



# Corporate Governance Report

The Company is committed to achieving and maintaining statutory and regulatory standards and adherence to good corporate governance in the conduct of its business. The Company has applied and has, save for the deviations and reasons thereof as discussed below, been in material compliance with the principles of the Code provisions under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2005. This Corporate Governance Report is prepared in material compliance of the reporting requirements as contained in Appendix 23 of the Listing Rules. The Board believes good corporate governance is essential in enhancing the confidence of current and potential shareholders, investors and business partners and is consistent with the Board's pursuit of value creation for the Company's shareholders.

## THE BOARD

The management and control of the business of the Company ultimately vests with the Board. The Board sets long term direction and objectives and oversees the management's plans and strategies for the delivery of results. The Board may delegate its responsibilities or functions to Board Committees and the day-to-day operation to management and ensures appropriate human and financial resources are appropriately applied and that the performance for the achievement of results is evaluated periodically. The Board approves all significant transactions and public reporting including annual report, interim report, circulars and announcements. In cases where shareholders' approvals are required, the Board convenes the necessary shareholders meetings to seek shareholders' approval. Every Director is committed to carry out his duty in good faith, act honestly with due diligence, skill and care and in the best interest of the Company and its shareholders at all times.

As at the date of this Report, the Board comprises seven members (as at 31 December 2005 – twelve members), four of which are Executive Directors and three are Independent Non-executive Directors. Collectively, they bring a broad range of commercial, financial, management and stewardship experiences and varied skills, expertise and qualification for leading and directing the Group's affairs. The Directors' biographical details are set out in the "Report of the Directors" section of the Annual Report.

In accordance with the Bye-laws of the Company, the Board members elect among themselves a Director to be the Chairman of the Board. Mr. Kao Ying Lun was newly elected by the Directors in January 2006 to fill the vacancy of the Chairman. The role of the Chairman is separate from that of the Chief Operating Officer of the Group's chief operating unit. The Chairman, the Chief Operating Officer and the other Executive Directors each has distinct and separate responsibilities.

All new Directors appointed to fill casual vacancies of the Board are subject to election by the shareholders of the Company at the first general meeting after their appointments. In accordance with the existing Bye-laws of the Company, one-third of Board members who have served the longest on the Board, excluding the Chairman, are required to retire by rotation each year at the Annual General Meeting. Directors who retire, if eligible, may sit for re-election at the same Annual General Meeting. Appropriate changes to the Bye-laws of the Company will be made to require the Chairman to also be subject to retirement by rotation to comply with the requirements of the Listing Rules in due course.

All Board and Committee meetings adhere to a formal agenda set in advance for consideration/resolution with the exception of matters requiring approval of formalities in nature only. All Directors may arrange to include matters in agenda for consideration at regular Board meetings. Advance notice is given which balances the need for timeliness of the meeting and the required presence of all Directors. Board materials are provided in advance of the meetings and detailed minutes are prepared and made available to all Directors. The Directors have access to the advice and services of the Company Secretary and if necessary, have recourse to external professional advice at the Company's expense. During the intervals between Board meetings, individual Directors are being kept informed of major developments of the Group by the Chairman and the Company Secretary.



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## ATTENDANCE OF DIRECTORS AT BOARD AND COMMITTEE MEETINGS

During the year, the Board held nine regular meetings. The attendance of individual Directors at the Board meetings and the Board Committees is set out in the table below.

