

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a high standard of corporate governance practices by emphasizing a quality board of directors, sound internal control, transparency and accountability to all the shareholders of the Company.

The Company has complied with all the code provisions set out in the Code of Corporate Governance Practice (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2005 except for certain deviations from code provisions A.4.1, A.4.2, B.1.4 Note 1 and C.3.3 with explanation below.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code for securities transactions by directors of the Company (the "Code of Conduct") on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Having made specific enquiry with all the director(s) of the Company (the "Director(s)"), all of them confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding securities transactions by the Directors.

## BOARD OF DIRECTORS

### Composition

The board of directors (the "Board") of the Company comprises eleven Directors of which two are executive Directors, six are non-executive Directors and three are independent non-executive Directors. The members of Directors as at the date of this annual report are as follows:

#### Executive Directors

Mr. Xu Huizhong  
Mr. Wang Lixin

#### Non-executive Directors

Mr. Zhou Zhongshu (*Chairman*)  
Dr. Zhu Guang (*Vice Chairman*)  
Ms. Shen Ling  
Mr. Zhang Shoulian  
Mr. Li Linhu  
Mr. Zong Qingsheng

# Corporate Governance Report

## BOARD OF DIRECTORS (cont'd)

### Independent Non-executive Directors

Mr. Liu Hongru  
Mr. Chan Wai Dune  
Mr. Ting Leung Huel, Stephen

The Board formulates overall strategies and policies of the Group. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal controls and the conduct of business in conformity with applicable laws and regulations. The Board members are fully committed to their roles and have always acted in the best interests of the Group and its shareholders at all times. There is no financial, business, family or other material/relevant relationship amongst Directors. The Directors' biographical information is set out on pages 15 to 18 under the section headed "Directors and Senior Management" of this annual report.

Board meetings are held regularly at approximately quarterly intervals. In addition, Board meetings will be held on ad hoc basis as required by business needs. During the year ended 31 December 2005, the Board held twenty-one meetings.

The attendance of each member at the Board meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a Board member.

Directors	Notes	Number of meetings attended
<i>Executive Directors</i>		
Mr. Lin Xizhong (Chairman)	(i)	19/(19)
Mr. Xu Huizhong		21/(21)
Mr. Wang Lixin	(ii)	2/(2)
Mr. Qian Wenchao	(iii)	19/(19)
Mr. Tang Xiaojin	(iii)	19/(19)
<i>Non-executive Directors</i>		
Mr. Zhou Zhongshu (Chairman)	(iv)	2/(2)
Dr. Zhu Guang (Vice Chairman)	(v)	0/(2)
Ms. Shen Ling	(vi)	2/(2)
Mr. Zhang Shoulian	(vi) & (vii)	2/(2)
Mr. Li Linhu	(vi)	2/(2)
Mr. Zong Qingsheng	(vi)	2/(2)
<i>Independent Non-executive Directors</i>		
Mr. Liu Hongru		20/(21)
Mr. Chan Wai Dune		21/(21)
Mr. Ting Leung Huel, Stephen		20/(21)



# Corporate Governance Report

## BOARD OF DIRECTORS *(cont'd)*

### Notes:

- (i) Resigned as chairman of the Board and executive Director on 6 October 2005.
- (ii) Appointed as executive Director on 6 October 2005.
- (iii) Resigned as executive Director on 6 October 2005.
- (iv) Appointed as chairman of the Board and non-executive Director on 6 October 2005.
- (v) Appointed as vice chairman of the Board and non-executive Director on 6 October 2005.
- (vi) Appointed as non-executive Director on 6 October 2005.
- (vii) Due to other business commitment, Mr. Zhang Shoulian has appointed Mr. Wang Lixin, an executive Director, to act as his alternate director to attend one of the Board meetings held during the year.

## Chairman of the Board and Chief Executive Officer

The chairman of the Board is Mr. Zhou Zhongshu and the chief executive officer (or president, in the case of the Company) of the Company is Mr. Xu Huizhong. The roles of the chairman of the Board and the president of the Company are segregated to ensure their respective independence, accountability and responsibility.

