

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") is of the view that corporate governance is vital to the continued success of the Company and has therefore adopted various measures to ensure that a high standard of corporate governance is upheld. With effect from 1st January 2005, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "SEHK") save and except for certain deviations as more specifically described below. The current practices will be reviewed and updated regularly so that the latest development in corporate governance can be followed and observed.

## DIRECTORS

### Directors' Securities Transactions

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry of all directors, they all have confirmed that they have complied with the required standard as set out in the Model Code throughout the year.

### Board of Directors

The Board comprises:

Executive Directors

Mr. LEE Sou Leung, Joseph  
Ms. TAN, Lisa Marie  
Mr. CHAN Ching Huen, Stanley

Independent Non-executive Director

Dr. LUI Sun Wing  
Mr. PIKE, Mark Terence  
Mr. NIMMO, Walter Gilbert Mearns

Each independent non-executive director gives an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 3.13 of the Listing Rules.

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During the financial year ended 31st December 2005, 4 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 the financial year ended 31st December 2005		Attendance rate
Mr. LEE Sou Leung, Joseph	4		100%
Ms. TAN Lisa Marie	4		100%
Mr. CHAN Ching Huen, Stanley	4		100%
Mr. PIKE, Mark Terence	2		50%
Dr. LUI Sun Wing	2		50%
Mr. NIMMO, Walter Gilbert Mearns	3		75%

The Board is responsible for these types of decision:

- formulation of operational goals for the strategic direction of the Company;
- monitoring the financial performance of the Company;
- overseeing the performance of the management;
- ensuring a prudent and effective framework of internal control is in place to enable risks to be assessed and managed;
- setting the Company's values and standards.

while the daily operations and administration are delegated to the management.

The Board held meetings from time to time whenever necessary. The company secretary assists in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. Minutes of every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes at the following Board meeting.

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Every Board member has full access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Lee Sou Leung, Joseph ("Mr. Lee") is the Chairman and the Managing Director of the Company. Mr. Lee has extensive experience in the industry which is beneficial and of great value to the overall development of the Company.

The Board is of the view of that although the Chairman is also the Managing Director, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals and meets from time to time to discuss issues affecting operation of the Company.

Ms. Tan Lisa Marie is the wife of Mr. Lee.

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each executive director has entered into a service contract with the Company for a term of three years. All independent non-executive directors are appointed for a specific term which may be renewed as each director and the Company may agree in writing. However, they are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Bye-laws of the Company (the "Bye-laws").

According to the Bye-laws, one third of the directors (or if the number is not multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation at each annual general meeting and chairman shall not be subject to retirement by rotation and any director appointed to fill a casual vacancy or as an addition to the Board shall hold 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 A4.2 of the Code 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. Having reviewed the relevant Bye-laws, the Board proposed to put forth a special resolution in the coming annual general meeting to amend the Bye-laws to comply with the said code provision.

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## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

### Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 10th September 2005 comprising 3 independent non-executive directors. Dr. LUI Sun Wing is the chairman of the Remuneration Committee.

According to the terms of reference of the Remuneration Committee, its major roles and functions are as follows:

- (1) To make recommendations to the Board on the Company's policy and structure for all remuneration of directors of the Company and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.
- (2) To have the delegated responsibility to determine the specific remuneration package for all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remunerations.
- (3) To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.
- (4) To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.
- (5) To review and approve compensation arrangement relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.
- (6) To ensure that no director or any of his associate is involved in deciding his own remuneration.

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Meeting of the Remuneration Committee shall be held at least once a year. One meeting was held in 2005 and various issues concerning the terms of reference of the Committee were discussed. The attendance of each member is set out as follows:

Name of director	Number of Committee meetings attended in the financial year ended 31st December 2005		Attendance rate
Mr. LEE Sou Leung, Joseph	1		100%
Ms. TAN Lisa Marie	1		100%
Dr. LUI Sun Wing	1		100%
Mr. NIMMO, Walter Gilbert Mearns	1		100%
Mr. PIKE, Mark Terence	0		0%

### DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors acknowledge their responsibilities for preparing the financial statements of the Group. The directors' responsibilities in the preparation of the financial statements and the auditors' responsibilities are set out in the Auditors' Report.

The accounts and financial statements are prepared by the directors of the Company, which are prepared and presented to enable a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. The directors are responsible for overseeing the preparation of accounts and financial statements of each financial period.

The management of the Company reports regularly to the Board on the financial position and prospects of the business of the Company to enable the Board to make an informed assessment of the financial and other performance of the Company.

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## INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for overseeing the Company's system of internal control.

To facilitate the effective and efficient operations and to ensure compliance with relevant laws and regulations, the Group emphasises on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. The Group's system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of the business objectives.

The internal control system is reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of materials assets and identification of business risks. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board.

The Board has conducted review of the effectiveness of the system of internal control and is of the view that the system of internal control adopted for the year ended 31st December 2005 is sound and is effective to safeguard the interests of the shareholders' investment and the Company's assets.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 17th June 2003 and now comprises of three independent non-executive directors. Two members have appropriate professional qualifications or accounting or related financial management expertise. Mr. Mearns Nimmo is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditors of the Company.

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The existing terms of reference of the Audit Committee are modeled on "A Guide for Effective Audit Committee" issued by Hong Kong Institute of Certified Public Accountants. The Board is considering of adopting revised terms of reference to conform to and to implement the principles set out in the Code. According to the existing terms of reference of the Audit Committee, its major roles and functions are as follows:

1. Appointment, reappointment and removal of the external auditor.
2. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process.
3. To develop and implement policy on the engagement of an external auditor to supply non-audit services.
4. To monitor integrity of financial statements of an issuer and the issuer's annual report, financial statements and half-year report, and to review significant financial reporting judgments contained in them.
5. Oversight of the issuer's financial reporting system and internal control procedures.

Meeting of the Audit Committee shall be held at least twice a year. Two meetings were held in 2005. The attendance of each member is set out as follows:

Name of director	Number of Committee meetings attended in the financial year ended 31st December 2005		Attendance rate
Mr. NIMMO, Walter Gilbert Mearns	2		100%
Mr. PIKE, Mark Terence	1		50%
Dr. LUI Sun Wing	2		100%

At the meetings held during the year, in performing its duties in accordance with its terms of reference, the work performed by the Audit Committee included:

- To review and supervise the financial reporting process and internal control system of the Company and its subsidiaries.
- Review the financial statements for the relevant period with reference to the scope of the terms of reference.
- Appointment of external auditors.

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## AUDITORS' REMUNERATION

The amount of fees charged by the Company's auditors in respect of their audit and non-audit services are disclosed in Note 22 to the financial statements of the Company. The Audit Committee is responsible for reviewing the remuneration and terms of engagement of the external auditors and for making recommendation to the Board regarding any non-audit services to be provided to the Company by the external auditors.

For the year ended 31st December 2005, the fees paid and payable to the Company's auditors were primarily for audit services as there were no material non-audit service assignments undertaken by them.