

Corporate Governance Report

CORPORATE GOVERNANCE

Maintaining an effective and solid corporate governance framework is one of the top priorities of the Company. This involves disclosure of our corporate practices to our shareholders in our annual report. The Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) is replaced by the introduction of the “Code on Corporate Governance Practices” by the Stock Exchange in November 2004 (“CG Code”). We have complied with the CG Code throughout the accounting year ended 31st December, 2005, except for deviations from Code Provision A.4.1 which is explained in paragraph A.4 below.

The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders.

A. DIRECTORS

A.1 The Board

An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer’s affairs. Directors should take decisions objectively in the interests of the issuer.

We are governed by a Board of directors (“Board”) which assume the responsibility for leadership and control of the Company. Our directors are collectively responsible for promoting the success of the Company by directing and supervising the affairs of the Company.

The Board is responsible for the management of the business and affairs of the Company and its subsidiaries (collectively the “Group”) with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company’s performance, position and prospects in its annual and interim reports, other price-sensitive announcements, other financial disclosures as required under the Listing Rules, and reports to regulators any information required to be disclosed pursuant to statutory requirements.

The Board has a fiduciary duty and statutory responsibility towards the Group. Other responsibilities and matters reserved to the Board are set out in paragraph D.1 below.

The Board meets regularly, normally four times each year with a meeting scheduled at approximately three months intervals and additional meetings would be arranged if and when necessary. The dates of regular Board meetings for each year are normally made available to all directors at the beginning of the year to provide sufficient notice to give all directors an opportunity to attend. Special Board meetings will be held when necessary. Matters on transactions where directors are considered having a conflict of interest or material interests would not be dealt with by way of written resolutions and a separate Board meeting shall be held where independent non-

Corporate Governance Report (Cont'd)

executive directors who have no material interests should be present at the meeting. Directors having a conflict of interest or material interests in a transaction before the meeting of the Board will declare his interest therein in accordance with the bye-laws of the Company, shall abstain from voting on the resolution and shall not be counted in the quorum present at the Board meeting.

Notices are given to all the directors for attending regular Board meetings approximately fourteen (14) days before the meetings. For other Board meetings, reasonable notice is generally given.

Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of directors. The Company Secretary assists the Chairman in preparing the meeting agenda, and each director may request the inclusion of items in the agenda. Directors are also consulted to suggest matters to be included in the agenda for all regular meetings of the Board.

Minutes of the Board meetings are recorded in detail and draft minutes are circulated within a reasonable time after the meeting to all directors for review and comments before being approved by the Board. All the minutes of the meetings are properly kept by the Company Secretary and are available for inspection by the directors during normal office hours.

Attendance of individual directors at Board meetings in 2005:

Number of meetings	6
<i>Executive directors:</i>	
Mr. Wu Xiao An (also known as Mr. Ng Siu On)	6/6 (100%)
Mr. Lin Xiaogang (Note 1)	6/6 (100%)
Mr. He Guohua (Note 2)	2/2 (100%)
Mr. Wang Shiping (Note 2)	2/2 (100%)
Mr. Lei Xiaoyang	5/6 (83%)
Mr. Hong Xing (Note 3)	3/4 (75%)
Mr. Su Qiang (also known as Mr. So Keung) (Note 4)	3/3 (100%)
Mr. He Tao (also known as Mr. Ho To) (Note 5)	—
<i>Non-executive director:</i>	
Mr. Wu Yong Cun	6/6 (100%)
<i>Independent non-executive directors:</i>	
Mr. Xu Bingjin	4/6 (67%)
Mr. Song Jian	6/6 (100%)
Mr. Jiang Bo	6/6 (100%)
Average attendance rate	93%

Corporate Governance Report (Cont'd)

Notes:

1. Mr. Lin Xiaogang resigned as an executive director effective 6th January, 2006 and Mr. Qi Yumin was appointed as an executive director in his place on 6th January, 2006.
2. Mr. He Guohua and Mr. Wang Shiping were appointed as executive directors on 16th September, 2005 and two meetings of the Board have been held since their appointment.
3. Mr. Hong Xing resigned as an executive director effective 20th June, 2005 and four meetings of the Board have been held in 2005 before his resignation.
4. Mr. Su Qiang (also known as Mr. So Keung) resigned as an executive director effective 10th May, 2005 and three meetings of the Board have been held in 2005 before his resignation.
5. Mr. He Tao (also known as Mr. Ho To) resigned as an executive director effective 14th January, 2005 and none of the meetings of the Board for 2005 were held before his resignation.

