

## REPORT ON CORPORATE GOVERNANCE PRACTICES

For the financial year ended 31st December 2005, the Company has applied the principles and complied with all the requirements set out in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) except for certain deviations from code provisions A.4.1 and A.4.2 in respect of the service terms and rotation of Directors, details of which are set out in this report.

### Board of Directors

The Board of Directors (the “Board”) of the Company currently comprises a total of eight Directors, with four Executive Directors, one Non-executive Director and three Independent Non-executive Directors. More than one-third of the Board is Independent Non-executive Directors and these Independent Non-executive Directors collectively possess a wide range of expertise on accounting, financial management and legal areas. The Directors’ biographical information is set out on pages 8 to 9.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules to the Company. Accordingly, the Company is of the view that all the Independent Non-executive Directors meet the independence guidelines set out in the Listing Rules and are independent in accordance with the terms of the guidelines.

The Board determines the Group’s overall objectives and strategies, monitors and evaluates its operating and financial performance. It also decides on matters such as annual budgets and business plans; major transactions, director appointments or re-appointments, and dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group’s businesses to senior management under the supervision of the General Manager and the Executive Committee of Board of Directors.

Board meetings are normally scheduled in advance to facilitate fullest possible attendance. Each Director is invited to present any businesses that he wishes to discuss or propose at such meetings. All Directors have access to appropriate business documents and information about the Company on a timely basis. The Board and each Director have separate and independent access to senior management of the Company. Directors may choose to take independent professional advice at the Company’s expenses, if necessary. Draft and final versions of minutes are circulated to all Directors for comments. The Company held six full Board meetings in 2005 and the average attendance rate was 94%. Individual attendance of

each Director at the Board meetings, the Audit Committee meetings and the Remuneration Committee meetings during 2005 is set out below:

	Attendance/Number of Meetings		
	Board	Audit Committee	Remuneration Committee
<b>Executive Directors</b>			
Mr Ding Shi Da ( <i>Chairman</i> )	6/6	—	—
Mr Chen Gui Zong ( <i>Vice Chairman</i> )	6/6	—	—
Mr Yang Sheng Ming (Resigned on 1/7/2005)	3/3	—	—
Mr Zhu Xue Lun	5/6	—	—
Mr Weng Jian Yu ( <i>General Manager</i> )	6/6	—	1/1
<b>Independent Non-executive Directors</b>			
Mr Robert Tsai To Sze ( <i>Chairman of the Audit Committee</i> )	6/6	2/2	1/1
Mr Ip Kai Ming ( <i>Chairman of the Remuneration Committee</i> )	6/6	2/2	1/1
Mr So Hop Shing	4/6	2/2	1/1
<b>Non-executive Director</b>			
Mr Wang Hui Jin (Appointed on 13/10/2005)	2/2	—	—

## Chairman and Chief Executive Officer

The positions of the Chairman of the Board (“Chairman”) and the existing General Manager (acting in the capacity of Chief Executive Officer) of the Company are held by separate individuals with a view to maintain an effective segregation of duties regarding management of the Board and the day-to-day management of the Group’s business. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the General Manager and the Company Secretary. Senior management is responsible for the day-to-day operations of the Group under the leadership of the General Manager of the Company. The General Manager, working with the Executive Committee and supported by other management, is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group.

Apart from regular Board meetings, the Chairman also held meetings with the Independent Non-executive Directors without the presence of Executive Directors in 2005.

### **Appointment and Re-election of Directors**

Since the full Board is involved in the appointment of new Directors, the Company has not established a Nomination Committee. The Board will take into consideration criteria such as expertise, experience, integrity and commitment when considering new director appointments.

Under the existing Articles of Association of the Company, all Directors of the Company do not have a specific term of appointment. At every Annual General Meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office. Further, a Director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next annual general meeting.

However, Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election; and Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In order to ensure full compliance with Code Provisions A.4.1 and A.4.2, a special resolution will be proposed to amend the relevant Articles of Association of the Company at the forthcoming Annual General Meeting to be held in June 2006.

### **Executive Committee**

The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the Executive Committee which currently consists of three Executive Directors of the Board, namely Mr Ding Shi Da, Mr Chen Gui Zong and Mr Zhu Xue Lun. These members meet frequently as when necessary.

### **Audit Committee**

The Audit Committee comprises the three Independent Non-executive Directors and is chaired by Mr Robert Tsai To Sze who has been a partner of an international firm of accountants with which he practised for over 20 years. It is responsible for the appointment of external auditors, reviewing the Group's financial information and providing oversight of the Group's financial reporting and internal control system. It is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval. It meets regularly to review financial reporting and internal control matters and to perform such duties it has unrestricted access to both the Company's external and internal auditors. In 2005, the Audit Committee held two meetings with full attendance of its members. At the meetings, it reviewed the final results for the year ended 31st December 2004 and the interim accounts for the six months ended 30th June 2005 respectively with the external auditors; and also the activities of the Group's internal audit function and its findings and recommendations as laid down in the internal audit reports.

## **Remuneration Committee**

The Company has established a Remuneration Committee with specific written Terms of Reference which deal clearly with its authority and duties. The Terms of Reference of the Remuneration Committee include the specific duties set out in Code Provision B.1.3 (a) to (f), with appropriate modifications made as necessary.

The Remuneration Committee is responsible for making recommendations to the Board regarding the Company's remuneration policy, and the formulation and review of the specific remuneration packages of all Executive Directors and senior management of the Company.

A majority of the members of the Remuneration Committee are Independent Non-executive Directors. This Committee is chaired by Mr Ip Kai Ming who is an Independent Non-executive Director. The other members are Mr Robert Tsai To Sze, Mr So Hop Shing, Mr Weng Jian Yu and Ms Wu Dan Ying. In 2005, the Remuneration Committee held one meeting with full attendance to discuss about the remuneration policy of the Group.

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

The Directors are responsible for overseeing the preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable.

## **Auditors' Remuneration**

For the year ended 31 December 2005, the fees paid or payable to the external Auditors for statutory audit services, attestation work (in relation to interim financial statements and circular issued by the Company), and tax and consultancy service were HK\$1,850,000, HK\$440,000 and HK\$2,591,000 respectively.

## **Model Code for Securities Transactions**

The Company has adopted a code of conduct governing securities transactions by directors on terms no less exacting than that required by the Listing Rules. Following a specific enquiry, all Directors confirmed that they complied with the code of conduct for transactions in the Company's securities throughout the year.

The Company has also adopted a code of conduct governing securities transactions by employees who may possess or have access to price sensitive information.