



Corporate Governance Report

The Company and its subsidiaries (the “Group”) recognizes the importance of achieving and monitoring the high standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its shareholders and is fully committed to doing so. It is also with the objectives in mind that the Group has applied the principles on the Code of Corporate Governance Practices (the “New CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

In the opinion of the directors of the Company (the “Directors”), the Company has met the code provisions set out in the New CG Code in the financial year ended 31 December 2005, with the exception that certain Non-executive Directors are not appointed for specific terms but they are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company’s Articles of Association (the “Articles”).

To ensure continuing compliance with the New CG Code, the Company has undertaken a review of the Articles. At the forthcoming 2006 annual general meeting of the Company, a special resolution will be proposed to make the necessary amendments to the Articles to bring them even more in lines with the requirements under the New CG Code.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Director’s securities transactions. All Directors have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the year 2005.

BOARD OF DIRECTORS

The board of Directors of the Company (“Board”) comprises three Executive Directors, being Messrs. Liang Jiang, Tan Yunbiao and Tsang Hon Nam, three Non-Executive Directors, being Messrs. Zhao Leili and Luo Fanyu and Miss Liang Jianqin, and three Independent Non-Executive Directors, being Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar.

The Board is responsible for the leadership and control of the Company and oversees the Group’s businesses, strategic decisions and performances. The management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

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The Board meets regularly at an approximate quarterly interval and on other occasions when a Board decision is required on major issues. During the financial year ended 31 December 2005, the Board held eight meetings. The attendance of each Director at the meetings is as follows:

Directors	Number of Attendance
Liang Jiang	8/8
Tan Yunbiao	8/8
Tsang Hon Nam	8/8
Zhao Leili	4/8
Luo Fanyu	5/8
Liang Jianqin	3/8
Gerard Joseph McMahon	5/8
Tam Wai Chu, Maria	5/8
Li Kar Keung, Caspar	6/8

The Company has received confirmation of independence from each of the three Independent Non-Executive Directors, namely Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar in accordance with Rule 3.13 of the Listing Rules. The Board and the Nomination Committee have assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. The balanced board composition also ensures that strong independence exists across the Board. The biographies of the Directors are set out in pages 10 and 11 to the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications.

CHAIRMAN AND GENERAL MANAGER

The Chairman is Mr. Liang Jiang and the General Manager is Mr. Tan Yunbiao. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Liang Jiang as the Chairman has executive responsibilities, provides leadership to the Board and ensures the proper and effective functioning of the Board in the discharge of its responsibilities. Mr. Tan Yunbiao as the General Manager is accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations.



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NON-EXECUTIVE DIRECTORS

Prior to enforcement of the New CG Code on 1 January 2005, the Non-executive Directors were not appointed for specific terms but they are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. The Non-executive Directors who were re-elected in the 2005 annual general meeting hold office for a term of approximately three years until they become due to retire by rotation in accordance with the Articles. The Company has taken steps to amend the Articles to ensure that the Non-executive Directors will be subject to retirement by rotation at least once in every three years.

REMUNERATION OF DIRECTORS

The Company established a compensation committee (the "Compensation Committee") in 1999 and its terms of reference were amended in June 2005 to bring it in line with the New CG Code. The authority and duties of the Remuneration Committee are as follows:

Authority

1. The Compensation Committee is authorized by the Board to seek any information it requires from any officer or employee of the Company and all officers and employees are directed to co-operate with any request made by the Compensation Committee.
2. The Compensation Committee is authorized by the Board to obtain outside legal or other independent professional advice if it considers it necessary and to secure the attendance at its meetings of outsiders with relevant experience and expertise if it considers this to be necessary.

Duties

1. The Compensation Committee should consult the chairman and/or general manager about their proposals relating to the remuneration of other executive directors and have access to professional advice if it considers this to be necessary.
2. To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

3. To have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.
4. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.
5. To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.
6. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.
7. To make recommendations to the Board concerning officer and/or employee share option or incentive schemes or the like, or other forms of profit-sharing arrangements of the Group which might be devised to reward management or other employees over and above normal salary and bonuses.
8. Supervising the policy relating to, and the management and care of the Company's retirement, provident or superannuating funds.
9. To ensure that no director or any of his associates is involved in deciding his own remuneration.

The Compensation Committee comprises the Chairman of the Board, Mr. Liang Jiang, Executive Director and General Manager, Mr. Tan Yunbiao, and the three Independent Non-executive Directors, Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. Mr. Li Kar Keung, Caspar is the chairman of the Compensation Committee.



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The Compensation Committee shall meet at least twice a year. During the year ended 31 December 2005, the Compensation Committee held two meetings to review the annual remuneration package and performance bonuses for the Executive Directors and the management of the Company. The attendance of each member of the Compensation Committee at the meetings is as follows:

Directors	Number of Attendance
Liang Jiang	2/2
Tan Yunbiao	2/2
Gerard Joseph McMahon	2/2
Tam Wai Chu, Maria	1/2
Li Kar Keung, Caspar	2/2

Details of the Directors' remuneration are set out in note 9 to the financial statements.

