



Corporate Governance Report

The board of directors of the Company is committed to safeguard the interest of its shareholders by complying with the corporate governance requirements set out in the Code on Corporate Governance Practices as set out in the Appendix 14 of the Listing Rules. The Company strives to improve the transparency of its corporate governance practices and maximise the return to its shareholders through prudent management, investment and treasury policies.

Compliance with Listing Rules

To the knowledge of the directors of the Company, no information reasonably indicated that the Company did not comply with the requirements of the Code as set out in Appendix 14 of the Listing Rules for the year ended 31st December 2005 except that independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation at the annual general meeting in accordance with the Articles of Association of the Company.

The board of directors

During the year, the board of directors of the Company comprised of five executive directors and three independent non-executive directors, whose personal biographies are set out in pages 18 to 20 of the report of the directors.

The Company forms its board of directors based on the characteristics and uniqueness of its operations to ensure that each director possesses the required experience and management expertise. In order to balance the power between the executive directors and independent non-executive directors, the Company appointed three qualified candidates to become its independent non-executive directors to ensure the independence of the policy making process of the board and protect the interest of its shareholders. The Company has received confirmations of independence from each of the independent non-executive directors. The Company considers them to be independent.

All independent non-executive directors and executive directors of the Company are required to retire in rotation in accordance with the Articles of Association of the Company but, being eligible, can offer themselves for re-election. According to the guidelines set out in the Listing Rules, a service term of not over nine years is one of the key factors in determining the independence of an independent non-executive director. As at the date hereof, no independent non-executive directors have served the Company for over nine years.

The chairman and managing director of the Company are not performed by the same individual so as to ensure the accountability and independence of the policy making process of the Company. The chairman of the Group is responsible for leading the board of directors to ensure effective operation of the board and full compliance with the corporate governance requirements. The managing director is responsible for the day-to-day operation of the Company and implementation of the development strategy adopted by the board of directors. Their specific scope of duties is clearly written out in "The terms of reference of the chairman and the managing director of the Company", which was discussed and approved by the board of the directors. The Company strictly adheres to the above document.



The board of directors *(Continued)*

The board of directors of the Company delegates day-to-day operation of the business of the Group to the management of relevant subsidiaries or divisions.

The board held regular meetings during the year to discuss the overall development strategy, operation and financial reporting of the Company. The matters resolved and considered by the board of directors include overall development strategies, major acquisitions, substantial connected transactions, annual and interim results, proposed interim and final dividend, proposed appointment and re-election of directors, appointment of auditors, share issue and repurchase and other operation and financial matters relating to the Company. The time, agenda and related documents of the board meeting will be available to the directors at least 14 working days in advance to enable each director to fully understand the matters to be discussed and make an informed opinion. Each director has the right to seek independent professional advice in furtherance of his/her duties at the expense of the Company. No director has requested to seek professional advice as mentioned above during the year of 2005. In order to facilitate the exercise of power by the directors, the Company has already arranged suitable insurance in respect of the legal action threatened against the directors to indemnify them from the liabilities that may arise in the decision-making process of the Company.

During 2005, four board meetings were held. The attendance of the board members at the meetings of the board and its respective committees is as follows:

| | Board meeting | Audit Committee | Remuneration Committee |
|---|---------------|-----------------|------------------------|
| Mr. Liang Yongjiu <i>(Chairman, resigned on 2 August 2005)</i> | 3/3 | N/A | N/A |
| Mr. Huang Liezhang <i>(Chairman, appointed on 2 August 2005)</i> | 1/1 | N/A | N/A |
| Mr. Che Chiqiang <i>(Managing director)</i> | 4/4 | N/A | N/A |
| Mr. Li Zhijie <i>(Executive director)</i> | 4/4 | N/A | N/A |
| Mr. Yang Rixiang <i>(Executive director)</i> | 4/4 | N/A | 2/2 |
| Mr. Chan Kay Cheung <i>(Independent non-executive director)</i> | 4/4 | 2/2 | 2/2 |
| Mr. Choi Kim-Lui <i>(Independent non-executive director)</i> | 4/4 | 2/2 | 2/2 |
| Ms. Yau Lai Man <i>(Independent non-executive director)</i> | 3/4 | 2/2 | 2/2 |

Sub-committees of the board

The board of directors has set up an audit committee and a remuneration committee, both are chaired by an independent non-executive director with written terms of reference which were discussed and approved by the board of the directors. The duties of the two committees are as follows:

Audit Committee

The Audit Committee was established in 2001 to review the Company's financial reporting, internal control, appointment of auditors and corporate governance issues and make recommendations to the board. The committee comprises:

Mr. Chan Kay Cheung – *chairman of the committee*
 Mr. Choi Kim-Lui
 Ms. Yau Lai Man

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Sub-committees of the board (Continued)

Audit Committee (Continued)

The chairman of the Audit Committee is an independent non-executive director and its members are all independent non-executive directors with relevant financial and industry experience. Their role is to provide professional advice on the Company's financial matters to ensure a healthy financial position.

The Audit Committee held two meetings in 2005 with an average attendance of 100% to review the result, the accounting principles and practices adopted by the Company, the requirements of the Listing Rules and discuss the auditing, internal control, risk management and financial reporting matters with the Company's senior management and independent auditors. The record of attendance of the members is listed on page 31. To further enhance the independence, part of the above meetings were only attended by the independent non-executive directors and independent external auditors.

