

Corporate Governance Report

OVERVIEW OF CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The Board believed that effective internal control and corporate governance practices are essential for the sustainable growth for the Group and for safeguarding and maximizing the interest of the shareholders.

The Company has established a corporate governance framework comprising principally the Bye-laws and internal control handbook of the Company to implement the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules.

THE CORPORATE GOVERNANCE CODE

During the year ended 31 December 2014, the Company complied with the code provisions (the "Code Provisions") of the Corporate Governance Code ("CG Code"), except for the deviations from Code Provisions A.2.1, A.6.7 and E.1.2 as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") which are explained below:

Chairman and Chief Executive Officer

Under Code Provision A.2.1 of the CG Code, the role of both the Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. On 3 May 2013, after the Company announced the resignation of Mr. HU Yidong as chairman of the Company, no individual was appointed as chairman of the Company. The role of the chairman has been performed collectively by all executive directors of the Company.

The Board considers this arrangement allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company's policies and strategies and the interest of the shareholders of the Company as a whole.

The Board will continue to use its best endeavour in finding a suitable candidate to assume duties as Chairman of the Company as soon as possible.

Attendance of Directors in general meetings

In respect of the Code Provision A.6.7, Messrs. CHENG Chi Chung, WONG Kui Sing, Danny, LEE Chee Chuang, Roger, executive directors of the Company and Mr. PANG Hong, the independent non-executive director of the Company, were unable to attend the special general meeting held on 11 April 2014, 6 June 2014, 13 October 2014, 21 October 2014, 18 November 2014 and annual general meeting of the Company held on 6 June 2014 respectively due to their overseas engagements and flight delay.

Save as those mentioned above, in the opinion of the Directors, the Company complied with the Code Provisions of the CG Code during the year.

Chairman attend annual general meeting

Code Provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting ("AGM").

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The Company does not at present have any officer with the title Chairman. An executive director of the Company chaired the 2014 AGM and answered questions from the shareholders. The AGM provides a channel for communication between the Board and the shareholders. Two members of the Audit and Remuneration Committee were also available to answer questions at the 2014 AGM. Other than the AGM, the shareholders may communicate with the Company through the contact information listed on the Company's website.

BOARD OF DIRECTORS

The Company is headed by the Board which is responsible for directing and supervising the Company's affairs.

As at the date of this report, the Board comprises five executive directors and three independent non-executive directors which provide the Board with a balanced composition of skills and experience appropriate for the requirements of the business of the Company. Biographies of all the Directors and the relationships (if any) among them are set out on pages 10 to 11 of this annual report.

The Company has received annual confirmations of independence from all the independent non-executive directors that, save as disclosed in the annual report, they did not have any business or financial interest with the Company or its subsidiaries and were independent as at 31 December 2014 in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the existing independent non-executive directors are independent.

Notice convening each regular board meeting is sent at least 14 days in advance, and reasonable notice is given for other board meetings. The Company Secretary circulated meeting agenda and supporting papers to the Directors at least 3 days in advance of a board meeting to enable the Directors to make informed decisions on the matters to be discussed, except where a board meeting is convened on a very urgent basis to consider any urgent ad hoc matter.

Minutes are recorded in sufficient detail (the matters considered by the board at the meeting and decisions reached, including any concerns raised by Directors or dissenting view expressed).

Updated list of Directors identify their roles and functions is available on the websites of the Stock Exchange: www.hkexnews.hk and the Company website: www.smi198.com whenever there is any change.

Functions and responsibilities reserved to the Board and the functions and responsibilities delegated to management are as follows:

The Board shall be responsible for:

- Approval of corporate and business strategies and objectives of the Company
- Approval of the annual budgets and financial reports of the Group and selecting suitable accounting policies and ensuring consistent application of these policies
- Monitoring the operating and financial performance of the Group
- Overseeing the management of the Company's relationships with the stakeholders, especially the Government, shareholders etc.
- Approval of investment proposals of the Company

- Restructuring and spin off relating to the Group
- Overseeing the processes for evaluation of the adequacy of internal controls, risk management, financial reporting and compliance
- Monitoring the performance of management
- Overseeing the corporate governance policies adopted by the Company

The management shall be responsible for:

- Day to day operations of the Company and its subsidiaries as delegated by the Board to the management led by the CEO
- Formulation of corporate and business strategies to be approved by the Board
- Execution of corporate and business strategies approved by the Board
- Formulation of investment, acquisition, mergers or spin off proposals
- Execution of investment, acquisition, mergers or spin off proposals and approved by the Board

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

All Directors (including independent non-executive directors) are subject to retirement by rotation and re-election in accordance with the Bye-laws and also the CG Code.