The Company has also taken out appropriate insurance cover for our directors in respect of legal actions taken against directors and officers. The Board reviews the extent of the insurance cover every year.

A.2 Chairman and Chief Executive Officer

There are two key aspects of the management of every issuer — the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company has segregated the roles of Chairman of the Board and Chief Executive Officer. Mr. Wu Xiao An (also known as Mr. Ng Siu On) is the Chairman of the Board and Mr. Qi Yumin is the Chief Executive Officer. The Board has adopted on 20th June, 2005 clear guidelines regarding the power and duties of the Chairman and the Chief Executive Officer as set out below:

The Chairman

- (a) To take the chair at meetings of the Board and to provide leadership for the Board; to ensure the orderly conduct of meetings, so that everyone who should have a say does have a say of an appropriate length; to control the allocation of the Board's time in meetings; to ensure that all directors are properly briefed on issues arising at Board meetings; to direct discussion towards a consensus view; and to sum up decisions made during Board meetings so that everyone understands clearly what has been agreed on policy and on action.

Corporate Governance Report (Cont'd)

- (b) To draw up and/or approve the agenda for each Board meeting taking into account, where appropriate, any matters proposed by the other directors for inclusion in the agenda; and to allocate a proper amount of time to different agenda items.
- (c) To ensure that all directors receive relevant information in a timely manner and that all directors are properly briefed on issues arising at Board meetings.
- (d) To consider the minutes in draft form before they are sent to the other directors.
- (e) To represent the Board between meetings, to make administrative decisions on behalf of the Board and to take whatever decisions that are delegated to the Chairman by the Board.
- (f) To act as the Company's primary representative, dealing with and presenting the collective views of the Board.
- (g) Normally, under provision in the bye-laws of the Company, to take the chair at general meetings of the Company.
- (h) To effectively lead the Board and act as a facilitator of relationships within the Board and to ensure there is a corporate culture within the Board towards achieving objectives set by the Board from time to time.
- (i) To ensure that the Board provides shareholders with sufficient information to allow them to make informed decisions about issues.
- (j) To act as a conduit between the Board and the Chief Executive Officer.
- (k) To perform any other duties as authorised by the Board from time to time.

Chief Executive Officer

- (a) To act as the highest-ranking executive in the Company, being responsible for carrying out the policies of the Board on a day-to-day basis.
- (b) To have the delegated power to manage the Company and to oversee the activities of the Company on a day-to-day basis.
- (c) To meet and brief the Chairman regularly, regarding strategic and emerging issues, current and projected performance highlights, any shareholder feedback or comments and any issue likely to have an effect on the organisation internally or in the public eye.
- (d) To report to the Board, of which he is usually a member.

Corporate Governance Report (Cont'd)

- (e) To obtain the Board's approval for certain actions, such as hiring his/her immediate subordinates, obtaining financing, acquiring another Company, or all or substantially all of any other Company's assets or business, significant capital expansions, or other significant projects.
- (f) To be responsible for the success of the Company's operations within the strategy determined by the Board and to oversee the implementation of the actions resolved by the Board from time to time.
- (g) To perform any other duties as authorised by the Board from time to time.

