

## Report on Corporate Governance Practices

The Company has, throughout the year ended 31 December 2005, complied with the Code of Corporate Governance Practices (“CG Code”) set out in Appendix 14 of the Listing Rules, with deviations from code provisions as follows:

A1.1 As the Company was listed on the main board of the Stock Exchange on 29 June 2005, only two Board meetings were convened in 2005. At least four regular meetings will be convened each year starting from the year of 2006.

The following summarises the Company’s corporate governance practices and explains deviations, if any, from the CG Code.

### KEY CORPORATE GOVERNANCE PRINCIPLES AND THE COMPANY’S PRACTICES

#### A.1 Board of Directors

The Board is responsible for leadership and control of the Company and oversees the Group’s businesses, strategic direction and performance. The Management Team was delegated the authority and responsibility by the Board for the day-to-day management of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report. As the Company was listed on the Stock Exchange on 29 June 2005, only two board meetings were held for the year ended 2005 and the attendance was as follows:

<b>Name of Director</b>	<b>Attendance</b>
<i>Executive Director</i>	
Mr. Au Pak Yin	1/2
Mr. Au Kwok Lun	2/2
Mr. Ou Guo Liang	1/2
Mr. Ng Shu Kai	2/2
<i>Independent Non-Executive Director</i>	
Mr. Lai Ming, Joseph	2/2
Mr. Meng Yan	1/2
Mr. Xu Guangmao	2/2

All directors were given an opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting. Notice of at least 14 days were given of a regular board meeting. For all other board meeting, reasonable notice will be given.

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All minutes of Board meetings were recorded in sufficient detail the matters considered by the board and decisions reached. Draft and final versions of minutes of Board meetings were sent to all directors for their comment and record respectively within 12 business days after the board meeting was held.

The Company has established a policy on obtaining independent professional advice to enable the directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

The Company has established a policy that, if a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be discussed by a Board meeting actually hold. During the year 2005, no event has led to a conflict of interest of any substantial shareholder or a Director.

### **A.2 Chairman and Chief Executive Officer**

The Board appointed Mr. Au Pak Yin as the Chairman, who was responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues were discussed by the Board in a timely and constructive manner.

The Board appointed Mr. Au Kwok Lun as the Chief Executive Officer, who was delegated with the responsibilities of investor relations and public relations of the Group. The Board also comprises Independent Non-Executive Directors who bring strong independent judgment, knowledge and experience to the Board. As noted below, all the Audit Committee members are Independent Non-Executive Directors. This structure is to ensure a sufficient balance of power and authority in place within the Group.

### **A.3 Board Composition**

The Board comprises four executive Directors, being Mr. Au Pak Yin, Mr. Au Kwok Lun, Mr. Ou Guo Liang, Mr. Ng Shu Kai and three Independent Non-executive Directors, being Mr. Lai Ming, Joseph, Mr. Meng Yan and Mr. Xu Guangmao. The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company.

The biographical details of the Directors and relationships among them (where appropriate) are set out in the "Biographical Details of Directors and Senior Management" section on pages 13 and 16.

All Directors are expressly identified by categories of executive Directors and Independent Non-Executive Directors, in all corporate communications that disclosed the names of Directors of the Company.

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### **A.4 Appointments, Re-election and Removal**

At each annual general meeting one third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

According to the Articles of Association, Mr. Meng Yan and Mr. Xu Guangmao will retire from office as Directors at the forthcoming annual general meeting and being eligible offer themselves for re-election.

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

The Company had not established a Nomination Committee and retained the functions to the Board. The Directors from time to time identify individual suitable to be a Board member and make recommendation to the Board. The main criteria in selecting a candidate are whether if he can add value to the management through his contributions in the relevant strategic business areas and if the appointment results a strong and diverse Board. In March 2005, the Board had nominated and appointed Mr. Lai Ming, Joseph, Mr. Meng Yan and Mr. Xu Guangmao as Independent Non-Executive Directors. Before they were nominated for election, the Board had assessed their independence.

### **A.5 Responsibilities of Directors**

Every newly appointed Director of the Company received an information package from the Company on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and ongoing obligations to be observed by a director. In addition, the package includes materials on the operations and business of the Company. The management of the Company conducted briefing on their responsibilities and obligations under the laws and applicable regulations such as Listing Rules and Company Ordinance as was necessary.

The Board has adopted a new code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules ("Model Code"). The Directors confirmed that there was no non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 December 2005.

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### A.6 Supply of and Access to Information

In respect of regular Board and Committee meetings, agendas and accompanying Board papers were sent in full to all Directors at least 2 days before the intended date of meetings. The Management and the Company Secretary assists the Chairman in establishing the meeting agenda and Board papers, providing with adequate information in a timely manner to enable the Board and Committees in making decision to the matter being discussed in the meetings. Each Director may request inclusion of items in the agenda. The Board and each Director may separately and independently access to the issuer's senior management.

Minutes of the Board/Committees meetings are kept by the Company Secretary and are open for inspection by Directors.

