

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices (the “Code”) was introduced to Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited which was in force for accounting periods commencing on or after 1st January 2005 with the exceptions in respect of the code provision C.2 on internal controls and the disclosure requirements in the Corporate Governance Report relating to the internal control. Appropriate actions were duly taken by the Director (the “Director”) of New Smart Holdings Limited (the “Company”) including the amendments made to the Company’s Articles of Associations (“Articles”) to the effect that every Director should be subject to retirement by rotation at least once every three years, to put the Company in compliance of code provisions in the Code.

The Company had complied with the Code throughout the year with an exception of code provisions A.2.1, A.4.1, A.4.2 and E.1.2 as stated herein. In order to protect and enhance the benefits of shareholders, the Board of Directors (the “Board”) and its executive management will continue to monitor the governance policies to ensure that such policies meet the general rules and standards.

DIRECTORS’ SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding the directors’ securities transactions on exactly the terms and required standard contained in the Model Code for Securities Transactions by Directors (the “Model Code”) set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions.

BOARD OF DIRECTORS

The Board serving the important function of guiding the management, currently comprises three executive Directors, namely Mr. Tong Nai Kan (chairman and managing Director), Miss Chow Sim Chu, Shirley and Mr. Bai Yang and three independent non-executive Directors (“INEDs”) required under rule 3.10(1) of the Listing Rules, namely Dr. Tang Tin Sek, Mr. Liu Ngai Wing and Mr. Lam Yat Fai who represent half of the Board and include all with appropriate professional qualifications and accounting and related financial management expertise required under rule 3.10(2) of the Listing Rules. Miss Chow is the sister-in-law of Mr. Tong, there is no other financial, business, family or other material/relevant relationships between the Directors.

The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current Board size as adequate for its present operations. Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company and each of the INEDs has made an annual confirmation of independence as required under Rule 3.13 of the Listing Rules. The Company considered all INEDs to be independent.

The Directors as aforesaid, accompanied by their respective biographical details, are listed in the section of “Biographical Details of Directors” in this annual report and that the INEDs are expressly identified in all the Company’s publication such as announcement, circular or relevant corporate communications in which the names of Directors of the Company as disclosed.

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The principal functions of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Company and its subsidiary companies (collectively the “Group”); to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders’ value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organisation of the Company for implementing the Board’s decision. During the year under review, the Board has reviewed, inter alia, the performance of the Group and formulated business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31st December 2004 and the period ended 30th June 2005 respectively.

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Articles allows Board meetings to be conducted by way of telephone or otherwise orally and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director has a conflict of interest. The Board held a total of five Board meetings during the year under review. The attendance record of each Director at the Board meetings is disclosed below in this report.

During the year under review, the Board minutes were kept and available for inspection by the Directors. Also, the Board minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all Directors for their comments and execution respectively within a reasonable time before/after the Board meeting.

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In the said Board Meetings, sufficient fourteen-day notices for regular Board meetings and notice in reasonable days for non-regular Board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying Board papers were given to all Directors in a timely manner before the appointed date of Board meetings and at least 3 days before the regular meetings. Sufficient information was also supplied by the management to the Board to enable it to make decisions, which are made in the best interests of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1, the roles of chairman and chief executive officer (“CEO”) should be separate people and should not be performed by the same individual. The divisions of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Company has deviated from this code by having the chairman and CEO to be the same person. Mr. Tong Nai Kan currently assumes the roles of both the chairman and CEO of the Company. The Board believes that the vesting of the roles of chairman and CEO in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies, as well as ensuring effective oversight of management.

During the year under review, the chairman ensured that all Directors were properly briefed on issues arising at board meetings and received adequate, complete and reliable information.

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NON-EXECUTIVE DIRECTORS

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

None of the existing INEDs of the Company is appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, all Directors of the Company (including executive and non-executive) are subject to retirement by rotation at each annual general meeting under the Articles. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

Under the code provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the existing Articles, the chairman of the Board, managing Director and joint managing Director of the Company were not subject to retirement by rotation or taken into account in determining the rotation of retirement of Directors. This constitutes a deviation from the code provision A.4.2. To comply with the code provision, amendments to the relevant provisions of Articles will be proposed at the 2006 annual general meeting of the Company.

REMUNERATION COMMITTEE

The Remuneration Committee ("RC") was established by the Company on 15th September 2005 for the purposes of determining specific remuneration packages of all executive Directors and senior management; and reviewing and approving their performance-based remuneration and their compensation on termination. The RC comprises three INEDs of the Company namely, Dr. Tang Tin Sek, Mr. Liu Ngai Wing and Mr. Lam Yat Fai and is chaired by Mr. Lam Yat Fai.

The written terms of reference which describes the authority and duties of the RC was prepared and adopted and are available to shareholders for inspection at the registered office of the Company.

The RC consults the chairman/CEO about their proposal relating to the remuneration of executive Directors. No Directors and executives can determine his/her own remuneration.

The RC held one meeting for the establishment of the RC during the year under review. The attendance record of each committee member at the RC Meeting is disclosed below in this report. The minutes of RC meeting were kept and available for inspection by the committee members. Also, the minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all committee members for their comments and execution respectively within a reasonable time before/after the RC meeting.