Auditors' Remuneration

The Company engaged PricewaterhouseCoopers as the Company's external auditors. For the year ended 31st December 2005, PricewaterhouseCoopers provided the following services to the Group:

| | HK\$'000 |
|------------------------|----------|
| Audit services | 1,147 |
| Audit-related services | 263 |
| Taxation services | 96 |
| | 1,506 |

Remuneration Committee

The Remuneration Committee was established in 2005 and is chaired by an independent non-executive director. The Remuneration Committee is responsible for the approval of remuneration packages (including non-monetary benefits, retirement benefits and share option scheme) for all executive directors and senior management and advising the Board on the remuneration of independent non-executive directors. The Remuneration Committee met twice in 2005 and the average attendance rate is 100%. Currently, the members of the Remuneration Committee are mainly independent non-executive directors. The members of the Remuneration Committee are as follows:

Mr. Chan Kay Cheung – *Chairman of the Committee*

Mr. Choi Kim-Lui

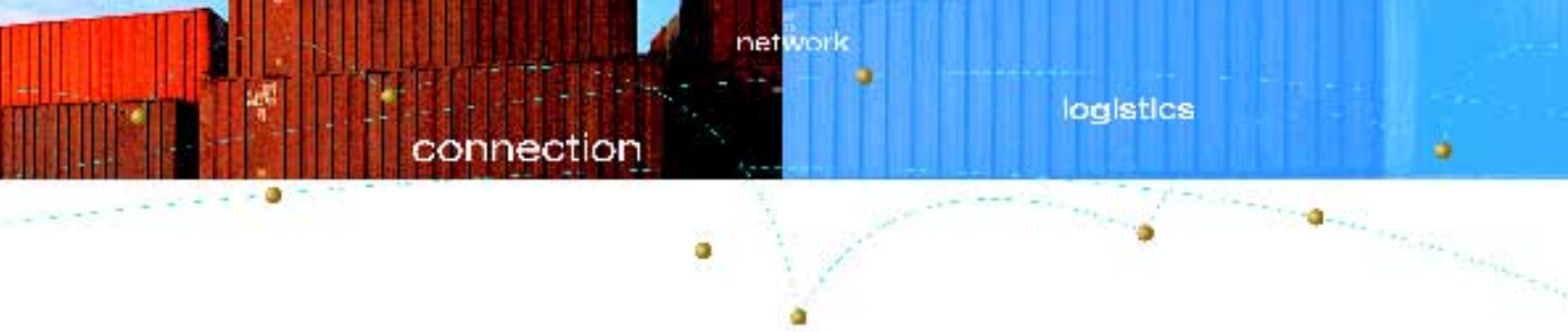
Ms. Yau Lai Man

Mr. Yang Rixiang

The record of attendance of the members is listed on page 31.

Executive Directors' Remuneration:

The remuneration of the executive directors of the Company mainly includes basic salary, bonus and directors' fees. The Company considers various factors in determining the remuneration such as their duties, responsibilities and time spent on the affairs of the Company. Share options are granted to certain executive directors. The share options of the executive directors in 2005 are detailed in "Report of the Directors" on page 22.



Sub-committees of the board (Continued)

Nomination of directors

The Company does not have a nomination committee.

The board of directors of the Company regularly reviews its structure, size and composition. The Company follows a formal and considered procedures for the appointment of new directors to the board of directors of the Company. The appointment of a new director is a collective decision of the board of directors of the Company, taking into consideration the expertise, experience, integrity and commitment of that appointee to the relevant principal division, the Company and the Group.

During the year, Mr. Huang Liezheng, the managing director of CKSE, and Ms. Yau Lai Man was appointed as the chairman and independent non-executive director on 2nd August 2005 and 1st January 2005 respectively which were approved by the board of directors on the same dates of the appointments.

Directors' and Employees' Securities Transactions

The Company has adopted the requirements of the Model Code as set out in Appendix 10 of the Listing Rules regarding the securities transactions of the directors of the Company. The Company has received written confirmations from all directors that they have complied with the requirements of the Model Code for the year ended 31st December 2005.

The Company has also formulated written guidelines regarding the securities transactions of the employees of the Company that may expose to price-sensitive information. The requirements of the written guidelines are no less exacting than those set out in the Model Code. The Company recorded no non-compliance events during 2005.

Directors' Responsibilities for Financial Statements

During each financial period, the directors are responsible for the preparation of financial statements that give a true and fair view of the state of affairs of the Group and of the results and cash flows during the relevant period. In preparing the financial statements for the year ended 31st December 2005, appropriate accounting policies are selected and applied consistently by the directors, made careful and reasonable judgements and estimates, and prepared the financial statements on an on-going basis. The directors are responsible for the filing of appropriate accounting records that reasonably and accurately disclose the financial position of the Company from time to time.

Internal Control

The Board of Directors is responsible for the effective internal control system of the Company and reviewing the functions of the control system through the Audit Committee. The Board authorised the senior management to implement the said internal control system and held meetings regularly to review the effectiveness of the relevant financial, operational and compliance controls as well as risk management procedures and to make further improvement. The Audit Committee reports to the Board about the internal control system regularly.

Investor Relations and Communications

The Company regards investor relations of utmost importance. The Company discloses relevant information timely under the guidelines of the Listing Rules in order to ensure that the shareholders can obtain the necessary materials for the meeting 21 days before a general meeting. The Company introduces itself to institutional investors and analysts regularly and answer enquiries from the investors. The Chairman of the Company and the Chairman of the Audit Committee attend the Annual General Meeting held every year and have face-to-face communications with shareholders. The Company has a website www.cksd.com to publish the information of the Company.

There are no amendments to the Articles of Association in 2005.