	Number of Times Meetings Attended/Meetings Held		
	Regular Board	Audit Committee	Nomination/ Remuneration Committee <sup>(6)</sup>
<i>Executive Director</i>			
Cheng Shu Wing <sup>(1)</sup>	4/4	n/a	n/a
Fung Chi Kin <sup>(2)</sup>	8/9	n/a	1/1
Guo Duen How, Tom	9/9	n/a	1/1
Ho Yuk Ming, Hugo <sup>(2)</sup>	8/9	2/2	1/1
Li Mingke <sup>(3)</sup>	0/5	n/a	n/a
Kao Ying Lun	9/9	n/a	1/1
Wu Fred Fong	9/9	2/2	1/1
Zhang Zhiyuan, Nathan <sup>(4)</sup>	0/5	n/a	n/a
Zhao Songyi <sup>(3)</sup>	0/5	n/a	n/a
<i>Independent Non-executive Directors</i>			
Choy Tak Ho	5/9	1/2	0/1
Loke Yu alias Loke Hoi Lam <sup>(3)</sup>	4/5	0/1	n/a
Loo Chung Keung, Steve <sup>(3)</sup>	3/5	1/1	n/a
Tsui Chun Chung, Arthur	5/9	2/2	0/1
Wong Chun Wah <sup>(5)</sup>	2/3	1/1	n/a

### Notes:

- (1) resigned on 20 May 2005
- (2) appointed on 1 January 2005
- (3) appointed on 17 May 2005
- (4) appointed on 20 May 2005
- (5) resigned on 17 May 2005
- (6) Due to substantial changes in directorships during the year and the substantial reduction in size of the Board from twelve members to seven as at the date of this Report, as an interim measure, the Board resolved to carry out the functions of the nomination and remuneration committees at the full Board level until proper segregation and delegation of the Directors to the Board committees shall have been agreed or established after the Directors vacancies shall have been filled expected later in 2006.



## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company believes that its Independent Non-executive Directors as a group comprise a good mix of professional and business executives who have significant exposure to the business and accounting environment of Hong Kong and the PRC. The Board believes such a group is ideally qualified to provide independent advice and guidance to the Board, to serve on the Board committees and to act as independent stewards for the interests of the Company and its shareholders.

The Board evaluates the independence of all Independent Non-executive Directors on an annual basis and established the practice of requesting written confirmation from each Independent Non-executive Director regarding his independence. Throughout the year in review and as at the date of this report, the Board is satisfied that all such Directors are in full compliance with the independence guidelines as laid down in the Listing Rules. The Independent Non-executive Directors are subject to the three year rotation rules for retirement and re-election by the shareholders in accordance with the Company's existing bye-laws.

## BOARD COMMITTEES

The Board has established the Audit Committee but has yet to delegate the nomination and remuneration functions to a Committee of the Board although written terms of references have been developed. The delegation of the functions of the Nomination and Remuneration Committees was disrupted due to proposed significant changes to the business of the Group and a number of directorship changes during the year including resignations shortly after the fiscal year-end.

## AUDIT COMMITTEE

The Audit Committee was set up in 1999 and currently comprises the three Independent Non-executive Directors. The Audit Committee provides the Board with advice and recommendations on accounting, reporting and internal control matters and acts as a formal liaison channel for review, communication and problem resolution between the Company and its auditors. The members of this Committee hold the relevant industry, financial and auditing experience necessary for the Committee to function effectively.

For the composition and biographical details of the members of the Audit Committee, please refer to the "Report of the Directors" section of the Annual Report.

The Audit Committee's primary functions include:

- to recommend to the Board on the appointment, terms of engagement of the external auditors;
- to review and monitor the appropriateness of accounting policy, accounting practices, financial reporting and disclosure and the application of judgement and estimates related thereto;
- to review the company's annual and interim reports and any opinion expressed by the external auditors;
- to review any related party transactions and connected party transactions for compliance with the requirements of Listing Rules and for reasonableness and fairness to the Company and its shareholders;



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## AUDIT COMMITTEE (continued)

- to review with the external auditors issues raised in the external auditors' management letter, queries or similar communications; and
- to monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.

The Audit Committee met two times in 2005. Members of the Committee also actively participated at the full Board contributing their independent views in areas of business, financial, management and operating practices.

## Audit and related fees

During the year under review, the fees paid to the Group's external auditors Horwath CPA Hong Kong Ltd were as follows:

	<i>Hong Kong Dollars</i>
Audit related	644,214
Non-audit related services	–
	<hr/> 644,214

## Internal control

The Board is entrusted with the overall responsibility for establishing and maintaining an effective internal control systems for the Group. The management of the Group is delegated with the responsibility from time to time to implement and maintain the Board's policies on risk management and control. Detailed procedures are developed by management for major business units.

