

# 16 Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Board of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. With effect from 1 January 2005, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code on CGP") of the Listing Rules on The Stock Exchange, except for certain deviations in respect of the service term, rotation of Directors and separate roles between chairman and chief executive officer, which are explained in the following relevant paragraphs. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

## AMENDMENTS TO BYE-LAWS OF THE COMPANY

There is no amendment to the Bye-laws of the Company during the year. A proposed resolution for amendments to the Bye-laws was put forward for the shareholders' approval in the forthcoming 2006 annual general meeting.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding Directors' and relevant employees' securities trading. Having made specific enquiry to all the Directors of the Company, all the Directors have confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the year.

## BOARD OF DIRECTORS

The Board of the Company comprises:

Executive Directors	: Kwok Ying Chuen : Yu Won Kong, Dennis : Wong Tak Chung, Andrew (appointed on 20 September 2005)
Non-executive Director	: Li Siu Lok, Albert (resigned on 16 March 2005)
Independent Non-executive Directors	: Tso Hon Sai, Bosco : Kwok Chi Sun, Vincent : Cheng Wing Keung, Raymond

The biographies of the Directors are set out on page 8 of this annual report. The three independent non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of accounting, law and business management. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

During the year, four full Board meetings were held and the attendance of each Director is set out as follows:

Name of Director	Number of Board meetings attended in 2005	Attendance rate
Kwok Ying Chuen	3/4	75%
Yu Won Kong, Dennis	3/4	75%
Wong Tak Chung, Andrew (appointed on 20 September 2005)	1/1	100%
Li Siu Lok, Albert (resigned on 16 March 2005)	0/0	0%
Tso Hon Sai, Bosco	4/4	100%
Kwok Chi Sun, Vincent	4/4	100%
Cheng Wing Keung, Raymond	4/4	100%

The Board formulates overall directions and strategies of the Group, monitors its financial performance and maintains effective oversight over the management. The Board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

At least 14 days' notice of all Board meetings is given to all Directors and they are provided the opportunity to include matters for discussion in the agenda if the need arises. The agenda and the accompanying Board papers are sent to all Directors at least 3 days before the date of every Board meeting so that the directors have the time to review the documents. Minutes of every Board meeting are circulated to all Directors for their perusal.

Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

## CHAIRMAN AND CHIEF EXECUTIVE

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company does not appoint chairman and chief executive officer as the current Board members have their unique expertise and functions well within the Company. The Company Secretary assists the Board in setting out and finalizing the agenda, after taking into account any matters proposed by any other directors and ensure adequate information being received by the Directors in a timely manner in advance of the intended meeting date. All Directors have unrestricted access to the management for enquiries and to obtain information when required.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company has not fixed the term of appointment for non-executive Directors. However, they are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with bye-law 99(B) of the bye-laws of the Company (the "Bye-laws"). This deviates from the provision A.4.1 of the Code on CGP which requires that Non-executive Directors be appointed for a specific term. The Board has discussed and concluded that the current practice of appointing Non-executive Directors without specific terms but otherwise subject to rotation and re-election by shareholders was fair and reasonable, and does not intend to change the current practice at the moment.

According to bye-law 99(B) of the Bye-laws, one-third of the Directors for the time being or if their number is not 3 or a multiple of 3, the number nearest to one-third shall retire from office by rotation at each annual general meeting. The Chairman of the Directors and the Managing Director of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire each year. Any Director appointed to fill a casual vacancy addition to the Board shall held office only until the next annual general meeting of the Company and shall retire and be subject to re-election. The above practice deviates from the provision A.4.2 of the Code on CGP which requires all Directors appointed to fill casual vacancy be subject to election by shareholders at the first general meeting after their appointment, and every Director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years. In order to comply with such code provision, a resolution for an amendment to the Bye-laws of the Company has been proposed for approval by the shareholders of the Company at the forthcoming 2006 annual general meeting.

## REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises three Independent Non-executive Directors, namely Messrs. Kwok Chi Sun, Vincent (Chairman), Tso Hon Sai, Bosco and Cheng Wing Keung, Raymond.

The Remuneration Committee was established on 7 July 2005 with specific written terms of reference and meetings shall be held at least once a year. One meeting was held in September 2005 which was attended by all members.

The Remuneration Committee has reviewed and recommended to the Board the Directors' fee for the Independent Non-executive Directors.

The Company has adopted a share option scheme on 24 January 2004, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out in note 32 to the financial statements. The structure of the emolument payable to Executive Directors comprises basic salary and pension. Details of the Directors' remuneration are set out in note 11 to the financial statements.

The major roles and functions of the Remuneration Committee are as follows:

1. To review annually and recommend to the Board the overall remuneration policy for the Directors, and key senior management officers.

2. To review annually the performance of the Executive Directors and key senior management officers and recommend to the Board specific adjustments in remuneration and/or reward payments.
3. To ensure that the level of remuneration of Non-executive Directors and Independent Non-executive Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the board of the respective companies in the Group.
4. To review and approve the compensation payable to Executive Directors and key senior management officers in connection with any loss or termination of their office or appointment.
5. To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct.
6. To ensure that no Director is involved in deciding his own remuneration.

## ACCOUNTABILITY AND AUDIT

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 flow 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, which also include the Hong Kong Accounting Standards and Interpretations, 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.

## AUDIT COMMITTEE

The Audit Committee of the Company was established in September, 2004 with specific written terms of reference. The committee comprises three Independent Non-executive Directors, namely Messrs. Tso Hon Sai, Bosco (Chairman), Kwok Chi Sun, Vincent and Cheng Wing Keung, Raymond.

The Audit Committee shall meet at least twice a year. Two meetings were held during the year and attended by all members. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate.

During the meetings held in 2005, the Audit Committee had performed the following works:

- (i) reviewed the financial reports for the year ended 31 December 2004 and for the six months ended 30 June 2005;
- (ii) reviewed the effectiveness of internal control systems;

- (iii) reviewed the external auditors' statutory audit plan and engagement letter;
- (iv) reviewed the recommendation from the external auditors in relation to the audit of the Group for the year ended 31 December 2004; and
- (v) reviewed and recommended for approval by the Board the 2005 audit scope and fees.

The major roles and functions of the Audit Committee are as follows:

1. To consider the appointment of the external auditors, the audit fees, and any questions of resignation or dismissal of the external auditors of the Group.
2. To discuss with the external auditors the nature and scope of the audit.
3. To review the interim and annual financial statements before submission to the Board of Directors.
4. To discuss problems and reservations arising from the interim review and final audit, and any matters the auditors may wish to discuss.
5. To review the external auditors' management letters and management's response.
6. To review the Group's internal control systems.
7. To consider the major findings of internal investigations and management's response.

## AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's auditors, Messrs Moore Stephens, is set out as follows:

<b>Services rendered</b>	<b>fees paid/payable HK\$'000</b>
Audit services	968
Non-audit services, i.e. taxation	58
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	1,026
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## NOMINATION OF DIRECTORS

No nomination committee has been established by the Company. The appointment of a new Director is a matter for consideration and approval by the Board. The Board would consider a number of criterion, including the past experience, qualifications and overall integrity of the potential candidate. During the year, the Company has appointed a new Executive Director.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Executive Directors and the external auditors are present to answer shareholders' question. An annual general meeting circular is distributed to all shareholders at least 21 days before the annual general meeting. It sets out the right to demand a poll and other relevant information of the proposed resolutions. The Chairman of the meeting will explain the procedures for demanding and conducting a poll at the beginning of the annual general meeting and (except where a poll is demanded) reveals how many proxies for and against have been filed in respect of each resolution. The results of the poll, if any, will be published in the newspapers and posted on the website of the Stock Exchange.