



COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") (with the exception of code provision C.2 on internal control which is effective for accounting periods commencing on or after 1 July 2005) as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2005, except for the following deviations:

- Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing non-executive Directors is appointed for a specific term. However, non-executive Directors are subject to retirement by rotation and re-election at annual general meetings in accordance with the provisions of the bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code. To further improve its corporate governance structure, the Company will try its best to procure any future appointment of non-executive Director with a specific term and subject to retirement.

- Under the second part of code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the bye-laws of the Company, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation, provided that no Director holding office as chairman or managing director shall be subject to retirement by rotation or be taken into account in determining the number of Directors to retire. To comply with the code provision, amendment to the bye-laws of the Company will be proposed for approval by the shareholders at the next general meeting of the Company such that all Directors (including chairman and managing director) will be subject to retirement by rotation at least once every three years.

- Under code provision B.1.1 of the Code, listed issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

The Company has set up a remuneration committee on 21 September 2005 with specific written terms of reference. The remuneration committee consists of five members, three of whom are independent non-executive Directors.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES (continued)

- Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

The Chairman of the Board had not attended the annual general meeting of the Company held on 13 June 2005 (the "Meeting") as he had another business engagement. The Vice Chairman, who took the chair of the Meeting, and other members of the Board together with two members of the audit committee attended the Meeting. The Company considers that the members of the Board and the audit committee who attended the Meeting were already of sufficient caliber and number for answering questions at the Meeting. The Company will procure chairman and members of the remuneration committee established on 21 September 2005 to attend future annual general meetings of the Company.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all the Directors, all the Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2005.

APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the year.

By order of the Board
Cao Zhong
Vice Chairman

21 September 2005