A.3 Board composition

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

Currently the Board comprises nine directors: five executive directors, one non-executive director and three independent non-executive directors. The current composition of the Board is as follows:

Membership of Board Committee(s)

Executive directors:

Mr. Wu Xiao An (also known as Mr. Ng Siu On) (Chairman)	Member of the Remuneration Committee
Mr. Qi Yumin (Chief Executive Officer)	Member of the Remuneration Committee
Mr. He Guohua	—
Mr. Wang Shiping	—
Mr. Lei Xiaoyang	—

Non-executive director:

Mr. Wu Yong Cun	—
-----------------	---

Independent non-executive directors:

Mr. Xu Bingjin	Chairman of the Audit Committee Chairman of the Remuneration Committee
Mr. Song Jian	Member of the Audit Committee Member of the Remuneration Committee
Mr. Jiang Bo	Member of the Audit Committee Member of the Remuneration Committee

Corporate Governance Report (Cont'd)

The Listing Rules require every listed issuer to have at least three independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Mr. Jiang Bo is an accountant, a certified public accountant and a certified public valuer in the People's Republic of China (the "PRC"). Mr. Jiang has over ten years of experience in auditing financial statements of companies listed on the stock exchanges of the PRC, has participated in various listing projects of state-owned enterprises in the PRC and overseas and has experience in reviewing and analyzing the audited financial statements of companies listed in the PRC.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed the independence of all the independent non-executive directors and is satisfied of their independence.

The Board members do not have any family, financial or business relations with each other.

The biographies of our directors are set out on pages 9 to 11 of the Annual Report.

The list of directors is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

A.4 Appointments, re-election and removal of directors

There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for resignation or removal of any directors.

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 all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Non-executive directors of the Company do not have specific term of appointment. As the appointment of non-executive directors are subject to the retirement by rotation provisions in the bye-laws of the Company, the Board considers that it is not necessary to appoint the non-executive directors for a specific term. At every annual general meeting, one-third of the directors for the time being, or if their number is not three or in a multiple of three, the number nearest to but not greater

Corporate Governance Report (Cont'd)

than one-third, shall retire from office by rotation according to the bye-laws of the Company. All directors, including those appointed for a fixed term, are subject to the retirement by rotation provisions in the bye-laws of the Company.

A director appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting. A director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting.

The Board has not established a Nomination Committee for reviewing new appointments of directors and senior executives and management succession plans for executive directors and senior executives. The Board follows a formal, considered and transparent procedure for the appointment of new directors to the Board. The appointment of a new director is a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a director must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director must also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

During 2005, Mr. He Guohua and Mr. Wang Shiping were appointed as executive directors on 16th September, 2005 as additions to the Board. The appointments of Mr. He and Mr. Wang were approved by the Board by written resolutions dated 16th September, 2005. Mr. Qi Yumin was appointed as an executive director and the Chief Executive Officer on 6th January, 2006 to fill the vacancy created by the resignation of Mr. Lin Xiaogang on 6th January, 2006. The appointment of Mr. Qi Yumin was approved by the Board by written resolutions dated 6th January, 2006.

A.5 Responsibilities of directors

Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of the issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Each newly appointed director is provided with a package of orientation materials setting out the required duties and responsibilities of directors under the Listing Rules and other relevant statutory requirements of Hong Kong. An orientation as to a director's duties and obligations under the Listing Rules and relevant legislations will be arranged for all newly appointed directors. Our directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. Our directors will also be updated from time to time on the business development and operation

Corporate Governance Report (Cont'd)

plans of the Company. All our directors are encouraged to participate in continuing professional development seminars and/or courses to update their skills and knowledge on the latest development or changes in the relevant statutes, Listing Rules and corporate governance practices.

The functions of non-executive directors include the functions as specified in Code Provision A.5.2(a) to (d).

Every director is aware that he should give sufficient time and attention to the affairs of the Company.

The Company has adopted the standard set out in Appendix 10 — Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”), of the Listing Rules, in relation to the dealings in securities of the Company by the directors.

Having made specific enquiry of all directors, during the year ended 31st December, 2005, the directors have complied with the standards set out in the Model Code.

The Company has also established on 17th June, 2005 written guidelines on no less exacting terms than the Model Code (the “Code for Securities Transactions by Employees”) for securities transactions by employees of the Company (including directors of the Company’s holding company and subsidiaries), its subsidiaries and the holding company of the Company, who because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

No incident of non-compliance of the Code for Securities Transactions by Employees by the employees was noted by the Company.

