

# Corporate Governance Report

## INTRODUCTION

The Group is committed to achieving high standards of corporate governance which is crucial to the development of the Group and safeguard the interests of the Company's shareholders. To accomplish this, the Group has adopted practices which meet the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). During the year, the Company has complied with the Code except that two retired independent non-executive directors of the Company who resigned on 5 July 2005, namely Mr. Hahn Ka Fai, Mark, and Ms. Shum Wai Ting, Rebecca, were not appointed for specific terms as required by paragraph 7 of the Code.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard as set out in the Model Code during the year ended 31 December 2005.

## BOARD OF DIRECTORS

The Board of Directors comprises the Chairman, the C.E.O, two Executive Directors and three Independent Non-executive Directors. The Board of Directors is principally accountable to the shareholders and is responsible for the leadership and control of the Group including overseeing the Group's businesses, strategic directions, financial performance, setting objectives and business development plans, and monitoring the performance of the senior management.

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## BOARD OF DIRECTORS (cont'd)

The Board of Directors meets regularly throughout the year to formulate overall strategy, monitor business development as well as the financial performance of the Group and has formal procedures on matters for consideration and decision. The Board of Directors has delegated certain authorities to the senior management for the day-to-day management of the Group's operation. The attendance of directors at the four full board meetings held in 2005 is as follows:

Directors	Attendance
<b>Executive Directors</b>	
Wang An Kang (appointed on 5 July 2005)	1
Zhao Jun (appointed on 5 July 2005)	8
Li Wei (appointed on 5 July 2005)	8
Zhou Jing (appointed on 5 July 2005)	8
Yau Tak Wah, Paul (resigned on 5 July 2005)	2
Louie Mei Po (resigned on 5 July 2005)	2
Wong Shin Ling, Irene (resigned on 5 July 2005)	2
Tam Wing Kin (resigned on 5 July 2005)	2
Cheung Wah Hing (resigned on 5 July 2005)	2
<b>Independent Non-executive Director</b>	
Choi Tze Kit, Sammy (appointed on 5 July 2005)	1
Wu Bin (appointed on 5 July 2005)	2
Tam King Ching, Kenny (appointed on 24 August 2005)	2
Hahn Ka Fai, Mark (resigned on 5 July 2005)	2
Shum Wai Ting, Rebecca (resigned on 5 July 2005)	2
Wu Wang Li (resigned on 5 July 2005)	2

The Company has received the annual confirmation of independence from each of the independent non-executive directors as required under Rule 3.13 of the Listing Rules. The Company considered all independent non-executive directors to be independent.

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## AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference with reference to the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and such terms of reference are in line with the code provisions set out in the Code.

The Audit Committee meets at least twice a year for reviewing the reporting of annual and interim results and other information to the shareholders, and the effectiveness and objectivity of the audit process. Additional meetings may be held by the Audit Committee from time to time to discuss special projects or other issues which the Audit Committee considers necessary. The external auditors of the Company may request a meeting if they consider that one is necessary. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

The Audit Committee consists of three independent non-executive directors. The Audit Committee is chaired by Mr. Wu Bin.

During the year, the Audit Committee reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements and unaudited interim financial statements.

The members and attendance of the two meetings of the Audit Committee in 2005 are as follows:

Directors	Attendance
Choi Tze Kit, Sammy (appointed on 5 July 2005)	1
Wu Bin (appointed on 5 July 2005)	2
Tam King Ching, Kenny (appointed on 24 August 2005)	2
Hahn Ka Fai, Mark (resigned on 5 July 2005)	1
Shum Wai Ting, Rebecca (resigned on 5 July 2005)	1
Wu Wang Li (resigned on 5 July 2005)	1

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## ROLE AND RESPONSIBILITIES OF CHAIRMAN AND MANAGING DIRECTOR

In compliance with provision A.2.1 of the Code, the roles of chairman, currently held by Mr. Zhao Jun, and chief executive officer, currently held by Mr. Li Wei, are separate and are not performed by the same individual.

## TERMS OF NON-EXECUTIVE DIRECTORS

Under provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. All of the existing independent non-executive directors of the Company are appointed on specific terms, and are subject to retirement by rotation at the annual general meeting of the Company.

## REMUNERATION COMMITTEE

The Remuneration Committee of the Group was established in September 2005 with written terms of reference in line with the Code. The Remuneration Committee will meet at least once a year to consider and recommend to the Board the Group's remuneration policy and structure and to review and determine the remuneration packages of the executive directors and senior management. The directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation.

The Remuneration Committee comprises three independent non-executive directors and two executive directors. The Remuneration Committee is chaired by Mr. Zhao Jun.

During the year, the Remuneration Committee held one meeting to review the remuneration policy of the Company. The members and attendance of the meeting are as follows:

Director	Attendance
Mr. Zhao Jun	1
Mr. Li Wei	1
Mr. Wu Bin	1
Mr. Tam King Ching, Kenny	1
Mr. Choi Tse Kit, Sammy	–

Details of emoluments of the directors from the Group for the year are as disclosed in note 11 to the financial statements.

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## **NOMINATION OF DIRECTORS**

According to the Company's articles of association, the Board of Directors has the power from time to time and at any time to appoint any person as a director either to fill a causal vacancy or as an addition to the Board of Directors. The nomination should take into consideration the nominee's qualification, ability and potential contributions to the Company. During the year, the Board of Directors considered that there was no immediate need to make any change in relation to the Board membership.

## **ACCOUNTABILITY AND AUDIT**

### **Directors' Responsibilities for the Financial Statements**

The directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2005, the directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Auditors' Responsibilities and Remuneration**

During the year, the audit fee for the Group amounted to approximately HK\$640,000.

The statement of the auditors of the Company regarding their reporting responsibilities is set out in the Report of the Auditors on page 30.

### **Internal Control**

During the year, the Company has adopted and reviewed the effectiveness of the Group's internal control procedures which include the policies, procedures, monitoring and communication activities and standard of behaviour established for safeguarding the interests of the shareholders of the Company.