

## CORPORATE GOVERNANCE REPORT

The Company is committed to maintain high standards of corporate governance with a view to assuring the conduct of management of the Company as well as protecting the interests of all shareholders. The Company has always recognized the importance of transparency and accountability. It is the belief of the Board of Directors that shareholders can maximize their benefits from good corporate governance.

### CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (“Code on Corporate Governance”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited, except for the following deviations:

- Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Ms. Ma Xiaoling is the Chairman and Chief Executive Officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Ms. Ma and believes that her appointment to the posts of Chairman and Chief Executive Officer is beneficial to the business prospects of the Company.

- Code A.4.1 stipulates that Non-Executive Directors should be appointed for specific terms and subject to re-election.

The Independent Non-Executive Directors of the Company were not appointed for any specific terms, as they are subject to retirement by rotation at the Company’s annual general meeting in accordance with the Company’s Bye-laws.

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- Code A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Under the Company's Bye-laws, at each annual general meeting, one-third of the Directors of the Company for the time being or, if their number is not three or a multiple of three, the number nearest to one-third shall retire from office provided that notwithstanding anything herein, the Chairman of the Directors and the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

In order to fully comply with Code A.4.2, a special resolution will be proposed to amend the relevant provisions of the Bye-laws at the next general meeting of the Company to be held in 2006, so that every Director shall be subject to retirement by rotation at least once every three years.

### THE BOARD

The Board comprises two Executive Directors, being Ms. Ma Xiaoling (Chairman) and Mr. Chan Sze Hon, and three Independent Non-Executive Directors, being Mr. Ching Men Ky Carl, Mr. Lin Ruei-min and Mr. Shu Wa Tung Laurence.

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure that strong independence exists across the Board and has met the recommended practice under the Code on Corporate Governance for the Board to have at least one-third of its members comprising Independent Non-Executive Directors.

The Company has received an annual confirmation of independence from each of the Independent Non-Executive Directors. The Company is of the view that all the Independent Non-Executive Directors meet the guidelines for assessing independence in accordance with Rule 3.13 of the Listing Rules.

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances (including monitoring, evaluating and ensuring the effectiveness of the Company's internal control system), but the day-to-day management is delegated to the two Executive Directors, Ms. Ma Xiaoling and Mr. Chan Sze Hon. Ms. Ma as Chairman and Chief Executive Officer heads the Board and implements the strategies and polices approved by the Board whilst Mr. Chan is responsible for the operations of the Group, in particular the finance function.

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## BOARD MEETING

The Board meets on a regular basis and 4 meetings were held during the year, while two of them were held both before and after the change of composition of the Board. The individual attendance record is as follows:

<b>Directors</b>	<b>Number of attendance</b>
<i>Executive Directors:</i>	
Ms. Ma Xiaoling (appointed on 18 July 2005)	2/2
Mr. Chan Sze Hon (appointed on 18 July 2005)	2/2
Mr. Xu Ying (resigned on 5 August 2005)	2/2
Mr. Liu Ming Hui (resigned on 5 August 2005)	2/2
<i>Non-Executive Director:</i>	
Mr. Zhang Shuang (resigned on 1 February 2005)	0/0
<i>Independent Non-Executive Directors:</i>	
Mr. Ching Men Ky Carl (appointed on 5 August 2005)	1/2
Mr. Lin Ruei-min (appointed on 5 August 2005)	1/2
Mr. Shu Wa Tung Laurence (appointed on 5 August 2005)	1/2
Mr. Wang Xian Jun (resigned on 5 August 2005)	0/2
Mr. Wan Tze Fan Terence (resigned on 5 August 2005)	0/2
Mr. Liu Fengliang (resigned on 5 August 2005)	0/2

Directors have timely access to relevant information prior to each board meeting. Directors are given the opportunity to include matters in the agenda for regular board meetings while Directors are entitled to have access to board papers and related materials to allow them to make informed decisions on matters arising from board meetings.

