

# Report on Corporate Governance

## CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") believes that good corporate governance is crucial to improve the efficiency and performance of the Group and to safeguard the interests of the shareholders. Throughout the year ended 31 December 2005, the Company has applied the principles of the Code on Corporate Governance Practices (the "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") and complied with all the applicable code provisions of the Code, except the following:

- (a) Under the 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. During the financial year ended 31 December 2005, the Company did not have any chief executive officer. The executive directors collectively oversaw the strategic development of the Group, monitored and controlled the financial performance and day-to-day operations of the Group.
- (b) Under the Code Provision B.1.1, the Company should establish a remuneration committee. The Company established a remuneration committee on 18 May 2006 with specific written terms of reference which deal clearly with its authority and duties.

## DIRECTORS' SECURITIES TRANSACTIONS

For the year ended 31 December 2005, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year ended 31 December 2005, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

## BOARD OF DIRECTORS

### Composition

Directors during the year and up to the date of this report are as follows:

#### Executive Directors:

Chiu Yeung

Ren Jun Tao

Jin Jiu Xin (appointed on 28 February 2006)

Xu Zhe Cheng (resigned on 28 February 2006)

#### Non-Executive Director

Qian Yong Wei (*Non-executive Chairman*)

#### Independent Non-Executive Directors

Mu Xiangming

Cheng Chak Ho

Lo Wa Kei Roy

Except that Ms. Xu Zhe Cheng is the spouse of Mr. Qian Yong Wei, there is no relationship between members of the Board.

## Report on Corporate Governance *(Continued)*

### BOARD OF DIRECTORS *(Continued)*

During the year ended 31 December 2005, the Board had at all times at least one independent non-executive director who has appropriate professional qualifications or accounting or related financial management expertise.

The principal roles of the Board are to oversee the strategic development, to determine the objectives, strategies and policies of the Group, to monitor and control the financial performance and to ensure effective internal controls and risk management. Implementation of strategies and day-to-day operations are delegated to the management.

During the year, four board meetings were held and the attendance records are as follows:

Name of Director	Number of Board Meetings Attended	Attendance Rate
Chiu Yeung	4	100%
Ren Jun Tao	4	100%
Jin Jiu Xin (Appointed on 28 February 2006)	N/A	N/A
Xu Zhe Cheng (Resigned on 28 February 2006)	4	100%
Qian Yong Wei	0	0
Mu Xiangming	4	100%
Cheng Chak Ho	4	100%
Lo Wa Kei Roy	4	100%

### NON-EXECUTIVE DIRECTORS

All the independent non-executive directors of the Company were appointed for an initial term of one year and the non-executive director was appointed for a term of three years. All directors appointed during the year are subject to re-election by shareholders at the next annual general meeting after their appointment and every director (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

### REMUNERATION OF DIRECTORS

The Company established the Remuneration Committee in May 2006. The current members of the Remuneration Committee are:

Lo Wa Kei Roy (*Chairman of the Committee*), *Independent Non-executive Director*

Cheng Chak Ho, *Independent Non-executive Director*

Chiu Yeung, *Executive Director*

The Remuneration Committee has adopted terms of reference which are in line with the Code.

The first Remuneration Committee meeting is proposed to be held in the fourth quarter of this year.

## Report on Corporate Governance *(Continued)*

### AUDITORS' REMUNERATION

For the year ended 31 December 2005, the Group engaged Messrs. HLB Hodgson Impey Cheng, auditors of the Company, to perform audit service only.

### AUDIT COMMITTEE

Current members of the Audit Committee are:

Mu Xiangming (*Chairman of the Committee*), *Independent Non-executive Director*  
Cheng Chak Ho, *Independent Non-executive Director*  
Lo Wa Kei Roy, *Independent Non-executive Director*

The Audit Committee has adopted terms of reference which are in line with the Code.

As both financial statements of the Group for the year ended 31 December 2004 and the interim results of the Group for the six months ended 30 June 2005 were approved in the year 2006, no Audit Committee meeting has been held for the year ended 31 December 2005.

The financial statements for the year ended 31 December 2005 have been reviewed by the Audit Committee.

### DIRECTORS' RESPONSIBILITY STATEMENT

The directors acknowledge that it is their responsibility to prepare the accounts for each financial period which give a true and fair view of the state of affairs of the Group and to present a balanced, clear and understandable assessment of the financial results and disclosures of the Group under the Listing Rules and any other rules and statutory requirements.

On behalf of the Board

**Chiu Yeung**

*Executive Director*

Hong Kong, 25 September 2006