



CORPORATE GOVERNANCE REPORT

This corporate governance report ("CG Report") presents the corporate governance matters during the period covering the financial period ended 31 December 2005 and up to the date of the Annual Report to which this CG Report is inscribed ("CG Period") required to be disclosed under the Rules Governing the Listing of the Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules").

ADOPTION OF CORPORATE GOVERNANCE PRINCIPLES

On 6th October, 2005 ("Adoption Date"), the Board adopted a set of corporate governance principles ("Principles") which aligns with the requirements set out in the Code on Corporate Governance Practices ("CG Code") (Appendix 14 of the Listing Rules) and the Model Code for Securities Transactions by Directors of Listed Issuers ("Securities Code") (Appendix 10 of the Listing Rules). During the CG Period, the Principles had been duly complied with except for the deviations occurred before the Adoption Date are summarised as follows:

CG Code

Deviation

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| A.2.1 Division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing | <ul style="list-style-type: none"> Before the Adoption Date, the roles of Chairman and Chief Executive Officer were assumed by different persons so as to maintain a balance of power and authority. However, the division of responsibilities between the Chairman and Chief Executive Officer are not clearly set out in writing. As at the Adoption Date, the division of responsibilities between the Chairman and Chief Executive Officer are clearly set out in writing. |
| A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election | <ul style="list-style-type: none"> Before the Adoption Date, all the Non-Executive Directors ("NED(s)") and Independent Non-executive Directors ("INED(s)") were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Company's Articles of Association. With effect from the Adoption Date, the term of office for each then NED and INEDs had been fixed for three years commencing from the Adoption Date until the earlier of the expiry date of their term of office or their retirement by rotation at annual general meeting of the Company, at which they being eligible can offer themselves for re-election. |



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| <p>A.5.4 Establish written guidelines on no less exacting terms than the Securities Code for relevant employees in respect of their dealings in the securities of listed company</p> | <ul style="list-style-type: none"> • Before the Adoption Date, the Securities Code was applicable to the directors of the Company only. • With effect from the Adoption Date, the Securities Code was also applied to the relevant employees (as determined from time to time by the managing director of the Company) for their dealings in securities of the Company. |
| <p>A.6.1 Agenda and the board papers should be despatched at least 3 days before the meeting</p> | <ul style="list-style-type: none"> • Before the Adoption Date, the Audit Committee papers and the Board papers might not have been sent at least 3 days before the Audit Committee meetings and the Board meetings for approving the financial results. • Since the Adoption Date, the terms in relation to the despatch of the Audit Committee papers and the Board papers under the Principles had not been violated. |
| <p>B.1.1 A remuneration committee should be set up with majority members to be INEDs</p> | <ul style="list-style-type: none"> • Before the Adoption Date, the Company had not set up a Remuneration Committee. • Since the Adoption Date, the Company has maintained a Remuneration Committee with specific written terms of reference comprising 3 INEDs and 2 Executive Directors ("ED(s)). |



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SECURITIES CODE

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Securities Code on 16th April, 2004. Having made specific enquiry, all of the Directors have complied with the Company's code of conduct during the CG Period.

BOARD OF DIRECTORS

During the CG Period, the Board had held 4 physical meetings of the full Board of Directors. Out of the 4 full Board meetings, 2 of them were held to discuss and/or approve the annual and interim results of the Group, 1 meeting for considering the corporate governance matters of the Company while the remaining 1 meeting for discussing the progress of a very substantial acquisition and connected transaction of the Company which arose during the CG Period.

During the CG Period, the composition of the Board, and the respective attendances of the Directors at the above Directors' meetings are presented as follows:

Director	Board capacity	Attendance
		Full Board meetings
Mr. Wang Jun	ED & Chairman	4/4
Mr. He Ping	ED & Vice-Chairman	4/4
Mr. Li Shi Liang	ED & Managing Director	4/4
Mr. Chen Hong Sheng	ED	4/4
Mr. Chan Tak Chi, William	ED	4/4
Mr. Ip Chun Chung, Robert	NED	3/4
Mr. Yao Kang, J.P.	INED	4/4
Mr. Lam Tak Shing	INED	3/4
Mr. Choy Shu Kwan	INED	4/4

The Company has received from each of the independent non-executive directors a written confirmation of his independence pursuant to the requirements of the Listing Rules and considered that all of the independent non-executive directors are independent in accordance with the independence guidelines set out in the Listing Rules.

During the CG Period, none of the Directors above has or maintained any financial, business, family or other material/relevant relationship with any of the other Directors.

The appointment of the directorship were subject to, as to EDs, retirement, rotation and re-election at least once every 3 financial years and, as to NEDs, their specific term of office or their retirement by rotation at annual general meeting of the Company, at which they being eligible can offer themselves for re-election.



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The Board of Directors of the Company takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial information, appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the Managing Director and the senior management. Approval has to be obtained from the Board prior to any significant transactions entered into by the officers.

REMUNERATION COMMITTEE

Since the Adoption Date, the Company had maintained a Remuneration Committee. The role and function of the Remuneration Committee includes:

- formulate remuneration policy;
- recommendation to the Board on the remuneration policy for the Directors;
- review of, approval of and recommendation for (if any) the remuneration package of each Director including benefits in kind, pension right, performance bonus payment and compensation payable;
- review and approval of the compensation payment to any Director upon his/her cessation of directorship in or employment with the Company; and
- engagement of external professional advisors to assist and/or advise the Remuneration Committee on its duties when necessary and reasonable.

Terms of reference of the Remuneration Committee had been compiled since the establishment of the Remuneration Committee and were endorsed and adopted by the Board of Directors of the Company.

During the CG Period, the Remuneration Committee did not hold any committee meeting.