NOMINATION OF DIRECTORS

The Nomination Committee is responsible for identifying suitable and qualified individuals to become board member and make recommendation on appointment and reappointment of directors. The Board is responsible for considering and approving the appointment of directors with a view to appoint to the Board suitable individuals with the relevant expertise and experience to enhance the constitution of a strong and diverse Board and to contribute to the functioning of the Board through their continuous participation.

The Company established a nomination committee (the "Nomination Committee") in 2005. The authority and duties of the Nomination Committee are as follows:

Authority

1. The Nomination Committee is authorized by the Board to seek any information it requires from any officer or employee of the Company and all officers and employees are directed to co-operate with any request made by the Nomination Committee.
2. The Nomination Committee is authorized by the Board to obtain outside legal or other independent professional advice if it considers it necessary and to secure the attendance at its meetings of outsiders with relevant experience and expertise if it considers this to be necessary.

Duties

1. To review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.
2. To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships.
3. To assess the independence of Independent Non-executive Directors, having regard to the requirements under the Listing Rules.
4. To make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the general manager.

The Nomination Committee comprises the Chairman of the Board, Mr. Liang Jiang, and the three Independent Non-executive Directors, Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. Mr. Liang Jiang is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once a year. During the financial year ended 31 December 2005, the Nomination Committee met once to review the structure, size and composition of the Board. The attendance of each member of the Nomination Committee at the meeting is as follows:

Directors	Number of Attendance
Liang Jiang	1/1
Gerard Joseph McMahon	1/1
Tam Wai Chu, Maria	1/1
Li Kar Keung, Caspar	1/1



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AUDITORS' REMUNERATION

The remuneration of the Company's auditors, Messrs. KPMG, in respect of services rendered during the financial year ended 31 December 2005 is set out as follows:

Services rendered	Fee
	HK\$'000
Audit of final results	1,480
Review of interim results	480
Review of capital reorganisation	420
Review of continuing connected transactions	42
	2,422

AUDIT COMMITTEE

The Audit Committee (the "Audit Committee") of the Company was established in 1999 and its terms of reference were amended in June 2005 to bring it in line with the New CG Code. The authority and duties of the Audit Committee are as follows:

Authority

1. The Audit Committee is authorized by the Board to seek any information it requires from any officer or employee of the Company and all officers and employees are directed to co-operate with any request made by the Audit Committee.
2. The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice if it considers it necessary and to secure the attendance at its meetings of outsiders with relevant experience and expertise if it considers this to be necessary.

Duties

1. To be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor.
2. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.

3. To develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
4. To monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee should focus particularly on:
 - (a) Any changes in accounting policies and practices;
 - (b) Major judgmental areas;
 - (c) Significant adjustments resulting from audit;
 - (d) The going concern assumptions and any qualifications;
 - (e) Compliance with accounting standards; and
 - (f) Compliance with the Listing Rules and other legal requirements in relation to financial reporting.
5. In regard to 4 above:
 - (a) Members of the Audit Committee must liaise with the Board, senior management and the person appointed as the Company's qualified accountant and the Audit Committee must meet, at least once a year, with the Company's auditors; and
 - (b) The Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the issuer's qualified accountant, compliance officer or auditors.



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6. To review the Group's financial controls, internal control and risk management systems.
7. To discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system.
8. To consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response.
9. Where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function.
10. To review the Group's financial and accounting policies and practices.
11. To review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response.
12. To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
13. To report to the Board on the matters set out in the provision herein.
14. To consider other topics as defined by the Board.

The Audit Committee comprises the three Independent Non-Executive Directors, Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. Mr. Gerard Joseph McMahon is the chairman of the Audit Committee.

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The Audit Committee shall meet at least four times a year. During the financial year ended 31 December 2005, the Audit Committee held eight meetings, inter alia, to review the 2004 annual results and the 2005 interim results of the Group. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's financial results. It also focuses on the Group's systems of internal control. The Audit Committee met the external auditors three times (out of which one time without the presence of the management) during the financial year ended 31 December 2005 to discuss any areas of concerns. The attendance of each member of the Audit Committee of the meetings is as follows:

Directors	Number of Attendance
Gerard Joseph McMahon	8/8
Tam Wai Chu, Maria	7/8
Li Kar Keung, Caspar	8/8

OTHER DISCLOSURES

The Directors have acknowledged their responsibility for preparing all information and representations contained in the financial statements of the Company for the year ended 31 December 2005. 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 management with an appropriate consideration to materiality. The Directors are 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. The Directors have reviewed and are satisfied with the effectiveness of the Group's systems of internal control.