

# Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The board of directors of the Company (the "Board") believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the light of the Code on Corporate Governance Practices (the "CG Code") contained 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") which came into effect on 1 January 2005, the Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report. The Company has applied the principles of and complied with the applicable code provisions of the CG Code during the year ended 31 December 2005, except for certain deviations as specified with considered reasons for such deviations as explained below.

## THE BOARD

The Board currently comprises seven Directors and its composition is set out as follows:

### Executive Directors:

So Pang Gen (*Chairman and Managing Director*)

Lam Hon Keung, Keith (*Deputy Chairman*)

Choi Dun Woo

Su Bangyuan

### Independent Non-Executive Directors ("INEDs"):

Hui Yip Wing, David

Kee Wah Sze

Ku Siu Fung, Stephen

The brief biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" section in the Directors' Report on pages 8 to 11.

The Independent Non-Executive Directors provide the Group with a wide range of expertise and experience. Their active participation in Board and committee meetings brings independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders.

The Company has three INEDs representing more than one-third of the Board. And one of the INEDs has appropriate accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

# Corporate Governance Report

## THE BOARD *(Continued)*

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the year, six Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

	Number of Board meetings Attend/held
<b>Executive Directors:</b>	
So Pang Gen ( <i>Chairman and Managing Director</i> )	6/6
Lam Hon Keung, Keith ( <i>Deputy Chairman</i> )	6/6
Choi Dun Woo	2/6
Su Bangyuan	5/6
<b>INEDS:</b>	
Hui Yip Wing, David	3/6
Kee Wah Sze	4/6
Ku Siu Fung, Stephen	4/6

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, annual and interim results, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the day-to-day responsibility to the executive management. The respective functions of the Board and management of the Company have been formalized and set out in writing which will be reviewed at least once a year.

Board meeting are scheduled to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

# Corporate Governance Report

## ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICE

In pace with the business development and growth of the Group, the Group currently maintains a small but efficient team in the daily operations of the Group. Due to the small size of the team, both the roles of the Chairman and Managing Director of the Company are currently played by Mr. So Pang Gen. The Board considers the currently simple but efficient team serves sufficiently enough the need of the Group. The Board will, nonetheless, review into business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the day-to-day management team to ensure a proper balance of power and authority within the Company.

Mr. So Pang Gen, being the Chairman and Managing Director, is primarily responsible for leadership of the Board, ensuring the effectiveness in all aspects of its role and for setting its agenda, whereas clearly established executive responsibilities for running of the business of the Group lie with difference designated senior executives. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board and a clear division of responsibility for the running of the business of the Group. The Board believes that the structure outlined above is beneficial to the Company and its business.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

In June 2005, the Board has established and adopted a written nomination procedure (the "Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Executive Committee shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills and time commitment etc.), identify and recommend the proposed candidate to the Board for approval of an appointment.

New Directors, on appointment, will be given an induction package containing all key legal and Listing Rules' requirements as well as guidelines on the responsibilities and obligations to be observed by a director. The package will also include the latest published financial reports of the Company and the documentation for the corporate governance practices adopted by the Board. The senior management will subsequently conduct such briefing as is necessary to give the new Directors more detailed information on the Group's business and activities.

The INEDs of the Company had no fixed term of office, but retired from office on a rotational basis in accordance with the relevant provisions of the Company's Bye-laws. According to Provision 99 of the Bye-Laws of the Company, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation save any Director holding office as Chairman or Managing Director. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election. The Company at any general meeting at which any Directors retire may fill the vacated offices. Further, any Director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following annual general meeting and should then be eligible for re-election at the meeting.

# Corporate Governance Report

## APPOINTMENT AND RE-ELECTION OF DIRECTORS *(Continued)*

To fully comply with the code provision A.4.1 of the CG Code, all INEDs of the Company will be appointed for a specific term, after re-election in coming annual general meeting in 2006.

## BOARD COMMITTEES

The Board has established various committees, including a Remuneration Committee, an Audit Committee and an Executive Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolution of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on page 18 in the section "The Board" above, have been adopted for the committee meetings so far as practicable.

### Remuneration Committee

The Remuneration Committee has been established in June 2005 in order to comply with the code provision B.1.1 of the CG Code. It currently consists of three members, including Mr. Kee Wah Sze (Chairman), Mr. Hui Yip Wing, David and Mr. Ku Siu Fung, Stephen, all of whom are INEDs. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The major roles and functions of the Remuneration Committee are:

- (i) to review and recommend to the Board the remuneration policy and packages of the Directors and, where appropriate, to consult the Chairman and/or the Managing Director about the committee's proposals relating to the remuneration of other Executive Directors;
- (ii) to review and recommend performance-based remuneration by reference to corporate goals and objectives approved by the Board from time to time;
- (iii) to review and recommend the compensation payable to Executive Directors relating to any loss or termination of their office or appointment;
- (iv) to review and recommend compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- (v) to ensure that no Director is involved in deciding his own remuneration.