The newly appointed directors will offer themselves for re-election at the forthcoming special general meeting or the forthcoming annual general meeting, whichever is earlier in accordance with the Bye-laws.

Details of the rotation and re-election of Directors are set in page 13 of this annual report.

NON-EXECUTIVE DIRECTORS

There are currently three non-executive directors who are all independent. Each independent non-executive director has entered into a service agreement with the Company for a period of three years. Pursuant to the Bye-laws of the Company, one-third of all the directors, including the non-executive directors, shall be subject to retirement by rotation at each annual general meeting.

The company has 3 independent non-executive directors representing one-third of the total number of the board members and it is in compliance with the requirement of Rule 3.10 of the Listing Rules. Each of them has, pursuant to Rule 3.13 of the Listing Rules, provided an annual confirmation of his independence to the Company and the Company also considers that all independent non-executive directors are to be independent.

One of three independent non-executive directors is professional accountant and two of them possess the related extensive management experience. Mr. KAM Chi Sing, chairman of the Audit Committee, has the appropriate accounting and financial management expertise requirement under Rule 3.10(2) of the Listing Rules.

The independent non-executive directors play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision. The Board also considers that the independent non-executive directors can provide independent advice on the Company's business strategies, results and management so as to safeguard the interests of the Company and its shareholders.

TRAINING AND CONTINUOUS SUPPORT

Every newly appointed director will receive an induction upon his appointment. Such induction may include briefing of a director's obligation in the Listing Rules and other regulatory requirements, and/or visits to the business site of the Company and meetings with the management of the Company. This enables the Directors to have a more comprehensive understanding of the Company's business and operation as well as to be aware of his responsibilities as a director in a listed company. All directors appointed to fill a casual vacancy would be subject to election by shareholders at the first general meeting of the Company at the appointment.

Meanwhile, directors' training is an ongoing process. Pursuant to Code Provision A.6.5 of the CG Code, the directors should participate in continuous professional development to develop their knowledge and skills. During the year, the Directors are provided with updates on the Company's performance to enable the Board as a whole and each Director to discharge their duties and have a proper understanding of the Company's business under the applicable laws and regulations. The Company would also keep the Directors updated with the latest information regarding the developments and changes in the Listing Rules and other regulatory requirements.

Apart from the updates of the Listing Rules and the Company, Directors also visited and met the key managements and the Company's facilities in Hong Kong or PRC in order to understand and be updated of the Company's business and operations. The Company believes that it would ensure that the contribution of the Directors to the Board remains informed and relevant to the Company.

The participation by the Directors for the year ended 31 December 2014 is as follows:-

Name of Directors	Reading Regulatory Updates	Visit/Meeting Key Management
Executive Directors		
CHENG Chi Chung (Chief Executive Officer)	✓	✓
YANG Rongbing	✓	✓
NG Kam Tsun (appointed on 6 June 2014)	✓	✓
XI Qing (appointed on 6 June 2014)	✓	✓
LI Yige (appointed on 6 June 2014)	✓	✓
WONG Kui Shing, Danny (resigned on 6 June 2014)	✓	✓
LEE Chee Chuang, Roger (resigned on 6 June 2014)	✓	✓
Independent Non-Executive Directors		
PANG Hong	✓	✓
LI Fusheng	✓	✓
KAM Chi Sing (appointed on 5 September 2014)	✓	✓
HE Peigang (resigned on 5 September 2014)	✓	✓

Company Secretary

Mr. NG Kam Tsun was appointed as the Company Secretary of the Company on 13 May 2014 and appointed as the executive director and the authorised representative of the Company on 6 June 2014. Details of Mr. NG's biographical information is set out on page 10 of this annual report.

The Company Secretary is responsible for facilitating the Board process, as well as communications among Board members. For the financial year ended 31 December 2014, the Company Secretary has complied with paragraph 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate directors' and officers' liability insurance cover for protect the directors and officers of the Group from potential legal actions against them.

