

# Corporate Governance Report

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

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 ("Stock Exchange") ("Listing Rules") sets out the principles of good corporate governance ("Principles") and two levels of corporate governance practices:

- (a) code provisions ("Code Provisions") which listed issuers are expected to comply with or to give considered reasons for any deviation; and
- (b) recommended best practices ("Recommended Best Practices") for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with most of the Code Provisions save for the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1st July, 2005 pursuant to the CG Code and certain deviations from the Code Provisions in respect of A.4.1 and A.4.2, details of which are explained below.

The Company has also put in place certain Recommended Best Practices as set out in the CG Code.

The Company conducts regular reviews of its corporate governance practices to ensure that the CG Code is followed.

The Company acknowledges the important role of its Board of Directors ("Board") in providing effective leadership and direction to Company business, and ensuring transparency and accountability of Company operations.

The key corporate governance principles and practices of the Company are summarised as follows:

## The Board

### Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the best interests of the Company.

The Board sets policy direction and approves strategies/operational plans to ensure effective functioning and growth of the Company, in the interests of all shareholders.

The Board undertakes responsibility for decision making in major corporate aspects, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

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Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

### Composition

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board currently comprises 10 members, consisting of 6 executive directors, one non-executive director and 3 independent non-executive directors.

The list of all directors is set out under "Corporate Information" on page 2.

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Members of the Board are unrelated to one another.

During the year ended 31st December, 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with more than one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, the non-executive directors make various contributions to the effective direction of the Company.

### Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

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. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.



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The Company's current Bye-laws deviate from Code Provision A.4.2 of the CG Code which provides that one-third of the directors for the time being (save for the Chairman/Managing Director), or if their number is not three nor a multiple of three, then the number nearest to but not greater than one-third, shall retire from office by rotation and being eligible, offer themselves for re-election at annual general meetings and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

To conform with Code Provisions A.4.1 and A.4.2 of the CG Code, a special resolution will be proposed at the forthcoming 2006 annual general meeting of the Company to amend the Company's current Bye-laws so that all directors will be subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after his/her appointment.

### Training for Directors

Each newly appointed director receives a comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There may also be arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

### Board Meetings

#### *Number of Meetings and Directors' Attendance*

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31st December, 2005, 4 regular Board meetings were held.

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The individual attendance record of each director at the meetings of the Board, Remuneration Committee, Audit Committee and Risk Management Committee during the year ended 31st December, 2005 is set out below:

Name of Directors	Attendance/Number of Meetings				Risk Management Committee
	Board		Remuneration Committee	Audit Committee	
	Regular	Other			
Ma Jun Li ( <i>Chairman</i> )	3/4	12/22	N/A	N/A	0/0
Ng Tang ( <i>Deputy Chairman</i> )	4/4	22/22	1/1	N/A	1/1
Wang Da Yong ( <i>Chief Executive Officer</i> )	3/4	11/22	N/A	N/A	0/0
Ren Zheng	4/4	11/22	N/A	N/A	N/A
Cheung Hoi Ping	2/4	10/22	N/A	N/A	N/A
Zhang Jun ( <i>appointed in April 2005</i> )	1/3	11/22	N/A	N/A	N/A
Chung Kwo Ling	0/4	3/22	1/1	2/2	1/1
Sun Yeung Yeung	0/4	3/22	1/1	2/2	1/1
Lee Yuen Kwong	0/4	3/22	1/1	2/2	0/1
Wang Jian Hua ( <i>resigned in November 2005</i> )	4/4	22/22	1/1	N/A	1/1
Pak Chung ( <i>resigned in May 2005</i> )	1/2	0/6	N/A	N/A	N/A
Bao Wen Bin ( <i>resigned in May 2005</i> )	2/2	0/5	N/A	N/A	N/A

### *Practices and Conduct of Meetings*

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable period of time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

The Company's current Bye-Laws also contain certain provisions on requiring directors to abstain from voting (or not be counted in the quorum) at meetings for approving transactions in which such director or any of his/her associates is materially interested.

