

## CORPORATE GOVERNANCE REPORT

The Company puts great emphasis on corporate governance and reviews and strengthens corporate governance measures from time to time. The board believes that shareholders can derive maximum benefits from good corporate governance.

Effective 1 January, 2005, the “Code of Best Practice” as set out in Appendix 14 of the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”) has been superseded by the “Code on Corporate Governance Practice” (the “Code”). The Code stipulates that the recommendations on the principles and two levels of good corporate governance, including (1) code provisions: the listing issuer must strictly observe them and should provide reasons after detailed consideration pursuant to the requirements if there are any deviations from the code provisions; and (2) recommended best practices (only as guidelines).

The Company has adopted all code provisions of the Code as its own code on corporate governance practice. During the year, the Company has complied with all code provisions of the Code, except the following code provisions:

- (1) Code provision A.4.2 (last sentence) stipulates that each director (including directors appointed on a specific term) is subject to retirement by rotation at least once every three years.

According to the provisions of the bye-laws of the Company before the amendment, the chairman and/or managing director of the board of the Company need not retire by rotation at the annual general meeting convened on 27 May, 2005.

In order to observe Code provision A.4.2, the Company passed a special resolution at the annual general meeting convened on 27 May, 2005 to amend the bye-laws of the Company so that all directors are now subject to retirement by rotation at least once every three years.

- (2) Code provision C.2 (regarding internal control and the proposed disclosure of internal control information of listed issuers in the corporate governance report): The code provision applies to accounting periods commencing on 1 July, 2005 or after.

### GOVERNANCE STRUCTURE

The Company’s corporate governance structure includes the board and two committees under the board, namely audit committee and remuneration committee. The board stipulates the terms of reference of all committees in writing and specifies clearly the power and responsibilities of the committees.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### BOARD MEMBERS

The board comprises seven directors, including four executive directors, namely Mr. Leung Siu Fai, Mr. You Guang Wu, Mr. Kam Hung Chung and Mr. Wang Jin Yuan, and three independent non-executive directors, namely Mr. Chan Kwok Wai, Mr. Chen Da Cheng and Mr. Deng Hong Ping. All independent non-executive directors of the Company have complied with the requirements of the Listing Rules and have presented annual confirmations of independence issued pursuant to Rule 3.13 of the Listing Rules to the Company. The board has assessed their independence and confirms that all independent non-executive directors are independent parties as defined in the Listing Rules. The term of office of three non-executive directors is two years and will expire on 21 September, 2006 for Mr. Chan Kwok Wai and Mr. Chen Da Cheng and will expire on 5 April, 2008 for Mr. Deng Hong Ping. They are subject to the retirement and re-election requirements of the articles of association of the Company.

### THE BOARD

Information and responsibilities of all directors are contained in this annual report on pages 13 and 14.

There are no business, financial, family and other relevant interests among directors and between them and the Company or its subsidiaries.

The board convenes at least four regular meetings each year (approximately one each quarter) and will convene meetings when necessary. When a regular board meeting is convened, the board documents will be sent to directors for review before the meeting pursuant to the Listing Rules and the Code Provisions so that directors can keep abreast of the information to perform their duties and responsibilities. The board convened 12 meetings in 2005. The attendance of directors is as follows:

<b>Director Name</b>	<b>Attendance</b>	<b>Attendance Rate</b>
<i>Executive directors</i>		
Leung Siu Fai ( <i>Chairman</i> )	12	100%
You Guang Wu ( <i>Vice Chairman</i> )	10	83%
Kam Hung Chung ( <i>Managing Director</i> )	12	100%
Wang Jin Yuan	10	83%
<i>Independent non-executive directors</i>		
Chan Kwok Wai	9	75%
Chen Da Cheng	10	83%
Deng Hong Ping	—	—

## CORPORATE GOVERNANCE REPORT (CONTINUED)

- Notes:*
1. On 6 April, 2006, Mr. You Guang Wu, being an independent non-executive director, has been redesignated as an executive director and was appointed as Vice Chairman of the Company.
  2. On 6 April, 2006, Mr. Deng Hong Ping has been appointed as an independent non-executive director of the Company.

The remuneration of directors is determined with reference to their functions and responsibilities in the Company, the performance of the Company and current market conditions. Any director is not allowed to participate in determining his own remuneration. The remuneration received by directors from the Company during the year is set out in Note 9 of the financial statement. The board has set up an independent professional consulting procedure and upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

### AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors with extensive experience in accounting or legal matters. The audit committee is mainly responsible for reviewing the financial statements and annual reports and accounts of the Company, submitting relevant reports and recommendations to the board, and making recommendations on the appointment and remuneration of the auditors of the Company and any matters related to the termination of appointment. Mr. Chan Kwok Wai is chairman of the audit committee and is responsible for reporting the meeting results and recommendations of the audit committee to the board after each meeting.

In 2005, the audit committee convened three meetings. Members and their attendance are as follows:

<b>Member Name</b>	<b>Attendance</b>	<b>Attendance Rate</b>
Chan Kwok Wai ( <i>Chairman of audit committee</i> )	3	100%
Chan Da Cheng	3	100%
You Guang Wu	3	100%
Deng Hong Ping	—	—

*Note:* On 6 April, 2006, Mr Deng Hong Ping was appointed as a committee member of audit committee of the Company to take over Mr. You Guang Wu's duties in the audit committee.

