announcement of the Company dated 1 February 2005.

<b>Name of directors</b>	<b>Number of full regular board meeting attended</b>	<b>Percentage of board meeting attended</b>
Yiu Ching On	3	75%
Yiu Kwok Ming, Tommy	4	100%
Wong Kai Chun	0	0%
Cheung Wing Yui	4	100%
Wong Shiu Hoi, Peter	3	75%
Lo Wai Kon	3	75%

#### **BOARD COMMITTEE**

The monitoring and assessment of certain governance matters are allocated to committees which operate under defined terms of reference and are required to report to the full board on a regular basis.

The Audit Committee is responsible for monitoring reporting, accounting, financial and control aspects of the executive management's activities. It also monitors the function of the group's external auditors. The Audit Committee presently comprises three independent non-executive directors, namely Mr. Cheung Wing Yui (Chairman of the Committee), Mr. Wong Shiu Hoi, Peter and Mr. Lo Wai Kon. Two meetings were held during the year.

<b>Name of directors</b>	<b>Number of Audit Committee attended</b>	<b>Percentage of Audit Committee attended</b>
Cheung Wing Yui	2	100%
Wong Shiu Hoi, Peter	2	100%
Lo Wai Kon	1	50%

A Remuneration Committee was established on 21 June 2005 to determine the compensation structure and rewards for the CEO and other executive directors and monitors the policies being applied in remunerating other senior executives. The Remuneration Committee presently comprises three independent non-executive directors and one executive director, namely Mr. Wong Shiu Hoi, Peter (Chairman), Mr. Cheung Wing Yui, Mr. Lo Wai Kon and Mr. Yiu Kwok Ming, Tommy. During the year, no Remuneration Committee meeting was held because the Board did not put forward any material change of existing remuneration package for discussion in the Remuneration Committee.

#### **INTERNAL CONTROL AND RISK MANAGEMENT**

Internal Audit Department was also established on 21 June 2005 to evaluate the effectiveness of internal control systems and to ensure the systems can meet the group's particular needs and the risks to which it is exposed. It also assists the Audit Committee and the board to review the completeness, accuracy and fairness of the financial statements, though the board is responsible for the preparation of accounts which give a true and fair view.

## EXTERNAL AUDITORS

The Company's independent external auditors are Horwath Hong Kong CPA Limited. The Audit Committee is responsible for considering the appointment of the external auditors and also reviews any non-audit functions performed by the external auditor for the group. In particular, the Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest.

During the year ended 31 December 2005, the services provided by Horwath Hong Kong CPA Limited to the group were as follows:

	2005	2004
	HK\$'000	HK\$'000
Audit	509	526
Taxation and other advisory services	13	13

## DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. As confirmed by all directors after specific enquiry, they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transaction.

## COMMUNICATIONS WITH SHAREHOLDERS

The Company uses a number of formal communication channels to account to shareholders for the performance of the Company. These include the Annual Report, the Interim Report, periodic press announcements made through the Stock Exchange and through AGM. Copies of relevant corporate and financial information are also made available through the Company's website: [www.ching-hing.com.hk](http://www.ching-hing.com.hk).

The Company aims to provide its shareholders and potential investors with high standards of disclosure and financial transparency. In order to provide effective disclosure to investors and potential investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcements as required by the Listing Rules. The Company also welcomes comments and questions from shareholders at its AGM.

## COMPLIANCE WITH CODE PROVISIONS ON CORPORATE GOVERNANCE ("CG CODE")

Except that (a) the Chairmen of Audit Committee and Remuneration Committee (which was formed on 21 June 2005) were not available in 2004 AGM for questions from shareholders; (b) no Remuneration Committee meeting was held in the year, the Company has applied the principles and complied with all requirements of the newly promulgated CG Code of the Listing Rules.