The Group's internal control systems are designed to provide a cost effective and reasonable protection that safeguards the Group's assets and maintains the integrity of the accounting and reporting systems. The Group emphasizes the appointment of qualified, experienced and capable individuals to carry out critical control functions and has put in place a system for effective segregation of key duties and responsibilities. The Board and the Audit Committee periodically evaluate major controls and risks and where considered necessary, retains external professional services to evaluate or seek improvements to the internal control systems. The Audit Committee provides independent advice to the Board and assists in the review of the internal control issues and to liaise with external auditors and consultants as appropriate.



## NOMINATION COMMITTEE/REMUNERATION COMMITTEE FUNCTIONS

At the 2005 Annual General Meeting of the Company, the shareholders passed the resolution to authorize the Board to fix the remuneration of the Directors. The Bye-laws of the Company also authorize the Board to fill director vacancies created due to resignation of Directors.

For reasons mentioned under the Board Committee section, the functions of the Nomination Committee and the Remuneration Committee are retained at the full Board at present. The Board considers that with substantial vacancies to the directorship of the Board not yet filled, it is essential that the new members should first have the opportunity to interact and to have input on the proposed future direction and business objectives of the Group before delegation of the nomination and remuneration functions to the Board Committees shall take place. At present, the nomination and remuneration functions are being carried out at the Board level. The full Board met once during the year on matters relating to nomination and remuneration. Although the nomination and remuneration functions were not decided by Committees in which Independent Non-executive Directors having the majority, the decisions nonetheless were made with active inputs from all Directors, including the Independent Non-executive Directors and unanimous decisions were achieved for the nomination and remuneration resolutions.

In making decisions on nomination/remuneration of Directors, the Company adopts certain criteria to assist in its evaluation which included the candidate's academic/professional/business background, his past responsibility, exposure to Hong Kong and PRC business environment and his experience including directorship or senior management level involvements with other entities, and his expected contribution or achievement to the Group. Remuneration would be measured against these criteria.

The terms of references for the Nomination Committee and the Remuneration Committee have been established. The Board plans to delegate the nomination and remuneration functions to Board committees after the Directors vacancies shall first be filled expected in 2006.

## CODE OF CONDUCT

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. Specific enquiry has been made to all the Directors of the company who have confirmed their compliance with the required standards set out in the Code of Conduct during the year under review and up to the date of this Report.



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## DIRECTORS' INTERESTS

Full details of individual Director's interests in the shares and share options of the Company are set out on page 7 of the "Report of the Directors" and in note 31 to the financial statements.

## DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

Directors' and the auditors' respective responsibilities to the shareholders in respect of the financial statements are included on page 22 of the "Report of the Auditors".

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company attaches great priority to open and effective communicate with its Shareholders and potential investors on the development of the Company either through annual report, interim report, circulars and announcements. During the year, one annual general meeting and one special general meeting were held and no less than 25 announcements and two circulars were issued in addition to the annual and interim reporting process for keeping shareholders and potential investors informed. The Directors regard all meetings with its shareholders to be very important as it affords an opportunity for direct communication with the shareholders.

## SHAREHOLDERS' RIGHTS

The Company's Bye-laws state that shareholders holding not less than one-tenth of the Company's ordinary shares shall at all times have the right to request the Board to call a special meeting to discuss specified topics they propose. In addition, the shareholders are advised in the circulars and at the general meetings of their rights entitlement to demand for voting by polling at their request at such a meeting. For connected party transaction requiring shareholders' approval, voting shall be taking by a poll. Results of shareholders' meeting that have been voted by a poll are reported to the shareholders via newspaper announcements and also on the Stock Exchange's website.

By order of the Board

**Wu Fred Fong**

*Director*

13 April 2006