

Corporate Governance Report

INTRODUCTION

The Company recognizes the importance of corporate transparency and accountability. The board of directors (the "Board") of the Company is committed to leading the Company and its subsidiaries (the "Group") to grow in an efficient manner directed by the Group's vision and mission and improving corporate operation and procedures to meet corporate governance standards.

In the view of the Board, the Company complied with the principles and code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year ended 31 December 2005, except for the deviations from code provisions A.4.1, A.4.2 and E.1.2 of the Code which are explained below on page 17 and page 21 respectively.

SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

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 as its own code of conduct regarding directors' securities transactions. Upon specific enquiries of all directors, each of them confirmed that they complied with the required standards set out in the Model Code.

The Company has also adopted a code for securities transactions by relevant employees based on the Model Code concerning dealings by relevant employees in the securities of the Company. Specified employees who are likely to be in possession of unpublished price-sensitive information related to the Group and its activities must also comply with guidelines as exacting as those set out in the Model Code. No non-compliance report was received from any such employees during 2005.

THE BOARD

The Board is responsible for the leadership and control of the Company and overseeing the Group's business, strategic decisions and performances. The management is delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board committees including the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee"). Further details of these committees are set out below on page 19 and page 20.

The information on the number of full Board meetings and committee meetings attended by each director during the year under review is set out in the following table. Figures in brackets indicate maximum number of meetings during the period when the individual was a Board member or Board committee member (as the case may be).

Executive Directors	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings
Ning Gaoning (<i>chairman</i>)	2/(5)	N/A	N/A
Liu Fuchun (<i>vice-chairman</i>)	2/(5)	N/A	N/A
Yu Guangquan (<i>former managing director</i>) # Note 1	5/(5)	N/A	1/(1)
Xue Guoping	2/(5)	N/A	N/A
Liu Yongfu	1/(5)	N/A	N/A
Qu Zhe (<i>managing director</i>) # Note 2	2/(5)	N/A	N/A
Ng Eng Leong ^{Note 3}	2/(4)	N/A	N/A

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THE BOARD (continued)

Independent Non-Executive Directors	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings
Stephen Edward Clark* #	3/(5)	2/(2)	0/(1)
Tan Man Kou*	2/(5)	0/(2)	N/A
Yuen Tin Fan, Francis * #	1/(5)	2/(2)	1/(1)
Liang Shangji ^{Note 4}	0/(1)	0/(1)	N/A

Notes:

1. Resigned as the managing director on 18 January 2006
2. Re-designated as the managing director on 18 January 2006
3. Deceased on 31 October 2005
4. Resigned on 28 April 2005

* a member of the Audit Committee

a member of the Remuneration Committee

The Company adopts the practice of holding regular Board meetings at least four times a year. Notice of each meeting is sent to directors at least fourteen days prior to a regular Board meeting, and directors may request inclusion of matters in the agenda for Board meetings. For ad hoc Board meetings, reasonable notices are given.

Minutes of the Board and Board committees have recorded in sufficient detail the matters considered by the Board and Board committees, decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes of the Board and/or Board committees (as the case may be) are sent to directors for their comment and records respectively. Some Board decisions are made via written resolutions authorized by all directors.

All Board members have access to the advice and services of the company secretary. Minutes books are kept by the company secretary and are open for inspection during office hours on reasonable notice by any director. If necessary, directors also have access to external professional advice at the Company's expense.

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CHAIRMAN AND THE CHIEF EXECUTIVE

The chairman of the Board is Mr. Ning Gaoning, and the chief executive officer (or managing director, in the case of the Company) is Mr. Qu Zhe (Mr. Yu Guangquan, former managing director, retired on 18 January 2006). The chairman's and the managing director's roles are clearly defined to ensure their independence.

The chairman takes lead in formulating overall strategies and policies of the Company, and ensures effective performance by the Board of its functions, including compliance with good corporate governance practices, and encourages and facilitates active contribution of directors in Board activities and constructive relations between executive and non-executive directors. The chairman also ensures effective communication with shareholders of the Company and receipt by the directors of adequate and complete information. The role of vice-chairman is carried out by Mr. Liu Fuchun.

The managing director, supported by other Board members and the senior management, is responsible for managing the day-to-day business of the Company. He is accountable to the Board for the implementation of the Company's overall strategies as well as coordination of overall business operations.

BOARD COMPOSITION

The Board currently comprises six executive directors, namely, Messrs. Ning Gaoning, Liu Fuchun, Qu Zhe, Xue Guoping, Liu Yongfu, Yu Xubo, and three independent non-executive directors, being Messrs. Stephen Edward Clark, Tan Man Kou and Yuen Tin Fan, Francis. Mr. Zhou Mingchen and Mr. Liang Shangli resigned as an executive director and an independent non-executive director on 24 January 2005 and 28 April 2005 respectively. Mr. Ng Eng Leong, an executive director, passed away on 31 October 2005.