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## Chairman and Chief Executive Officer

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer are held by Ms. Ma Jun Li and Mr. Wang Da Yong respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

## Board Committees

The Board has established four committees, namely, Nomination Committee, Remuneration Committee, Risk Management Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of each Board committees are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Governance Report" on page 11.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

## Nomination Committee

A Nomination Committee was established during the year which comprises 2 executive directors and 3 independent non-executive directors, namely Ms. Ma Jun Li as Chairman of the Committee and Mr. Ng Tang, Mr. Sun Yeung Yeung, Mr. Lee Yuen Kwong and Ms. Chung Kwo Ling as members. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors and senior management, making recommendations to the Board on the appointment and succession planning of directors and senior management, and assessment of the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorship and senior management by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

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The Nomination Committee was established on 26 September 2005 and met once since its establishment and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

In accordance with the Company's Bye-laws, Mr. Leung Chung Tak, Barry, has been appointed as non-executive director of the Company since the last annual general meeting, shall retire and being eligible offer himself for re-election at the forthcoming 2006 annual general meeting. In addition, Mr. Ren Zheng and Ms. Chung Kwo Ling shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming 2006 annual general meeting.

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 28 April 2006 contains detailed information of the directors standing for re-election.

### Remuneration Committee

The Company has established a Remuneration Committee during the year which comprises five members, namely Ms. Ma Jun Li as Chairman of the Committee and Mr. Ng Tang, Mr. Sun Yeung Yeung, Mr. Lee Yuen Kwong and Ms. Chung Kwo Ling as members. The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the individual performance and the operating results of the Company as well as the market conditions.

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters when needs arise. The Human Resources Division is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee met once during the year ended 31st December, 2005 and reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management for the year under review.

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## Risk Management Committee

A Risk Management Committee has also been established during the year which comprises 3 executive directors and 3 independent non-executive directors, namely Ms. Ma Jun Li as Chairman of the Committee and Mr. Ng Tang, Mr. Wang Da Yong, Mr. Sun Yeung Yeung, Mr. Lee Yuen Kwong and Ms. Chung Kwo Ling as members. The Risk Management Committee is primarily focuses on raising the level of management awareness of, and accountability for the business risks faced by the Group's business operations. In meeting its responsibilities, the Committee seeks to put in place policies and procedures to provide a framework for identification and management of risks.

The Risk Management Committee normally meets for prioritizing and accelerating those risk management strategies that are critical to the advancement of the Group's objectives and ensuring that sufficient resources and appropriate level of support from the management are allocated. The Risk Management Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about the effectiveness of their recommendations and escalate to the Board of any risks relating to material transactions in the ordinary course of business and unusual transactions exceed the scope of principal business activities of the Group.

The Risk Management Committee met once during the year ended 31 December 2005 reviewed and monitored the effectiveness of the systems of internal control to ensure that the policies and procedures in place are adequately sufficient.

## Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Ms. Chung Kwo Ling, Mr. Sun Yeung Yeung and Mr. Lee Yuen Kwong. Among the committee members, two of them possess the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31st December, 2005 to review the financial results and reports, financial reporting and compliance procedures, report of Internal Auditor on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

The Company's annual results for the year ended 31st December, 2005 has been reviewed by the Audit Committee.

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### Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31st December, 2005.

The Company also has established written guidelines on no less exacting than the Model Code (the “Employees Written Guidelines”) for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

### Responsibilities in respect of the Financial Statements and Auditors’ Remuneration

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31st December, 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the “Report of the Auditors” on page 27.

An analysis of the remuneration paid to the external auditors of the Company is shown on note 12 of the “Notes to Financial Statements” on page 59.

### Shareholder Rights and Investor Relations

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders’ meetings are contained in the Bye-Laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders’ meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee, Audit Committee and Risk Management Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the shareholders’ meetings.

Separate resolutions are proposed at shareholders’ meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated executives maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company’s developments. Enquiries from investors are dealt with in an informative and timely manner.