Tasks undertaken by the audit committee during the year included reviewing the 2004 audited financial statements and the annual results announcement, reviewing the interim report for the six months ended 30 June, 2005 and the interim results announcement, considering the accounting standards adopted, reviewing the explanatory letter about audit submitted by the auditor to the management and the response of the management, the basis of opinion and qualified opinion made by the auditor in his report.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### REMUNERATION COMMITTEE

The remuneration committee comprises three independent non-executive directors and two executive directors. The remuneration committee is principally responsible for reviewing and approving remuneration plans for directors and senior management, determining the remuneration package of executive directors and senior management, including benefits, pension interests and the payment of compensation. Mr. Chen Da Cheng is chairman of the remuneration committee and is responsible for reporting the meeting results and recommendations of the remuneration committee to the board after each meeting.

In 2005, the remuneration committee convened three meetings. Members and their attendance are as follows:

Member Name	Attendance	Attendance Rate
Chen Da Cheng ( <i>chairman of the remuneration committee</i> )	2	67%
You Guang Wu	3	100%
Chan Kwok Wai	3	100%
Leung Siu Fai	3	100%
Kam Hung Chung	3	100%
Deng Hong Ping	—	—

- Notes:
1. Mr. You Guang Wu was formerly the Chairman of the remuneration committee. On 6 April, 2006, he resigned as chairman and a member of the remuneration committee.
  2. Mr. Deng Hong Ping was appointed a member of the remuneration committee on 6 April, 2006.
  3. Mr. Chen Da Cheng was appointed chairman of the remuneration committee on 6 April, 2006.

Tasks undertaken by the remuneration committee during the year included reviewing the remuneration structure, remuneration policy and bonus system of the Group, considering the salary adjustment for the year and making recommendations to the board. The remuneration committee also ensures that no director or senior management member determines his own remuneration.

The remuneration policy of the Group is to determine the remuneration based on the responsibilities, qualifications and working performance of staff (including directors). No director or any of his associates is involved in deciding his own remuneration. In addition, the Group has adopted the share option scheme on 20 May, 2003. Currently, the Group has not granted any share options.

### ROLES OF THE BOARD AND MANAGEMENT

The board is principally responsible for establishing the development direction of the Group, formulating targets and business development plans, approving major agreements and matters, monitoring the performance of senior management and is responsible for corporate governance with a view to increasing shareholders' value. Led by the general manager, the management is responsible for implementing the strategies and plans developed by the board.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

The Company has developed a schedule of matters reserved to the board for its decision and has separately identified those functions reserved to the board. The board will review those arrangements on a regular basis to ensure that the arrangements meet the needs of the Company.

### **ROLES AND DUTIES OF CHAIRMAN AND GENERAL MANAGER**

The chairman and the general manager have different roles. The chairman is responsible for the operation of the board and the general manager is responsible for managing the operations of the Group. Their functions have been clearly divided to ensure a balanced distribution of power and authority not concentrating on a single individual.

Mr. Leung Siu Fai is chairman of the board and is principally responsible for leading the board and ensures the board acts in the best interests of the Company. The chairman shall ensure the board operates effectively and performs its proper duties and discusses all important and proper matters in a timely manner. The chairman is responsible for convening board meetings, consulting, determining and approving the agenda of each board meeting, and ensuring that directors are provided sufficient information on current matters in a timely manner. The chairman is also responsible for the structure, number of members and composition of the board and makes recommendations to the board on any intended changes. The chairman is also responsible for ensuring that the Company formulates good corporate governance practice and procedure.

Mr. Kam Hung Chung, the managing director, is principally responsible for the daily operation and management of the Group's overall operations and implementing the board's operating strategy and policy and delegating tasks to all departments for implementation so as to realize the board's objectives and decisions. In addition, he is also responsible for coordinating close cooperation among all departments, uniting efforts of staff and encouraging the initiative of staff so as to ensure smooth and effective operation of the Company's operations and systems.

### **DIRECTOR NOMINATION**

Pursuant to the articles of association of the Company, the board is entitled to appoint any person as director from time to time or at any time to fill a casual vacancy or add a new board member. For nomination, the nominee's qualifications, capabilities and potential to make contribution to the Company shall be taken into consideration. The board has not established the nomination committee at the moment. However, the board will assess from time to time whether there is a need to establish the nomination committee to deal with the appointment, re-election and retirement of directors. During 2005, there was no change on the member of Board.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct for securities transactions by directors and has adopted written guidelines no less exacting than the Model Code for application to senior management and designated people who might have access to price sensitive information of the Group.

Following enquiries by the Company, all directors confirm that they have complied with the Model Code for the year ended 31 December, 2005.

### ACCOUNTABILITY AND AUDIT

Directors acknowledge their responsibility in preparing financial statements of the Group.

The finance department of the Company is managed by a qualified accountant. With the assistance of the finance department, the board will ensure the preparation of the financial statements of the Group complies with relevant regulations and applicable accounting standards.

For the year ended 31 December, 2005, the audit fee was approximately HK\$900,000. There was no non-audit service fee for the year.

The statement of reporting responsibility issued by HLM & Co., the auditor of the Company, in respect of the financial statements of the Group is set out in the auditor's report on pages 20 to 21.

### COMMUNICATION WITH SHAREHOLDERS

The Company has maintained communication with shareholders through the annual general meeting or other general meetings and encourages them to participate in general meetings. Registered shareholders receive notices of general meetings by post. The notice of general meeting contains the agenda, the proposed resolutions and the voting form. Any registered shareholder is entitled to attend the annual general meeting and special general meetings provided that their shares must be registered in the register of members. Shareholders who are unable to attend the general meeting can fill in the proxy form attached with the notice of general meeting and return the same to the share registrar and transfer office of the Company so as to appoint their representatives or the chairman of the meeting as their proxies. The procedure for demanding voting by poll is set out in the circular to shareholders sent together with the notice of general meeting and will be read out by the chairman of the meeting at the general meeting.

At the 2005 annual general meeting, the chairmen of the board, the audit committee and the remuneration committee were present to answer questions raised by shareholders and proposed separate resolutions in respect of each substantially separate issue.