The chairman takes the lead in formulating overall strategies and policies of the Group; ensures the effective performance by the Board of its functions, including compliance with good corporate governance practices and encourages and facilitates active contribution of Directors in Board activities. The chairman also ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner.

The president, supported by other Board members and senior management, is responsible for managing day-to-day business of the Group. He is also accountable to the Board for the implementation of the Group's overall strategies, and coordination of overall business operations.

## Executive Directors

The executive Directors are responsible for running the Group and executing the strategies adopted by the Board. They lead the Group's management team in accordance with the directions set by the Board and are responsible for ensuring that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

## Non-executive Directors

The non-executive Directors provide a wide range of expertise and experience and bring independent judgment on issues relating to the Group's strategies, development, performance and risk management through their contribution at Board and committee meetings.

# Corporate Governance Report

## BOARD OF DIRECTORS *(cont'd)*

### Independent Non-executive Directors

The independent non-executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participation provide adequate checks and balances to safeguard the interests of the Group and its shareholders. The Board consists of three independent non-executive Directors and two of them have appropriate professional qualifications or accounting or related financial management expertise. The Board confirms that the Company has received from each of the independent non-executive Directors a confirmation of independence for the year ended 31 December 2005 pursuant to Rule 3.13 of the Listing Rules and considers such directors to be independent.

### Nomination of Directors

The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their qualifications, experience and expertise as well as the requirements under the Listing Rules. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

During the year, one meeting was held by the Board to discuss and recommend the nomination of Mr. Wang Lixin as the executive Director and Mr. Zhou Zhongshu, Dr. Zhu Guang, Ms. Shen Ling, Mr. Zhang Shoulian, Mr. Li Linhu and Mr. Zong Qingsheng as the non-executive Directors. All these Directors are subject to retirement and re-election at the Company's forthcoming annual general meeting in accordance with the articles of association of the Company (the "Articles of Association").

### Re-election of Directors

In compliance with code provision A.4.1 of the CG Code, each of the non-executive Directors has entered into a service contract with the Company for a term of three years commencing from 6 October 2005 but is subject to retirement and re-election at the forthcoming annual general meeting of the Company and thereafter subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association.

In accordance with Articles 85 of the Articles of Association, 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 annual general meeting of the Company and shall be subject to re-election. In addition, Article 101 of the Articles of Association provides that, one third of the Directors for the time being save as the managing director (or president, in the case of the Company) and those Directors in respect of whom the provision of Article 85 applies or, if their number is not three, then the number nearest one-third, shall retire from office and shall be eligible for re-election at each annual general meeting of the Company. In the spirit of good corporate governance practices, the president of the Company had voluntarily retired from his office and offered himself for re-election at the annual general meeting of the Company held on 18 May 2005 notwithstanding that he is not required to do so by the Articles of Association. In order to ensure full compliance with code provision A.4.2 of the CG Code, a special resolution will be proposed to amend the relevant articles of Articles of Association at the forthcoming annual general meeting of the Company so that all directors appointed to fill a casual vacancy shall retire at the next general meeting, and every director shall be subject to retirement by rotation at least once every three years.



# Corporate Governance Report

## THE BOARD COMMITTEES

### Remuneration Committee

The Company has established a remuneration committee on 11 April 2005. The remuneration committee comprises five members, a majority of whom are independent non-executive directors, and is chaired by Mr. Ting Leung Huel, Stephen. The other members are Mr. Zhou Zhongshu, Mr Liu Hongru, Mr. Xu Huizhong and Mr. Chan Wai Dune.

The remuneration committee is responsible for formulating and making recommendation to the Board on the Group's remuneration policy, the determination of specific remuneration packages of all executive directors and senior management and making recommendations to the Board the remuneration of non-executive Directors. It takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-base remuneration.

The terms of reference of the remuneration committee were posted on the Company's website immediately after the completion of the construction of the website on 25 August 2005 and has complied with code provision B.1.4 Note 1 of the CG Code.

During the year ended 31 December 2005, the remuneration committee held two meetings. The remuneration committee reviewed the remuneration policy of the Company and the remuneration of Directors and senior management and made recommendation to the Board.

The attendance of each member at the remuneration committee meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a member of the remuneration committee.