ATTENDANCE OF INDIVIDUAL DIRECTORS AT BOARD MEETINGS AND GENERAL MEETINGS IN 2014

There were a total of 53 board meetings and 5 general meetings held during the year ended 31 December 2014. The attendance of individual directors at the board meetings and general meetings held during the period is as follows:

<u>Name of Director</u>	<u>Number of board meetings</u>	<u>Number of general meetings</u>
Executive Directors		
CHENG Chi Chung	53/53	0/5
YANG Rongbing	53/53	1/5
NG Kam Tsun	21/21	3/3
XI Qing	9/21	0/3
LI Yige	0/21	0/3
WONG Kui Shing, Danny (resigned on 6 June 2014)	23/38	1/2
LEE Chee Chuang, Roger (resigned on 6 June 2014)	17/38	0/2
Independent Non-Executive Directors		
PANG Hong	53/53	0/5
LI Fusheng	42/53	1/5
KAM Chi Sing	7/7	2/3
HE Peigang (resigned on 5 September 2014)	25/46	1/2

Minutes of board meetings and general meetings are kept by the secretary of the Company (the "Secretary") and are open for inspection by the Directors of the Company. Every Director of the Company is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Secretary, and has the liberty to seek external professional advice if so required.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules regarding securities transactions by Directors. Upon specific enquiries of all Directors by the Company, all Directors confirmed that they have fully complied with the Model Code.

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BOARD COMMITTEES

Audit Committee

Since 14 July 2009, the Company has established an audit committee (the "Audit Committee") with written terms of reference aligned with the Code Provisions of the CG Code. The terms of reference of the Audit Committee are disclosed in full on the Company's website. The Audit Committee currently comprises three independent non-executive Directors, namely, Mr. KAM Chi Sing (appointed as chairman on 5 September 2014), Mr. PANG Hong and Mr. LI Fusheng.

The primary role of the Audit Committee are to monitor integrity of the annual report and accounts and half-yearly report of the Company and to review significant reporting judgments contained in such reports; to review the Group's financial and accounting policies and practices; to review the Group's financial control, internal control and risk management system of the Group with particular regard to their effectiveness and to make recommendations to the Board where the monitoring activities of the committee reveal cause for concern or scope for improvement. The Audit Committee also meets regularly with the Company's external auditor to discuss the audit progress and accounting matters.

The terms of reference of the Audit Committee were adopted in March 2012 and are in line with the Code Provisions of the CG Code, a copy of which is posted on the websites of the Company and the Stock Exchange.

The Audit Committee held 2 meetings during the year ended 31 December 2014 to consider the full year audit report for financial year ended 31 December 2014. The attendance records of the meetings are as follows:-

Name	Attendance
KAM Chi Sing (<i>Chairman</i>) (appointed as Audit Committee Chairman on 5 September 2014)	1/1
PANG Hong	2/2
LI Fusheng	1/2
HE Peigang (resigned as Audit Committee Chairman on 5 September 2014)	1/1

Remuneration Committee

Since 14 July 2009, the Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference. The terms of reference of the Remuneration Committee are disclosed in full on the Company's website. The Remuneration Committee currently comprises three independent non-executive directors, namely, Mr. LI Fusheng (as chairman), Mr. PANG Hong and Mr. KAM Chi Sing.

Within the authority delegated by the Board, the Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of all Directors and senior management on the establishment of a formal and transparent procedure for developing policy on such remuneration; reviewing the specific remuneration packages of all Directors and senior management by reference to corporate goals and objective resolved by the Board from time to time; ensuring no Director or any of his associates is involved in deciding his own remuneration and advising shareholders on how to vote with respect to any service contracts of Directors that requires shareholders' approval.

The terms of reference of the Remuneration Committee were adopted in March 2012 and are in line with the Code Provisions of the CG Code, a copy of which is posted on the websites of the Company and the Stock Exchange.

The Remuneration Committee held 4 meetings during the year ended 31 December 2014 to review the remuneration of Directors and senior management for the financial year ended 31 December 2014 and to make recommendations on the remuneration package of the newly appointed Directors. The attendance records of the meeting are as follows:-

Name	Attendance
LI Fusheng (<i>Chairman</i>) (appointed as a Remuneration Committee Chairman on 5 September 2014)	2/4
PANG Hong	3/4
KAM Chi Sing (appointed as a Remuneration Committee member on 5 September 2014)	1/1
HE Peigang (resigned as Remuneration Committee Chairman on 5 September 2014)	3/3

Nomination Committee

Since 14 July 2009, the Company has established a nomination committee (the "Nomination Committee") with written terms of reference. The terms of reference are disclosed in full on the Company's website. The Nomination Committee currently comprises three independent non-executive directors, namely, Mr. PANG Hong (appointed as Chairman on 5 September 2014), Mr. LI Fusheng and Mr. KAM Chi Sing.

The primary function of the Nomination Committee is to make recommendations to the Board on potential candidates to fill vacancies or additional appointment on the Board and senior management. All appointments of Directors were nominated by the Nomination Committee based on considerations including vacancy available, competence and experience, possession of requisite skills and qualifications, independence and integrity.