### B.1 Remuneration of Directors and Senior Management

The Board has established a Remuneration Committee, chaired by Mr. Lai Ming Joseph and with committee members of Mr. Meng Yan and Mr. Xu Guangmao, all of them are Independent Non-Executive Directors appointed by the Board.

The principal responsibilities of Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the executive Director and members of the Senior Management. The overriding objective of the remuneration policy is to ensure that the Group is able to attract, retain, and motivate a highcalibre team which is essential to the success of the Group.

As the Company was listed on the Stock Exchange on 29 June 2005, no meeting was convened by the Remuneration Committee during the year ended 2005. Starting from 2006, the Remuneration Committee will meet at least once a year.

The functions specified in paragraphs B1.3 (a) to (f) of the CG Code had included the terms of reference of the Remuneration Committee, which also explain the role and the authority delegated by the Board.

### C.1 Accountability and Audit

The Board presents a balanced, clear, and comprehensible assessment of the Company's performance, position, and prospects. Management of the Company provides such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

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The Directors are responsible for overseeing the preparation of financial statements of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2005, the Directors have:

1. selected suitable accounting policies and applied them consistently;
2. approved adoption of all HKFRSs;
3. made judgements and estimates that are prudent and reasonable; and
4. have prepared the financial statements on the going concern basis.

Acknowledgement from the Directors of their responsibility for preparing the financial statements has been received.

A statement by the auditors about their reporting responsibilities is included in the page 43 of the 2005 Annual Report under the section Auditors' Report.

The Company has announced its annual results in a timely manner after the end of the relevant period, as laid down in the Listing Rules.

### **C.2 Internal Controls**

The Board recognises its overall responsibility for the establishment, maintenance and review of a system of internal control that provides reasonable assurance on the reliability and integrity of financial and operational information, effective and efficient operations, safeguard of assets and compliance with laws and regulations. The system of internal control designed to manage rather than eliminate all risks of failure while its goal is provide reasonable, not absolute, assurance regarding the achievement of organizational objectives.

### **C.3 Audit Committee**

The Board establish a formal and transparent arrangements for considering how it apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. The Audit Committee established by the Company have clear terms of reference.

All the members of the Audit Committee are Independent Non-Executive Directors. The Audit Committee is chaired by Mr. Lai Ming, Joseph who is a certified public accountant and the committee members are Mr. Meng Yan and Mr. Xu Guangmao.

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The functions specified in paragraphs C3.3 (a) to (n) of the CG Code had included the terms of reference of the Audit Committee. The terms of reference of the Audit Committee also explains the role and the authority delegated by the Board.

Two meetings were convened by the Audit Committee during the year ended 2005. During the meetings, the Audit Committee reviewed the Group's interim and annual results for the year 2005. The attendance of the meetings was as follows:

Name of Directors	Attendance
Mr. Lai Ming, Joseph ( <i>Chairman of Audit Committee</i> )	2/2
Mr. Meng Yan	2/2
Mr. Xu Guangmao	2/2
<i>In attendance:</i>	
Mr. Au Kwok Lun	2/2
Mr. Ng Shu Kai	2/2
Mr. Wong Kwok Kuen	2/2
Finance Team	2/2

Full minutes of Audit Committee meetings will be kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings will be sent to all members of the committee for their comment and records respectively, within 14 business days after the meeting.

The Audit Committee of the Company does not have a former partner of the Company's existing audit firm.

PricewaterhouseCoopers had been appointed as the auditors of the Group. During 2005, total fees of HK\$1,300,000 paid/payable to PricewaterhouseCoopers were all related to audit services.

The Audit Committee recommended the re-appointment of PricewaterhouseCoopers to be the auditors of the Group in 2006.

### D.1 Delegation by the Board

The Company has a formal schedule of matters specifically reserved to the Board and those delegated to management. There should be a clear division of responsibilities amongst Committees and each of them should have a specific terms of reference. The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorised, undertaken and monitored. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

The Board has delegated the day-to-day responsibility to the Management Team.

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### D.2 Board Committees

The Board has prescribed sufficiently clear terms of reference for the Audit Committee and the Remuneration Committee.

The terms of reference of the Audit Committee and the Remuneration Committee require the committees to report back to the board on their decisions or recommendations.

### E.1 Effective Communication

In respect of each substantially separate issue at a general meeting, a separate resolution will be proposed by the chairman of the meeting.

The chairman of the Board will attend the annual general meeting and arrange for the chairman of the Audit and Remuneration Committees or members to be available to answer questions at the annual general meeting.

### E.2 Voting by Poll

The chairman of a meeting will ensure disclosure in the Company's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll in compliance with the requirements about voting by poll contained in the Listing Rules.

The chairman of a meeting and/or Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting will demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting will disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands. The Company will count all proxy votes and, except where a poll is required, the chairman of a meeting will indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company will ensure that votes cast are properly counted and recorded. The chairman of a meeting will at the commencement of the meeting ensure that an explanation is provided of:

- (a) the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and
- (b) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.