

The Group recognizes the importance of achieving and monitoring the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders 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 on 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”).

To ensure better compliance with the New CG Code, the Company has undertaken a review of the Bye-Laws. At the forthcoming 2006 annual general meeting of the Company, a special resolution will be proposed to make the necessary amendments to the Bye-Laws to bring them in line with the requirements under the New CG Code. In particular, under the Bye-Laws after the proposed amendments (i) any director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the Company’s first general meeting after the appointment rather than the Company’s next following annual general meeting after the appointment and (ii) each and every director shall be subject to retirement by rotation at least once every three years.

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.

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 Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2005.

BOARD OF DIRECTORS

The Board comprises three Executive Directors, being Mr. YE Xuquan, Mr. JIANG Guoqiang and Ms. LIANG Jianqin, seven Non-Executive Directors, being Mr. KOH Poh Tiong, Dr. HAN Cheng Fong, Mr. Sijbe HIEMSTRA, Mr. ZHAO Leili, Mr. LUO Fanyu, Mrs. HO LAM Lai Ping, Theresa and Mr. Michael WU, and three Independent Non-Executive Directors, being Mr. Alan Howard SMITH, Mr. V-nee YEH and Mr. Rafael GIL-TIENDA.

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.

BOARD OF DIRECTORS (cont'd)

During the financial year ended 31 December 2005, the Board has four scheduled meetings at approximately quarterly intervals. The attendances of the directors at the board meetings are as follows:

Directors	Number of Attendance
YE Xuquan	4/4
JIANG Guoqiang	4/4
KOH Poh Tiong	4/4
HAN Cheng Fong	4/4
Sijbe HIEMSTRA (appointed on 12 July 2005)	3/4
ZHAO Leili	1/4
LUO Fanyu	4/4
HO LAM Lai Ping, Theresa	4/4
Michael WU	4/4
Alan Howard SMITH	4/4
V-nee YEH	4/4
Rafael GIL-TIENDA	4/4
FUNG Sing Hong, Stephen (resigned on 24 June 2005)	1/4
HUI Wai Man, Lawrence (appointed on 24 June 2005, resigned on 1 November 2005)	2/4
Herman Petrus Paulus Maria HOFHUIS (resigned on 12 July 2005)	1/4

The Company has received written confirmation of independence from the three Independent Non-Executive Directors, namely: Mr. Alan Howard SMITH, Mr. V-nee YEH and Mr. Rafael GIL-TIENDA, 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.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. Such balanced board composition also ensures that strong independence exists across the Board. The biographies of the Directors are set out in pages 14 to 17 to the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

CHAIRMAN AND MANAGING DIRECTOR

The Chairman is Mr. YE Xuquan and the Managing Director is Mr. JIANG Guoqiang. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. Mr. YE 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. JIANG Guoqiang as the Managing Director is accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations.

NON-EXECUTIVE DIRECTORS

Each of the non-executive directors of the Company will hold office for a specific term expiring on the earlier of either (i) the conclusion of the annual general meeting of the Company in the year of the third anniversary of the appointment or re-election of that director or (ii) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election of that director and in any event, subject to earlier determination in accordance with the Bye-Laws of the Company and/or applicable laws and regulations.

REMUNERATION OF DIRECTORS

The Company established a remuneration committee (the "Remuneration Committee") in June 2005. The authorities and duties of the Remuneration Committee are as follows:

Authority

1. The Remuneration Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Remuneration Committee.
2. The Remuneration Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

1. 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.
2. To have the delegated responsibilities 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. Factors which should be taken into consideration include but are not limited to salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration.
3. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.
4. 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.

REMUNERATION OF DIRECTORS (cont'd)**Duties (cont'd)**

5. 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.
6. To make recommendations to the Board on the remuneration of non-executive directors.
7. To ensure that no director or any of his associates is involved in deciding his own remuneration.
8. To consult the chairman and/or the managing director about their proposals relating to the remuneration of executive directors and senior management and have access to professional advice if considered necessary.
9. To consider other topics as defined by the Board.

The Remuneration Committee comprises one Executive Director, being Mr. YE Xuquan, three Independent Non-Executive Directors, being Mr. Alan Howard SMITH, Mr. V-nee YEH and Mr. Rafael GIL-TIENDA and one Non-Executive Director, being Mr. KOH Poh Tiong. Mr. YE Xuquan is the Chairman of the Remuneration Committee.

During the financial year ended 31 December 2005, the Remuneration Committee held three meetings to (i) review the remuneration policy and annual remuneration packages for the Directors and senior management of the Company and (ii) approve the 2005 performance bonuses for the senior management of the Company. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	Number of Attendance
YE Xuquan	0/3
KOH Poh Tiong	1/3
Alan Howard SMITH	3/3
V-nee YEH	3/3
Rafael GIL-TIENDA	3/3

Details of the amount of Directors' emoluments are set out in note 12 to the financial statements.

NOMINATION OF DIRECTORS

The Board is responsible for the nomination and considering and approving the appointment of directors with a view to appointing 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.

During the financial year ended 31 December 2005, the nomination and appointment of Mr. HUI Wai Man, Lawrence as the Executive Director and Mr. Sijbe HIEMSTRA as a Non-Executive Director of the Company were considered and approved by the Board in the form of written resolutions duly signed by all the Directors of the Company.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's auditors, Ernst & Young, is set out as follows:

Services rendered	Fee paid/payable <i>HK\$'000</i>
Audit of Final Results	1,232
Review of Interim Results	213
Taxation compliance services	21
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	1,466
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AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in September 1998 and its terms of reference was amended in July 2005. The terms of reference of the Audit Committee adopted by the board of directors of the Company are in line with the New CG Code. The existing Audit Committee comprises the three independent non-executive directors, Mr. V-nee YEH as the chairman, Mr. Alan Howard SMITH and Mr. Rafael GIL-TIENDA as members. The principal duties of the Audit Committee include the review of the effectiveness of the internal control systems and the completeness, accuracy and fairness of the Company's financial reports.

The Group's annual results for the year ended 31 December 2005 have been reviewed by the Audit Committee. The authorities and duties of the Audit Committee are as follows:

Authority

1. The Audit Committee is authorised by the Board to investigate activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.
2. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

AUDIT COMMITTEE (cont'd)

Duties

1. To be primarily responsible for making recommendations to the Board on the appointment, reappointment 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 standards. 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 the 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:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting.
5. In regard to (4) above:
 - (i) members of the Audit Committee must liaise with the Company's board of directors, 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
 - (ii) 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 Company's qualified accountant, compliance officer or auditors.

AUDIT COMMITTEE (cont'd)**Duties (cont'd)**

6. To review the Company's financial controls, internal controls 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 controls and management's response.
12. To ensure that the Board will provide a timely response to the issues raised in the external auditors management letter.
13. To report to the Board on the matters set out in the terms of reference of the Audit Committee.
14. To consider other topics, as defined by the Board.

During the financial year ended 31 December 2005, the Audit Committee held two meetings to review the 2004 annual results and the 2005 interim results of the Company before submission to the Board. 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. The Audit Committee has also met the external auditors once during the financial year ended 31 December 2005 to discuss any areas of concerns without the presence of the management. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	Number of Attendance
V-nee YEH	2/2
Alan Howard SMITH	2/2
Rafael GIL-TIENDA (appointed on 12 July 2005)	1/2

OTHER SPECIFIED 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 Company is still in the course of further strengthening and enhancing all the internal control measures it has already had in place. Accordingly the comprehensive overall annual review of the Company's internal control system is required under the New CG Code would only be able to be carried out beginning from the 2006 financial year.