<b>Members</b>	<b>Notes</b>	<b>Number of meetings attended</b>
<i>Executive Directors</i>		
Mr. Lin Xizhong	(i)	1/(1)
Mr. Xu Huizhong		1/(2)
<i>Non-executive Director</i>		
Mr. Zhou Zhongshu	(ii)	0/(0)
<i>Independent Non-executive Directors</i>		
Mr. Liu Hongru		2/(2)
Mr. Chan Wai Dune		2/(2)
Mr. Ting Leung Huel, Stephen ( <i>Chairman</i> )		2/(2)

#### Notes:

- (i) Resigned as member of the remuneration committee on 6 October 2005.
- (ii) Appointed as member of the remuneration committee on 12 October 2005 but no meeting was held after his appointment.

# Corporate Governance Report

## THE BOARD COMMITTEES *(cont'd)*

### Audit Committee

The Company has established an audit committee on 2 July 1999. The audit committee comprises three independent non-executive Directors, namely Mr. Liu Hongru, Mr. Chan Wai Dune and Mr. Ting Leung Huel, Stephen and one non-executive Director, Mr. Zong Qingsheng. The Chairman of the audit committee is Mr. Chan Wai Dune.

The audit committee is accountable to the Board and the principal duties of the audit committee include the review and supervision of the financial reporting process and internal controls system of the Group.

The revised terms of reference of the audit committee incorporating all the duties set out in code provision C.3.3 of the CG Code were approved by the Board on 25 August 2005 and were posted on the Company's website.

During the year ended 31 December 2005, the audit committee held two meetings. The audit committee reviewed with the senior management and auditors of the Company the accounting policies and practices adopted by the Group and discussed auditing, the internal controls system and financial reporting matters. It also reviewed the financial statements of the Company and the Company's annual and interim reports, the management letter from the auditors of the Company, the connected transactions entered into by the Group and the audit scope and fees for the year ended 31 December 2005.

The attendance of each member at the audit committee meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a member of the audit committee.

<b>Members</b>	<i>Notes</i>	<b>Number of meetings attended</b>
<i>Non-executive Director</i>		
Mr. Zong Qingsheng	(i)	0/(0)
<i>Independent Non-executive Directors</i>		
Mr. Liu Hongru		2/(2)
Mr. Chan Wai Dune ( <i>Chairman</i> )		2/(2)
Mr. Ting Leung Huel, Stephen		2/(2)

*Notes:*

- (i) Appointed as member of the audit committee on 12 October 2005 but no meeting was held after his appointment.



# Corporate Governance Report

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements for the year ended 31 December 2005 as disclosed in this annual report. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and Management with an appropriate consideration to materiality. As at 31 December 2005, the Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's and the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements on a going concern basis.

The statement of the auditors of the Company regarding their responsibilities on the financial statements is set out in the Auditors' Report on pages 44 to 45 of this annual report.

### Internal Controls

The Company is currently in the process of developing the procedures for the review of the effectiveness of its internal control system. The annual review requirement of the effectiveness of the Company's internal control system under the CG Code shall apply to the Company starting from the year ending 31 December 2006.

### Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, PricewaterhouseCoopers, for the year ended 31 December 2005 is set out as follows:

<b>Services rendered</b>	<b>Fee paid/payable</b> <i>HK\$'000</i>
Audit services	2,169
Non-audit services	
Services in connection with the acquisition of subsidiaries and placing of shares	3,197
Other services	153
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	5,519
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# Corporate Governance Report

## COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to develop and maintain continuing relationships and effective communications with its shareholders and investors. In an effort to facilitate and enhance the relationships and communication, the Company has established the following various channels:

1. the annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The Chairman and the Directors are available at the annual general meetings of the Company to address shareholders' queries;
2. Separate resolutions are proposed at the general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in the circulars to the shareholders of the Company to facilitate the enforcement of shareholders' rights;
3. interim and annual results are announced as early as possible, to keep shareholders of the Company informed of the Group's performance and operations; and
4. updated key information of the Group is available on the Company's website to enable the shareholders of the Company and the investors to have timely access to information about the Group.