The Board members have no financial, business, family or other material or relevant relationships with each other. The composition of the Board has met the standard of recommended best practice under the Code for the Board to have at least one-third of its members comprising independent non-executive directors. The biographies of the directors are set out on pages 22 and 23 of this annual report under Directors and Senior Management Profile, which demonstrates a diversity of skills, expertise, experience and qualifications among the directors.

The Company has received annual confirmations of independence from the three independent non-executive directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the independent non-executive directors are independent within the definition of the Listing Rules.

APPOINTMENT, RE-ELECTION AND REMOVAL

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

Currently the independent non-executive directors of the Company do not have a specific term of appointment. This constitutes a deviation from code provision A.4.1. Pursuant to the existing Bye-Laws of the Company, at every annual general meeting, one-third of the directors for the time being or, if their number is not a multiple of three, then the number nearest to but not greater than one-third shall retire from office. The Company considers that sufficient measures have been taken to ensure that the Company's practices in appointment of directors are no less exacting than those in the Code.

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APPOINTMENTS, RE-ELECTION AND REMOVAL (continued)

Prior to the implementation of the Code, the chairman of the Board, managing director and joint managing director of the Company were not subject to retirement by rotation or taken into account in determining the number of directors to retire in accordance with the previous Bye-Law 111(A) of the Company's Bye-Laws. To comply with code provision A.4.2, a special resolution was passed at the annual general meeting held on 9 May 2005 ("2005 AGM") to amend the Company's Bye-Laws to the effect that every director including the chairman of the Board, managing director and joint managing director of the Company shall be subject to retirement by rotation at least once every three years.

The directors will propose to amend the Bye-Laws of the Company at the forthcoming annual general meeting to be held on 25 May 2006 ("2006 AGM") to eliminate the limitation to the number of directors who should retire by rotation at each annual general meeting so that every director (including those appointed for specific terms) shall be subject to retirement by rotation at least once every three years.

Pursuant to Bye-Law 111, Mr. Liu Fuchun and Mr. Liu Yongfu, both having been the longest in office since their last re-election, shall retire and, being eligible, offer themselves for re-election at the 2006 AGM.

To ensure full compliance with the Code provision that every director should be subject to retirement by rotation at least once every three years, Mr. Xue Guoping and Mr. Yuen Tin Fan, Francis, both having been in office for three years since their last re-election, shall also retire and, being eligible, offer themselves for re-election at the 2006 AGM.

The Company does not have a nomination committee. The Board as a whole is responsible for the procedure of nominating appropriate persons and appointing its members, either to fill a casual vacancy or as an addition to the Board.

The annual general meeting circular contains detailed information on election of directors including biographies of all directors standing for election or re-election to ensure that shareholders make informed decisions.

Pursuant to the Bye-Laws of the Company, any director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting. In this regard, Mr. Yu Xubo, an executive director appointed on 18 January 2006, shall retire and, being eligible, offer himself for re-election at the 2006 AGM.

RESPONSIBILITIES OF DIRECTORS

The Company ensures that every newly appointed director has a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company. The Company sponsors directors to attend professional development seminars where necessary.

The independent non-executive directors take an active role in Board meetings, contribute to the development of strategies and policies and make independent judgement on issues relating to material transactions. They will take lead where potential conflicts of interest arise. They are also members of various Board committees.

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REMUNERATION COMMITTEE

The Remuneration Committee was established on 6 April 2005 with specific written terms of reference in accordance with the requirements of the Code and currently comprises two independent non-executive directors, namely, Mr. Stephen Edward Clark and Mr. Yuen Tin Fan, Francis who acts as chairman of the committee, and one executive director, namely Mr. Qu Zhe who was appointed on 18 January 2006 to replace Mr. Yu Guangquan who retired from the Board on 18 January 2006.

The primary role of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for remuneration of directors and senior management.

The Remuneration Committee may consult with the chairman and managing director of the Company regarding proposals for the remuneration of other executive directors. Where necessary, Remuneration Committee may have access to external professional services at the Company's expenses.

The committee members met once in 2005 to discuss the remuneration policy of the Company and the remuneration packages for executive directors and senior management.

The Remuneration Committee held a meeting on 3 April 2006 to review the remuneration policy, the remuneration packages of all executive directors and senior management for the financial year ended 31 December 2005 and the Company's share option scheme. The Remuneration Committee also informed the Board of its approval of the directors' fee for the year of 2005. All members of the Remuneration Committee attended that meeting.

AUDIT COMMITTEE

The Company has established an audit committee with specific written terms of reference which clearly deal with its authority and duties.