Minutes of board meetings and meetings of other committees are kept by the Company Secretary and are open for inspection by Directors.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. The Company has made specific enquiry of all Directors whether the Directors have complied with the required standard set out in the Model Code regarding directors' securities transactions and all Directors confirmed that they have complied with the Model Code.

## AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing rules to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company. The Group's financial statements for the year ended 31 December 2005 have been reviewed by the audit committee. The audit committee of the Company currently comprises three Independent Non-Executive Directors, including Mr. Ching Men Ky, Carl, Mr. Lin Ruei Min and Mr. Shu Wa Tung, Laurence.

The audit committee meets twice during the year, while one meeting was held both before and after the change of composition of the audit committee. The individual attendance record is as follows:

Directors		Number of attendance
Mr. Ching Men Ky Carl	(appointed on 5 August 2005)	1/1
Mr. Lin Ruei-min	(appointed on 5 August 2005)	1/1
Mr. Shu Wa Tung Laurence	(appointed on 5 August 2005)	1/1
Mr. Wang Xian Jun	(resigned on 5 August 2005)	1/1
Mr. Wan Tze Fan Terence	(resigned on 5 August 2005)	1/1
Mr. Liu Fengliang	(resigned on 5 August 2005)	1/1

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## REMUNERATION COMMITTEE

The Board has established a remuneration committee. The remuneration committee, currently comprising Executive Directors, Ms. Ma Xiaoling and Mr. Chan Sze Hon, and Independent Non-Executive Directors, Mr. Ching Men Ky, Carl, Mr. Lin Ruei Min and Mr. Shu Wa Tung, Laurence, is responsible for advising the Board on the remuneration policy and framework of the Company's Directors and senior management member(s), as well as review and determine the remuneration of all Executive Directors and senior management member(s) with reference to the Company's objectives from time to time. The remuneration committee met once at the end of the year with full attendance to review the remuneration policy and remuneration packages of the Executive Directors and members of the senior management.

## NOMINATION OF DIRECTORS

The Board considers the determination of the appointment and removal of Directors to be the Board's collective decision and thus does not intend to adopt the recommended best practice of the Code on Corporate Governance to set up a Nomination Committee. Instead, the Board will meet to discuss nomination of Directors when circumstances require.

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Upon receipt of a nomination from the members of the Board, a board meeting will then be convened to consider and discuss the nominated candidate(s) for the directorship. Criteria adopted by the Board in considering the suitability of a candidate for directorship include his/her qualifications, experience, expertise and knowledge as well as the requirements under the Listing Rules.

The Board held 3 meetings during the year to discuss the appointment and removal of Directors, with individual attendance of each Director as follows:

<b>Directors</b>		<b>Number of attendance</b>
Ms. Ma Xiaoling	(appointed on 18 July 2005)	1/1
Mr. Chan Sze Hon	(appointed on 18 July 2005)	1/1
Mr. Xu Ying	(resigned on 5 August 2005)	2/2
Mr. Liu Ming Hui	(resigned on 5 August 2005)	2/2
Mr. Zhang Shuang	(resigned on 1 February 2005)	0/1
Mr. Ching Men Ky Carl	(appointed on 5 August 2005)	0/0
Mr. Lin Rwei-min	(appointed on 5 August 2005)	0/0
Mr. Shu Wa Tung Laurence	(appointed on 5 August 2005)	0/0
Mr. Wang Xian Jun	(resigned on 5 August 2005)	2/2
Mr. Wan Tze Fan Terence	(resigned on 5 August 2005)	2/2
Mr. Liu Fengliang	(resigned on 5 August 2005)	2/2

**AUDITORS' REMUNERATION**

During the year under review, the total remuneration in respect of statutory audit services and review on interim financial result paid to the Company's auditors, Messrs Deloitte Touche Tohmatsu, amounted to HK\$550,000 and HK\$130,000 respectively. No other non-audit service assignment was provided by them.