

## CORPORATE GOVERNANCE REPORT

In the opinion of the board of directors of the Company (the "Board"), the Company has complied with the Code of Corporate Governance Practices (the "Code") set out in Appendix 14 to 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 except for certain deviations disclosed herein.

### DIRECTORS' SECURITIES TRANSACTIONS

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

### BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Group and oversees the Group's businesses, strategic decisions and performance. The Board has delegated the day-to-day responsibility to the Executive Directors and senior management who perform their duties under the leadership of the Managing Director.

The Board currently consists of three Executive Directors and three Independent non-executive Directors. One of our Independent non-executive Directors has relevant financial management expertise required by the Listing Rules.

The Board schedules four meetings a year and also meets as and when required. During the year, the Board held two regular meetings. The number of regular meetings held during the year fell short of the four times a year as set out in A.1.1 of the Code was due to the conflicting schedules of the members of the Board which rendered it complicated to arrange for such meetings.

The members of the Board and the attendance of each member are as follows:

| <b>Directors</b>                                       | <b>Number of attendance</b> |
|--|-----------------------------|
| <b>Executive Directors</b>                             |                             |
| Mr. Jay Chun ( <i>Chairman and Managing Director</i> ) | 2/2                         |
| Mr. Shan Shiyong                                       | 0/2                         |
| Dr. Ma Xianming  | 0/2                         |
| <b>Independent non-executive Directors</b>             |                             |
| Mr. Frank Hu   | 2/2                         |
| Mr. Wang Faqi  | 0/2                         |
| Ms. Ma Shiwei  | 1/2                         |

# CORPORATE GOVERNANCE REPORT

The Company has received annual confirmations of independence from Mr. Frank Hu, Mr. Wang Faqi and Ms. Ma Shiwei and the Company considers them to be independent.

Given the nature and business objective of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of directors and their respective biographies are set out on pages 8 to 10 of this annual report respectively.

## CHAIRMAN AND MANAGING DIRECTOR

Mr. Jay Chun is the Chairman and the Managing Director of the Company. In the opinion of the Board, the roles of the managing director and the chief executive officer are the same. Although under A.2.1 of the Code, the roles of the Chairman and chief executive officer should be separated and should not be performed by the same individual, the Board considers that the present structure provides the Group with strong and consistent leadership and allows for efficient and effective business planning and execution. Hence, the Board believes that it is in the best interest of the shareholders of the Company that Mr. Jay Chun will continue to assume the roles of the Chairman of the Board and the Managing Director of the Company. However, the Company will review the current structure as and when it becomes appropriate in future.

The annual general meeting held on 18 July 2005 was chaired by Mr. Frank Hu, one of our Independent Non-executive Directors, instead of Mr. Jay Chun. Mr. Jay Chun did not attend the annual general meeting 2005 as he was in bad health at that time. In accordance with the Code, Mr. Jay Chun should attend the annual general meeting of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Under A.4.1 of the Code, the independent non-executive directors should be appointed for a specific term, subject to re-election and under A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Currently, only one of the three Independent Non-executive Directors is appointed for a specific term. In addition, under the provisions of the existing Bye-laws of the Company, the Chairman of the Board and the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire each year.

Although not all the Independent Non-executive Directors are appointed for a specific term, the Company will propose certain amendments to its Bye-laws at the forthcoming annual general meeting to the effect that, among others, all directors, including the Chairman of the Board and the Managing Director of the Company, shall be subject to retirement by rotation at least once every three years whether or not they are appointed for a specific term. The amendments shall also bring the Bye-laws of the Company up to date and in line with the Code requirements.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE

The Company has established its Remuneration Committee on 30 September 2005 with a specific written terms of reference. The Remuneration Committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all directors and senior management of the Company and is delegated by the Board with the responsibility to determine on behalf of the Board the specific remuneration packages for all Executive Directors and senior management of the Company.

The Remuneration Committee comprises three Directors including two Independent Non-executive Directors, namely Mr. Frank Hu (*Chairman*) and Ms. Ma Shiwei and an Executive Director, Mr. Jay Chun.

The Remuneration Committee has not held any meeting during the year.

## NOMINATION OF DIRECTORS

The Company has not established a Nomination Committee. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no director being involved in fixing his/her own terms of appointment and no Independent Non-executive Director being involved in assessing his/her own independence.

## AUDITORS' REMUNERATION

During the year, the Group was charged about HK\$1,036,000 for auditing services only. Out of the auditors' fees, HK\$700,000 is charged by Messrs. RSM Nelson Wheeler, the current auditors and HK\$336,000 is under provision of former auditors' remuneration.

| <b>Services rendered</b> | <b>Fees paid/payable</b> |
|--------------------------|--------------------------|
|                          | HK\$'000                 |
| Audit services           | 1,036                    |
| Non-audit services       | Nil                      |

## AUDIT COMMITTEE

The Audit Committee is responsible for reviewing and supervising the financial reporting process and internal control system of the Group and providing advice and comments to the Board.

## CORPORATE GOVERNANCE REPORT

During the year, the Audit Committee held two meetings. Members of the Audit Committee and the attendance of each member are as follows:

| <b>Directors</b>                           | <b>Number of attendance</b> |
|--|-----------------------------|
| <b>Independent Non-executive Directors</b> |                             |
| Mr. Frank Hu ( <i>Chairman</i> )           | 2/2                         |
| Mr. Wang Faqi                              | 1/2                         |
| Ms. Ma Shiwei                              | 1/2                         |

During the year, the Audit Committee has performed the following duties:

- reviewed with the management and the external auditors the audited financial statements for the year ended 31 December 2004 and the unaudited interim financial statements for the six months ended 30 June 2005, with recommendations to the Board for approval;
- reviewed reports on internal control system covering financial, operational, procedural compliance and risk management functions; and
- reviewed the compliance issues with the regulatory and statutory requirements.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the year ended 31 December 2005.

The Chairman of the Audit Committee, Mr. Frank Hu, possesses relevant financial management expertise and meets the requirements of rule 3.21 of the Listing Rules.

### ACCOUNTABILITY

The directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cashflows of the Group. In preparing the accounts for the six months ended 30 June 2005 and for the year ended 31 December 2005, the directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

### INTERNAL CONTROLS

The Board has, through the Audit Committee, conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions. The internal control system is designed to provide reasonable, but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievements of the Group's objectives.