



Corporate Governance Report

Corporate Governance Practices

The Board of directors of the Company (the “Board”) 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. During the year, the Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (the “Code on CGP”) of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited except the following:

Code Provision A.2.1

Due to the resignation of Mr. Li Yi as an executive director and the Managing Director of the Company with effect from 31 May 2005, Dr. Fu Yuning, the Chairman of the Company, has also been acting as the Managing Director of the Company with effect from 31 May 2005. As explained in the announcement of the Company issued on 11 May 2005, the Board considers that as Dr. Fu has been leading and is most aware of the Company’s strategic policies and development, it is in the best interests of the Company for Dr. Fu to act as the Managing Director pending the appointment of a new Managing Director to ensure continuity. The Board will in due course appoint a separate individual with appropriate qualifications to act as the Managing Director.

Code Provision A.4.1

Prior to 22 March 2006, Independent non-executive directors of the Company were not appointed for a specific term but were subject to retirement by rotation and re-election at the Company’s annual general meeting in accordance with the Articles of Association of the Company. On 22 March 2005, the Board resolved to change the terms of appointment of Independent non-executive directors to a specific term of three years.

Code Provision A.4.2

The code provision A.4.2 (the first sentence) provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. According to Article 97 of the Articles of Association of the Company, a director appointed to fill a casual vacancy is only required to retire at the next following annual general meeting and, under Article 98 of the Articles of Association of the Company, may be reappointed at the annual general meeting. As Article 97 of the Articles of Association of the Company deviates from the code provision A.4.2, the Board proposed to put forth a special resolution to amend Article 97 of the Articles of Association of the Company at the 2006 Annual General Meeting.

The code provision A.4.2 (the last sentence) provides that, every director (including directors with specific terms) should be subject to retirement by rotation at least once every three years. According to Article 91 of the Articles of Association of the Company then in effect before 10 May 2005, at the annual general meeting every year one-third of the directors for the time being or if the number is not three or a multiple of three, the number nearest to one-third shall retire from office. In addition, Article 102 of the Articles of Association in effect before 10 May 2005 provided that a managing director and a director holding any other executive office shall not be subject to retirement by rotation, which is inconsistent with the requirements under the code provision A.4.2. To be consistent with the requirements of the code provision A.4.2, amendments to Articles 91 and 102 of the Articles of Association of the Company were proposed and approved by shareholders at the annual general meeting of the Company held on 10 May 2005.

Code Provision E.1.2

The Chairman did not attend the annual general meeting of the Company held on 10 May 2005 because of an unexpected business commitment outside Hong Kong.

The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

Board of Directors

The Board of the Company comprises:

Executive Directors
Fu Yuning
Zhao Huxiang
Li Yinquan
Hu Zheng
Meng Xi
Wang Hong
Yu Liming
To Wing Sing
Independent Non-executive Directors
Tsang Kam Lan
Kut Ying Hay
Lee Yip Wah Peter
Li Kwok Heem John

The four independent non-executive directors are persons of high caliber, with academic and professional qualifications in the fields of accounting, law, banking 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 has given 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 during the Director's term of office in 2005	Attendance rate
Fu Yuning	4/4	100%
Zhao Huxiang	2/4	50%
Li Yinquan	4/4	100%
Hu Zheng	2/4	50%
Meng Xi	1/4	25%
Wang Hong (appointed on 11 May 2005)	1/2	50%
Yu Liming	4/4	100%
To Wing Sing	4/4	100%
Tsang Kam Lan	4/4	100%
Kut Ying Hay	2/4	50%
Lee Yip Wah Peter	4/4	100%
Li Kwok Heem John	4/4	100%
Li Yi (resigned on 31 May 2005)	2/2	100%

The Board formulates overall strategy of the Group, monitors its financial performance and maintains effective supervision 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 can include matters for discussion in the agenda if the need arises. The Company Secretary or his assistant assists the Chairman in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. 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 prior to confirmation of the minutes at the following board meeting.

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 or his assistant, and has the liberty to seek external professional advice if so required. The Company Secretary or his assistant continuously updates all directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, they confirmed that all of them have complied with the required standard set out in the Model Code during the year.

Chairman and Managing Director

The Chairman of the Board is responsible for the leadership and effective running of the Board and the Managing Director is delegated with the authorities to manage the business of the Group in all aspects effectively. The Chairman and the Managing Director of the Company is Dr. Fu Yuning. The roles of the Chairman and the Managing Director are not segregated so that the job responsibilities are concentrated on the Chairman. The Board of the Company is aware that Dr. Fu's acting as the Chairman and the Managing Director is not consistent with paragraph A.2.1 of the Code on CGP. However, the Board considers that as Dr. Fu has been leading and is most aware of the Company's strategic policies and development, it is in the best interests of the Company for Dr. Fu to act as the Managing Director pending the appointment of a new Managing Director to ensure continuity.