For the year under review, the Audit Committee is composed of three independent non-executive directors, namely, Mr. Stephen Edward Clark, Mr. Yuen Tin Fan, Francis and Mr. Tan Man Kou, who acts as chairman of the committee. Mr. Liang Shangli resigned as the chairman of the Audit Committee on 28 April 2005.

Under its terms of reference, which have been updated to comply with the Code, the Audit Committee shall assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control, risk management and external audit functions. The Audit Committee is further authorised by the Board to investigate any activity within its terms of reference, and is tasked with recommending to the Board appropriate actions emanating from such investigations. The Audit Committee has unrestricted access to personnel, records, external auditors and senior management, as may be appropriate in the discharge of its functions.

The Audit Committee met twice in 2005 with full minutes kept by the company secretary.

During the year, the Audit Committee of the Company reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters in connection with the preparation of the audited consolidated accounts for the Company for the year ended 31 December 2004 and the consolidated accounts for the Company for the six months ended 30 June 2005. They also reviewed the external auditor's management letter, as well as the external auditor's queries in respect of the accounting records, financial accounts, control system and the management's response to such queries.

All issues raised by the Audit Committee have been brought to the attention of the management for them to follow up and address.

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AUDIT COMMITTEE (continued)

The Audit Committee held a meeting on 30 January 2006 with the Company's external auditor without executive directors' presence to review and discuss the audit plan for 2005. The Audit Committee held another meeting with the external auditor and the management on 3 April 2006 to review the accounting principles and practices adopted by the Group and discuss auditing, internal control and financial reporting matters in connection with the preparation of the audited consolidated accounts for the Company for the year ended 31 December 2005.

The Audit Committee concluded that it was satisfied with the audit and non-audit service fees, process and effectiveness, independence and objectivity of the Company's auditors Ernst & Young. The Board agrees with the Audit Committee's proposal for the re-appointment of Ernst & Young as the Company's auditors for 2006. The recommendation will be put forward for the approval of shareholders at the 2006 AGM.

During the year under review, the remuneration paid or to be payable to Ernst & Young is set out as follows:

Services rendered	Fee paid/payable HK\$'000
Audit services	1,880
Non-audit services:	
Due diligence on certain connected transactions	100
	1,980

ACCOUNTABILITY AND INTERNAL CONTROL

The directors acknowledge their responsibilities for preparing all information and representations contained in the financial statements of the Company for the year under review. The directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and the management with an appropriate consideration to materiality. As at 31 December 2005, the directors, having made appropriate enquiries, were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis.

During the year under review, the Company announced its annual and interim results within the periods of four months and three months respectively as required under Rules 13.49(1) and (6) of the Listing Rules.

A statement by the external auditor about its reporting responsibilities is included in its report on page 34.

The Company is currently in the process of developing procedures for review of the effectiveness of its internal control system. The annual review of the effectiveness of the Company's internal control system required under the Code shall apply to the Company for its financial year 2006.

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INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes various communication channels with shareholders and investors. Shareholders will receive printed copies of the Company's interim and annual reports and circulars as required by the Listing Rules. Annual general meetings provide a forum for shareholders to make comments and raise concerns and exchange views with the directors. Regular press conferences and briefings with analysts from investment sectors are set up from time to time to update them with performance of the Group. The Company's share registrars and transfer office serves the shareholders regarding registration matters.

As required by code provision E.1.2. of the Code, the chairman of the Board should attend annual general meetings and arrange for the chairmen of the audit and remuneration committees or in the absence of the chairmen of such committees other members of the committees or appointed delegates to be present at annual general meeting. The chairman of the Board was unable to attend the 2005 AGM as he had another engagement that was important to the Company's business. The directors present at the meeting elected Mr. Yu Guangquan, the former managing director of the Company, to chair the meeting in accordance with Bye-Law 73 of the Company's Bye-Laws.

It is the Company's practice to include details of the procedures for voting by poll and the rights of shareholders to demand a poll in the circulars to shareholders dispatched together with the annual reports. The circulars also include relevant details of proposed resolutions, including the biography of each candidate standing for election and re-election.

At the Company's 2005 AGM, all the resolutions were dealt with on a show of hands. All the resolutions were unanimously passed, with the exception of one resolution, which was relating to the granting of a general mandate to the directors to issue and dispose of additional shares not exceeding 20% of aggregate nominal amount of the share capital. One opposition vote was recorded against that resolution.

Based on the information that is publicly available to the Company and to the directors' best knowledge, the Company maintained the prescribed amount of public float throughout the year 2005 and up to the date of this annual report as required by the Listing Rules.

SOCIAL RESPONSIBILITY

The Company recognizes that it has a responsibility for matters of general concern to society. During the year, the management adopted guidelines on environment and energy practices to encourage staff and business units of the Group to apply the guidelines in their business activities and operations.