The composition of the Remuneration Committee is as follows:

Member	Board capacity
Mr. Yao Kang, J.P.	INED
Mr. Lam Tak Shing	INED
Mr. Choy Shu Kwan	INED
Mr. He Ping	Vice-Chairman of the Board
Mr. Li Shi Liang	Managing Director

The chairman of the Remuneration Committee since its establishment has been Mr. Yao Kang, J.P..



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The summary of the work performed by the Remuneration Committee for the financial period under review included:

- endorsement to the remuneration policy for the Directors;
- review and approval of the remuneration package of each Director including benefits in kind, pension right, bonus payment and compensation payable.

DIRECTORS' EMOLUMENTS

The remuneration paid to and/or entitled by each of the Directors for the financial period under review is set out in note 11 to the financial statements in the Annual Report.

The share options granted to and/or entitled by the Directors during the financial period under review are set out in the section headed "Directors' Interests in Securities" in the Directors' Report of the Annual Report.

NOMINATION OF DIRECTORS

The Board shall be composed of members with mixed skills and experience with appropriate weights necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. Each member of the Board shall possess, be recognised for and be able to exhibit high and professional standard of a set of core criteria of competence.

Since the Adoption Date, the Company had adopted a nomination policy for the criteria, procedures, and process of the appointment and removal of Directors.

Under the nomination policy, the board of EDs has been delegated the full power to the administration of the nomination policy and the appointment and the termination of Directors, where the full Board remains to have the full and overriding power and absolute right thereover.

During the CG Period, the EDs did not hold any meeting for the appointment or resignation of director.



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AUDIT COMMITTEE

Throughout the CG Period, the Company had maintained an Audit Committee. The major role and function of the Audit Committee includes:

- monitoring the integrity of the financial statements of the Group;
- providing independent review and supervision of the effectiveness of the internal control of the Group;
- review of the adequacy of the external audits;
- review on the compliance issues with the Listing Rules and other compliance requirements;
- providing independent views on connected transactions and transactions involving materially conflicted interest;
- considering and reviewing the appointment of the Auditors and the audit fee.

Terms of reference of the Audit Committee had been compiled since the establishment of the Audit Committee and revised by the Board of Directors of the Company on the Adoption Date.

During the CG Period, the Audit Committee had held 4 physical meetings for discussing and/or approving the final / interim results of the Group and for reviewing the internal audit of projects of the Group.

The composition of the Audit Committee, and the respective attendances of the committee members are presented as follows:

Member	Board capacity	Attendance
Mr. Yao Kang, J.P.	INED	4/4
Mr. Lam Tak Shing	INED	3/4
Mr. Choy Shu Kwan	INED	4/4
Mr. Ip Chun Chung, Robert	NED	3/4

The chairman of the Audit Committee is Mr. Yao Kang, J.P..

The report of the work performed by the Audit Committee for the financial period under review is set out in the section headed "Audit Committee Report" of this Annual Report.



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AUDITORS' REMUNERATION

The analysis of the Auditors' remuneration for the financial period under review is presented as follows:

	Fee amount <i>HK\$</i>
Audit services	1,856,000
Non-audit services	
– Acted as reporting accountant for the very substantial acquisition of Poly Shanghai	2,238,500
Total	4,094,500

The non-audit services arose from the requirement of accounting performance required under the Listing Rules for the corporate transaction of the Group which took place during the financial period under review.

ACKNOWLEDGEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the accounts of the Group. In preparing the accounts for the financial period under review, the Directors have:

- based on a going concern basis;
- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were prudent, fair and reasonable.

REVIEW OF INTERNAL CONTROL

During the financial period under review, the Directors had arranged to conduct a review over the effectiveness of the internal control system of the Group including functions of financial, operation, compliance and risk management. The review showed a satisfactory control system. The review had been reported to the Audit Committee. The Directors had also, where necessary, initiated necessary improvement and reinforcement to the internal control system.

On behalf of the Board

Li Shi Liang
Managing Director

Hong Kong, 20th April, 2006



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AUDIT COMMITTEE REPORT

The Audit Committee of the Company was established on 19th March, 1999. Its composition shall be a minimum of 3 members of NEDs with a majority being INEDs. For the financial period under review, the Audit Committee comprised all the ND and INEDs of the Company at all times.

For the financial period under review, the Audit Committee had performed the following duties:

- reviewed and commented on the audited full year financial statements and the unaudited interim financial results of the Group of the financial period under review before submission to the Board for adoption and publication;
- endorsed the policy on the engagement of external auditors for non-audit services;
- met with the Auditors to discuss the financial matters of the Group that arose during the course of the audit process, and reviewed the findings, recommendations and representations of the Auditors;
- reviewed and approved of the remuneration and the terms of engagement of the Auditors for both audit service and non-audit services for the financial period under review;
- reviewed the internal audit reports and the Company's statement on internal control.

After the due and careful consideration of the reports from the management of the Group and the Auditors, the Audit Committee was of the view that no suspected irregularities, internal control deficiencies, or breach of regulations had been found, and concluded that the system of internal controls was adequate and effective.

Based on the reviews and discussions performed by the Audit Committee, the Audit Committee had:

- recommended to the Board for the approval of the audited financial statements of the financial period under review together with the Auditors' Report there attached, before the announcement of the annual results;
- recommended to the Board for the approval of the unaudited financial statements of the financial period under review before the announcement of the interim results; and
- recommended to the Board for the proposal for the re-appointment of Deloitte Touche Tohmatsu as the Auditors of the Company for the ensuing year in the forthcoming annual general meeting of the Company.

Audit Committee Members:

YAO Kang, J.P. (*chairman of the Audit Committee*)

LAM Tak Shing

CHOY Shu Kwan

IP Chun Chung, Robert

Hong Kong, 20th April, 2006