Appointment and Re-election of Directors

According to Article 97 of the Articles of Association of the Company, the Board has the power to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. During the year, the Board has considered candidates for directorship based on the qualification, ability and potential contribution of the individual candidates.

During the year, one Board meeting was held to approve the appointment of Mr. Wang Hong as an additional director of the Company. Dr. Fu Yuning, Mr. Zhao Huxiang, Mr. Li Yi and Mr. To Wing Sing attended the Board meeting.

According to Article 91 of the Articles of Association of the Company, at each annual general meeting one-third of the directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

The Company has fixed the term of appointment for independent non-executive directors to a specific term of three years. They are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with Article 91 of the Articles of Association of the Company.



Remuneration Committee

The Remuneration Committee of the Company comprises two executive directors and four independent non-executive directors.

The Remuneration Committee was formed in January 2005. One meeting was held in 2005. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2005	Attendance rate
Fu Yuning (Chairman of the Remuneration Committee)	1/1	100%
Li Yi (resigned on 31 May 2005)	1/1	100%
Tsang Kam Lan	1/1	100%
Kut Ying Hay	1/1	100%
Lee Yip Wah Peter	1/1	100%
Li Kwok Heem John	1/1	100%

During the year, the Remuneration Committee has reviewed the remuneration of the directors and senior management with reference to the nature of their work, complexity of the responsibilities and performance. No director took part in any discussion about his own remuneration.

The Company has adopted a share option scheme on 20 December 2001, 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 on pages 44 to 54 the Report of Directors. The emolument payable to directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' remuneration are set out in note 10 to the financial statements.

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

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;
2. to have the delegated responsibilities to determine the specific remunerations packages of 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. Factors which should be taken into consideration include but not limited to salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;

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 arrangements 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 make recommendations to the Board on the remuneration for independent non-executive directors;
7. to ensure that no director or any of his associates is involved in deciding his own remuneration;
8. to consult the Chairman and/or the Managing Director about their proposals relating to the remuneration of executive directors and have access to professional advice if considered necessary; and
9. to consider other topics as defined by the Board.

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 financial statements 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 ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") 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 financial statements on the going concern basis.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements is set out in the Report of the Auditors on page 63.



Audit Committee

The Audit Committee of the Company comprises the four independent non-executive directors of the Company.

The Audit Committee will meet at least twice a year. Three meetings were held during the year. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2005	Attendance rate
Tsang Kam Lan (Chairman of the Audit Committee)	3/3	100%
Kut Ying Hay	3/3	100%
Lee Yip Wah Peter	3/3	100%
Li Kwok Heem John	3/3	100%

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

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

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

1. to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences and ensure co-ordination where more than one audit firm is involved;
3. to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit

firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The audit committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

4. to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the committee should focus particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
5. In regard to (4) above:-
 - (i) members of the committee must liaise with the Board, senior management and the person appointed as the Company's qualified accountant and the committee must meet, at least once a year, with the Company's auditors; and
 - (ii) the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors;
6. to review the Company's financial controls, internal controls and risk management systems;
7. to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
8. to consider any findings of major investigations of internal control matters as delegated by the board or on its own initiative and management's response;
9. to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);



10. to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of controls and management's response;
11. to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
12. where an internal audit function exists to review the internal audit programme, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
13. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
14. to report to the Board on the matters set out in provision of terms of reference of the committee;
15. to review the group's financial and accounting policies and practices; and
16. to consider other topics, as defined by the Board.

Auditors' Remuneration

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

Services rendered	Fees paid/payable HK\$ million
Audit services	4.8
Non-audit services	0.6
Total	<u>5.4</u>

Internal Control

The Board is responsible for overseeing the Group's system of internal controls. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure, and to achieve the business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines.

The Board has conducted a review of the effectiveness of the system of internal control of the Group. The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group's assets.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

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 Chairman of the Board as well as Chairmen of the Audit and Remuneration Committees (or their duly appointed delegates) together with the external auditors are present to answer shareholders' questions. An annual general meeting circular is distributed to all shareholders at least 21 days before the annual general meeting. It sets out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions. The Chairman explains the procedures for demanding and conducting a poll again 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, are published in the newspapers and on the Company's website.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner, which were well before the time limits as laid down in the Listing Rules.

The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors.

The 2006 annual general meeting of the Company will be held at the Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 26 May 2006 at 9:30 a.m.