The terms of reference of the Nomination Committee were adopted in March 2012 and are in line with the Code Provisions of the CG Code, a copy of which is posted on the websites of the Company and the Stock Exchange.

The Nomination Committee held 3 meetings during the year ended 31 December 2014. The attendance records of the meetings are as follows:-

Name	Attendance
PANG Hong (<i>Chairman</i>) (appointed as a Nomination Committee Chairman on 5 September 2014)	3/3
LI Fusheng	3/3
KAM Chi Sing (appointed as Nomination Committee member on 5 September 2014)	1/1
HE Peigang (resigned as Nomination Committee Chairman on 5 September 2014)	2/2

ACCOUNTABILITY AND AUDIT

Remuneration of the Auditor

The remuneration in respect of audit services provided by auditor of the Group for the year ended 31 December 2014 is HK\$3,629,000.

Internal Control

The Board has overall responsibility for the internal control and risk management systems of the Company and for reviewing the effectiveness of the internal control and risk management system through the Audit Committee during the year.



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The Company has strived to improve its internal control. Due to the existing operational scale, in late 2014, the Company has reviewed and implemented the existing internal control menu of the Company. Revised internal control menu will be designed to facilitate the effectiveness and efficiency of existing and future operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records for provision of reliable financial information and to ensure compliance with relevant legislation and regulations. Internal control reports will be submitted and discussed by the Audit Committee regularly to review the effectiveness of the internal control policies.

The Board also considered the adequacy of resources, staff qualifications and experience, training program and budget of the Company's accounting and financial reporting function.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial year which give a true and fair view of the state of affairs of the Company and that appropriate accounting policies have been selected and applied consistently.

The responsibilities of the auditor of the Company in preparing the financial statements are set out in the independent auditor's report on pages 28 and 29 of this annual report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Investor Relations and Communication with Shareholders

The Company is committed to ensure that its shareholders and the investment community are provided with comprehensive information of the Company in a timely and transparent manner through the announcements, circulars, annual reports and interim reports etc. publish on the websites of the Stock Exchange and the Company, so that the shareholders and investment community are well-informed of the developments and information of the Company. The Company also updates its website regularly to provide other latest information to the shareholders and the investment community.

Effective communication with the shareholders is also maintained by ongoing dialogue with the shareholders through annual general meetings and other general meetings.

The Company has established a shareholder communication policy to provide framework to facilitate effective communication with shareholders.

Shareholder's Rights

Set below is a summary of certain rights of the shareholders of the Company:

(1) *Convening an special general meeting on requisition by shareholders*

According to the Bye-laws, the shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Act.

(2) Procedures for directing shareholders' enquiries to the board

Shareholders may at any time send enquires and concerns to the Board of Directors of the Company in writing through the Company Secretary whose contact details are as follows:-

The Company Secretary
SMI Holdings Group Limited
Suite 6701-2 & 13
The Center
99 Queen's Road Central
Central, Hong Kong
E-mail: info@smi198.com
Tel No.: +852 2111 9859
Fax No.: +852 2111 0498

The Company Secretary shall forward enquires and concerns received to the Board of Directors and/or the relevant board committees of the Company, where appropriate, to answer the shareholders' questions.

(3) Procedures for putting forward proposals at general meetings by shareholders

Pursuant to Bye-law 88, the shareholders of the Company may refer to the procedures below for proposing a person for election as a Director of the Company:

Any shareholder (who is duly qualified to attend and vote at the meeting), who wishes to propose a person other than a retiring director of the Company for election as a Director at any general meeting, may do so by sending the written notice together with other relevant documents in relation to the said proposal ("Nomination Documents") to the head office or at the registration office of the Company. The period of lodgment of such written notice shall commence on or after the day after the despatch of the notice of general meeting appointed for such election and ending no later than 7 days prior to the date of such general meeting. The minimum length of such notice period shall be at least 7 days.

The shareholders may send the Nomination Documents to the following principal place of business of the Company in Hong Kong:

The Company Secretary
SMI Holdings Group Limited
Suite 6701-2 & 13, 67/F
The Center
99 Queen's Road Central
Central, Hong Kong

The Nomination Documents includes:

- (1) Notice of intention regarding the proposal by the shareholder;
- (2) Consent in writing to be elected as Director of the Company by the nominated candidate;
- (3) Biography of the nominated candidate; and
- (4) Any other relevant information of the proposal.

CONSTITUTIONAL DOCUMENTS

During the year, there had been no significant change in the Company's constitutional documents.