# Corporate Governance Report

## BOARD COMMITTEES *(Continued)*

### Remuneration Committee *(Continued)*

The terms of reference of the Remuneration Committee of the Company were adopted in June 2005 to comply with the code provision B.1.3 of the CG Code, but with a deviation from the code provision of the remuneration committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of Executive Directors only and not senior management for the following reasons:

- (i) The Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior management and that this evaluation process is more effectively carried out by the Executive Directors;
- (ii) The Remuneration Committee members only consist of INEDs who may not be industry skilled and come from differing professions and backgrounds and they are not involved in the daily operation of the Company. They may have little direct knowledge of industry practice and standard compensation packages. The Remuneration Committee is thus not in a position to properly determine the remuneration of the Executive Directors;
- (iii) The Executive Directors must be in a position to supervise and control senior management and thus must be able to control their compensation; and
- (iv) There is no reason for Executive Directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The Remuneration Committee shall meet at least once a year. One committee meeting was held in 2005 to review and discuss the existing policy and structure for the remuneration of Directors, the remuneration packages of both the Executive Directors and INEDs and the attendance of each member is set out as follows:

Committee member	Number of Committee meeting attended/held
Kee Wah Sze ( <i>Chairman</i> )	1/1
Hui Yip Wing, David	1/1
Ku Siu Fung, Stephen	1/1

Each Director will be entitled to a Director's fee which is to be proposed for the shareholders' approval at the annual general meeting of the Company each year. Further remuneration payable to Directors for their additional responsibilities and services will depend on their respective contractual terms under their employment or service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 9 to the financial statements.

# Corporate Governance Report

## BOARD COMMITTEES *(Continued)*

### Remuneration Committee *(Continued)*

In order to attract, retain and motivate the senior executives and key employees of the Group, including the Executive Directors, the Company has adopted a share option scheme in May, 2002. Details of the share option scheme are set out in note 29 to the financial statements.

### Audit Committee

The Audit Committee has been established since May 2002 and currently consists of three INEDs. To retain independence and objectivity, the Audit Committee is chaired by an INED with appropriate professional qualifications or accounting or related financial management expertise. The current members of the Audit Committee are Mr. Hui Yip Wing, David (Chairman), Mr. Kee Wah Sze and Mr. Ku Siu Fung, Stephen. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

The major roles and functions of the Audit committee are:

- (i) to consider and recommend to the Board on the appointment, re-appointment and removal the external auditors, to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditors;
- (ii) to consider and discuss with the external auditors the nature and scope of each year's audit;
- (iii) to review and monitor the external auditors' independence and objectivity;
- (iv) to review the interim and annual financial statements before submission to the Board;
- (v) to discuss any problems and reservation arising from the interim review and final audit, and any matters the external auditors may wish to discuss;
- (vi) to review the external auditors' management letters and management's response;
- (vii) to review the Groups' financial controls, internal control and risk management systems; and
- (viii) to consider any findings of major investigations of internal control matters as delegated by the Board and management's response.

The terms of reference of the Audit Committee of the Company were revised in June 2005 to comply with the code provision C.3.3 of the CG Code.

# Corporate Governance Report

## BOARD COMMITTEES *(Continued)*

### Audit Committee *(Continued)*

The Audit Committee will meet at least twice each year. In 2005, the Audit Committee met twice reviewing the annual results of the Group for the financial year ended 31st December 2004 and the interim results of the Group for the 6 months ended 30th June 2005, discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and the scope of work in relation to the annual audit and reviewing the continuing connected transactions of the Group. Attendance records of the members of the Audit Committee in 2005 are as follows:

Committee member	Number of Committee meetings attended/held
Hui Yip Wing, David ( <i>Chairman</i> )	2/2
Kee Wah Sze	0/2
Ku Siu Fung, Stephen	2/2

## CODES 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 regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code.

To comply with the code provision A.5.4 of the CG Code, the Company has also adopted in June 2005 the Model Code, to regulate dealings in the securities of the Company by certain employees of the Company or any of its subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company its securities.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Directors acknowledge their responsibility for preparing, with the support from finance department, the financial statements of the Group. In preparing the financial statements for the year ended 31st December, 2005, the requirements of the Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules and the Companies Ordinance were complied with.

The reporting responsibilities of the Company's external auditors, Messrs. Deloitte Touche Tohmatsu, are set out in the Auditors' Report on pages 26.

# Corporate Governance Report

## ACCOUNTABILITY AND AUDIT *(Continued)*

### External Auditors' Remuneration

During the year, the remuneration paid/payable to the Company's external auditors, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered for the Group	Fee paid/payable HK'000
Audit services	924
Taxation advisory	75
Total	999

## COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The Company's annual general meeting (the "AGM") is a valuable forum for the Board to communicate directly with the shareholders. The Chairman actively participates in the AGM and personally chairs the meeting to answer any questions from the shareholders. A separate resolution is proposed by the Chairman in respect of each issue to be considered at the AGM. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each propose resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the AGM, and (except where a poll is demanded) reveals how many proxies for and against have been received in respect of each resolution.

## CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders are also welcome to promote our transparency.

On behalf of the Board

**So Pang Gen**

*Chairman*

Hong Kong, 26 April 2006