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NOMINATION COMMITTEE

The Nomination Committee (“NC”) was established by the Company on 15th September 2005 for the purposes of reviewing the composition of the Board, identifying suitable Board members, assessing independence of the INEDs and making recommendation on appointments and re-appointments. The NC comprises three INEDs of the Company namely, Dr. Tang Tin Sek, Mr. Liu Ngai Wing and Mr. Lam Yat Fai and is chaired by Mr. Liu Ngai Wing.

The written terms of reference which describes the authority and duties of the NC was prepared and adopted and are available to shareholders for inspection at the registered office of the Company.

The NC is responsible for selection and approval of candidates for recommendation to the Board for appointment as Directors. In considering the nomination of Mr. Bai Yang as an executive Director during the year, the NC would take into account his qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics. NC would subsequently recommend such nomination of Mr. Bai as an executive Director to the Board for approval for appointment.

The NC held one meeting for the establishment of the NC during the year under review. The attendance record of each committee member at the NC Meeting is disclosed below in this report. The minutes of NC meeting were kept and available for inspection by the committee members. Also, the minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all committee members for their comments and execution respectively within a reasonable time before/after the NC meeting.

AUDITORS’ REMUNERATION

During the year, the fee paid/payable to the auditors of the Company, Messrs. PricewaterhouseCoopers was a total of HK\$505,000 being the audit services rendered for the annual results of the Group for the year ended 31st December 2005 and HK\$345,000 being the non-audit services rendered for the due diligence.

AUDIT COMMITTEE

The Audit Committee (“AC”) provides an important link between the Board and the Company’s auditors in matters coming within the scope of the audit of the Group. The AC comprises three INEDs, namely Dr. Tang Tin Sek, Mr. Liu Ngai Wing and Mr. Lam Yat Fai and is chaired by Dr. Tang Tin Sek.

The written terms of reference which describe the authority and duties of the AC were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Institute of Certified Public Accountants. The written terms of reference are available to shareholders for inspection at the registered office of the Company.

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The AC is responsible for reviewing the appointment of auditors on an annual basis including a review of the audit scope and approval of the audit fees; ensuring continuing auditor objectivity and to safeguard independence of the Company's auditors; meeting with the auditors to discuss issues arising from the interim review and final audit and any matters the auditors suggest to discuss; reviewing the effectiveness of the external audit and internal controls and risk evaluation; reviewing the annual and interim report prior approval by the Board in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements; serving as a focal point for communication between other Directors and the auditors in respect of the duties relating to financial and other reporting.

During the year under review, the AC held two meetings for reviewing annual and interim reports respectively before submission to the Board; discussing all significant accounting issues as stated in the annual and interim reports, any changes in accounting policies and practices, major judgmental areas, significant adjustments, the going concern assumption, compliance with accounting standards, the stock exchange and legal requirements. The minutes of AC meetings were kept and available for inspection by the committee members. Also, the minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all committee members for their comments and execution respectively within a reasonable time before/after the AC meetings.

The annual results of the Group for the year ended 31st December 2005 have been reviewed by the AC.

The following table summarized the attendance record of each Director at the Board, AC, RC and NC Meetings:

	Board	Audit committee	Remuneration committee	Nomination committee
Number of Meetings	5	2	1	1
Executive Directors				
Tong Nai Kan (Chairman and Managing Director)	4/5	N/A	N/A	N/A
Chow Sim Chu, Shirley	5/5	N/A	N/A	N/A
Leung Wai Kwan (<i>Note 1</i>)	3/3	N/A	N/A	N/A
Bai Yang (<i>Note 2</i>)	0/0	N/A	N/A	N/A
Independent Non-Executive Directors				
Tang Tin Sek	4/5	2/2	1/1	1/1
Yuen Lok Hang, Brian (<i>Note 3</i>)	0/1	N/A	N/A	N/A
Kwok Wai Ming (<i>Note 4</i>)	1/3	1/1	N/A	N/A
Ko Ming Tung, Edward (<i>Note 5</i>)	2/3	1/1	N/A	N/A
Liu Ngai Wing (<i>Note 6</i>)	2/2	1/1	1/1	1/1
Lam Yat Fai (<i>Note 7</i>)	1/2	1/1	1/1	1/1

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Note:

1. Mr. Leung Wai Kwan resigned as executive Director on 29th June 2005.
2. Mr. Bai Yang appointed as executive Director on 6th December 2005.
3. Mr. Yuen Lok Hang, Brian resigned as INED on 18th March 2005.
4. Ms. Kwok Wai Ming resigned as INED on 15th July 2005.
5. Mr. Ko Ming Tung, Edward re-designated from non-executive Director to INED on 18th March 2005 and resigned as INED on 1st August 2005.
6. Mr. Liu Ngai Wing appointed as INED on 15th July 2005.
7. Mr. Lam Yat Fai appointed as INED on 1st August 2005.

COMMUNICATION WITH SHAREHOLDERS

The Board will endeavour to maintain an on-going dialogue with shareholders and, in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders despatched together with this annual report.

Under the code provision E.1.2, the chairman of the Board should attend the Company's annual general meeting and arrange for the chairman of the audit committee or in the absence of the chairman of such committee, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

The chairman of the Board was unable to attend the annual general meeting of the Company held on 8th June 2005 as he had another engagement that was important to the Company's business. To comply with the code provision, the chairman of the Board will attend the 2006 annual general meeting of the Company.