

# Corporate Governance Report

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) has become effective for accounting periods commencing on or after 1st January, 2005. The Company is committed to maintain good corporate governance practices and by applying the principles of transparency, accountability and independence, the Company adopted the CG Code as its own corporate governance code in September 2005. This report discloses the Company’s corporate governance practices and how these practices were applied during the year under review.

The Company has complied with the CG Code throughout the year ended 31st December, 2005, except with deviations from Code provisions A.2.1, A.4.1 and B.1 in respect of the separate role of chairman and chief executive officer, service term of non-executive directors and establishment of remuneration committee.

Under Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. At present, Mr. LU Ruifeng is the Chairman and the Chief Executive Officer of the Company responsible for overseeing the operations of the Group. The Board of directors of the Company (the “Board”) will continue to review the management structure, taking into consideration the nature and extent of the Group’s operation, and ensure a balance of power and authority at the Board level in accordance with the relevant principle of the CG Code.

Under Code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company’s annual general meetings in accordance with the Company’s Articles of Association. As at each annual general meeting one-third of the directors of the Company (the “Directors”) (or such number as nearest to one-third) must retire as Directors by rotation, each of the non-executive directors is effectively appointed for a term of approximately three years.

Under Code provision B.1, a remuneration committee should be established to assist the Board to formulate and review the remuneration policy and the remuneration packages of directors and senior management of the Company. The Board established a remuneration committee in compliance with the CG Code in September 2005.

## DIRECTORS’ SECURITIES TRANSACTION

The Model Code for Securities Transaction by Directors as set out in Appendix 10 of the Listing Rules (the “Model Code”) has been adopted as part of the CG Code. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31st December, 2005.

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## BOARD

The Board is collectively responsible for overseeing the management of the business and affairs of the Group. The Board currently comprises two executive directors and three independent non-executive directors, whose biographical details are set out in the "Biographical Details of Directors" on pages 4 and 5. To the best knowledge of the Company, there is no relationship (including financial, business, family or other material/relevant relationships) among members of the Board. The Board members for the year ended 31st December, 2005 were:

### Executive Directors

Mr. LU Ruifeng (*Chairman and Chief Executive Officer*)

Mr. YIU Hoi Ying

### Independent Non-executive Directors

Mr. LU Ning

Mr. LI Chun

Mr. LAU Hak Lap (*appointed on 27th January, 2005*)

Ms. CHOW Ching Yi (*resigned on 26th January, 2005*)

During the year ended 31st December, 2005, the Board at all times complied with the requirements of Rules 3.10(1) and (2) of the Listing Rules relating to appointment of a sufficient number of independent non-executive directors and an independent non-executive director with appropriate professional qualifications. The Board has received from each independent non-executive director a written confirmation of his independence and the Board considers all of them to be independent pursuant to Rule 3.13 of the Listing Rules.

The Board meets regularly throughout the year to discuss the group's operation, financial performance, overall strategies and business plans. Matters covering major capital transactions, annual results, annual budgets, and other significant operational and financial transactions are reserved for decisions by the Board. The day-to-day operation of the Group is delegated to the management, under the leadership of the Chairman and Chief Executive Officer and supported by executives of each management division.

Nomination and appointment of new directors are considered and approved by the Board. The Board will consider referrals and engage recruitment professionals when necessary so as to identify appropriate nominees under the criteria of the CG Code. The Board reviews regularly its composition to ensure a balance of skills and experience appropriate for the requirements of the business of the Company. During 2005, the Board nominated and appointed Mr. LAU Hak Lap as Independent Non-executive Director of the Company.

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## REMUNERATION COMMITTEE

The Company established its remuneration committee ("Remuneration Committee") in accordance with the CG Code on 26th September, 2005. The Remuneration Committee members for the year ended 31st December, 2005 were:

Mr. LAU Hak Lap (*Chairman*)

Mr. LU Ruifeng

Mr. LI Chun

Mr. LU Ning

The Remuneration Committee has been established to review and approve the remuneration policy for all directors and senior management, the granting of share options and determining guidelines on compensation arrangements. During 2005, the Remuneration Committee met on one occasion and reviewed the remuneration policy.

## AUDIT COMMITTEE

The Company established its audit committee ("Audit Committee") in 2001 to review the Company's financial reporting, internal control systems and to make relevant recommendations to the Board. The Audit Committee members for the year ended 31st December, 2005 were:

Mr. LAU Hak Lap (*Chairman*)

Mr. LI Chun

Mr. LU Ning

During 2005, the Audit Committee met on two occasions to review the accounting principles and practices adopted by the Group, audit findings, statutory compliance and financial reporting matters. The Audit Committee discharged its responsibilities in its review of the half-yearly and annual results and system of internal control, and its other duties set out in the CG Code.

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## ATTENDANCE RECORD AT BOARD AND COMMITTEE MEETINGS

The attendance of individual members at Board meetings and committee meetings held in 2005 are set out below:

|  | Attendance at meetings |                 |                        |
|--|------------------------|-----------------|------------------------|
|  | Board                  | Audit Committee | Remuneration Committee |
| <b>Executive Directors</b>                                     |                        |                 |                        |
| Mr. LU Ruifeng ( <i>Chairman and Chief Executive Officer</i> ) | 4/4                    | –               | 1/1                    |
| Mr. YIU Hoi Ying   | 4/4                    | –               | –                      |
| <b>Independent Non-executive Directors</b>                     |                        |                 |                        |
| Mr. LU Ning  | 1/4                    | 0/2             | 0/1                    |
| Mr. LI Chun  | 4/4                    | 2/2             | 1/1                    |
| Mr. LAU Hak Lap  | 4/4                    | 2/2             | 1/1                    |
| Ms. CHOW Ching Yi  | 0/4                    | –               | –                      |

## AUDITORS' REMUNERATION

For the year ended 31st December, 2005, Deloitte Touche Tohmatsu, the external auditors provided the following services to the Group:-

|   | 2005<br>HK\$ |
|---|--------------|
| Audit services                                  | 800,000      |
| Taxation services                               | 40,000       |
| Audit of retirement benefit scheme contribution | 8,000        |

## DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR ACCOUNTS

The Directors are responsible for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs of the results and cash flow for the year. The external auditors' reporting responsibilities are set out in the Auditors' Report on page 20.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern other than those set out in the Directors' Report on pages 12 to 19.

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## INTERNAL CONTROLS

The Board is responsible for maintaining adequate system of internal controls of the Group and reviewing its effectiveness with the Audit Committee. During 2005, the Board has evaluated the effectiveness of the Group's internal control system and considered it to be adequate.

On behalf of the Board

**LU Ruifeng**

*Chairman*

Hong Kong, 25th April, 2006