A.6 Supply of and access to information

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

In respect to regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all directors in a timely manner as permitted under the circumstances. Notices are given to all the directors for attending regular Board meetings approximately fourteen (14) days before the meetings. For other Board meetings, reasonable notice is generally given. It has been the practice of the Board and accepted by all members of the Board that relevant information of Board meetings will be sent to all directors three (3) days in advance of the relevant meetings or any reasonable time before such meetings where it is not practicable to send out the information three (3) days in advance.

Corporate Governance Report (Cont'd)

Members of the management have been reminded that they have an obligation to supply the Board and the Board committees with adequate information on a timely basis to enable each of them to make informed decisions. The Board and each director have separate and independent access to the Group's senior management.

All directors are entitled to have access to board papers, minutes and related materials.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The level of remuneration and disclosure

An issuer should disclose information relating to the directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Level of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration.

The Remuneration Committee was established on 17th June, 2005 in accordance with the CG Code. During 2005, the Remuneration Committee met once. The existing members of the Remuneration Committee comprise Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Wu Xiao An (also known as Mr. Ng Siu On) and Mr. Qi Yumin, both of whom are executive directors, are also members of the Remuneration Committee. Mr. Xu Bingjin is the chairman of the Remuneration Committee. The Terms of Reference of the Remuneration Committee are adopted with reference to the CG Code, including the specific duties set out in Code Provision B.1.3(a) to (f).

The Remuneration Committee is responsible for making recommendations to the Board regarding the Group's policy and structure for all remuneration of directors and senior management. The Remuneration Committee is authorised to seek any information it requires from any employee of the Group and has the power to request the executive directors and other persons to attend its meetings. The Remuneration Committee is also authorised to obtain outside professional advice and to secure the attendance of other persons with relevant experience and expertise if it considers as necessary.

Corporate Governance Report (Cont'd)

Attendance of individual members at Remuneration Committee meeting in 2005:

Number of meeting	1
Mr. Xu Bingjin	0
Mr. Song Jian	1/1 (100%)
Mr. Jiang Bo	1/1 (100%)
Mr. Wu Xiao An (also known as Mr. Ng Siu On)	1/1 (100%)
Mr. Lin Xiaogang (<i>Note</i>)	1/1 (100%)
Average attendance rate	80%

Note: Mr. Lin Xiaogang resigned as an executive director on 6th January, 2006 and ceased to be a member of the Remuneration Committee on the same date. Mr. Qi Yumin was appointed in his place and became a member of the Remuneration Committee effective 6th January, 2006.

At the one meeting of the Remuneration Committee held on 21st December, 2005, members of the Remuneration Committee were briefed by the legal advisors to the Company on the requirements of the Listing Rules in respect of remuneration policy and Remuneration Committee. At that meeting, the Remuneration Committee has reviewed and commented on a draft set of policies and guidelines of the Remuneration Committee that was prepared in accordance with the requirements of the Listing Rules. At a meeting held on 1st March, 2006, the Remuneration Committee has considered and approved a set of policies and guidelines of the Remuneration Committee for recommendation to the Board for its formal adoption on 3rd March, 2006. The Remuneration Committee has also reviewed and approved the terms of the services agreements of two executive directors of the Company. During the process of consideration, no individual director will be involved in decisions relating to his own remuneration.

Full minutes of the Remuneration Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are sent to all members of the Remuneration Committee for comments and approval.

The Remuneration Committee will make available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on the website of the Company.

Corporate Governance Report (Cont'd)

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Management shall provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval.

The directors are responsible for overseeing all financial aspects of the Company and for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31st December, 2005, the directors have:

- approved the adoption of all applicable Hong Kong Financial Reporting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;
- selected and applied consistently appropriate accounting policies;
- made judgments and estimates that are prudent and reasonable; and
- prepared the accounts on a going concern basis.

The Board is accountable to its shareholders for a clear and balanced assessment of the Company's financial position and prospects. In this regard, the directors are responsible for presenting a balanced, clear and understandable assessment to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as information required to be disclosed pursuant to statutory requirements.

Financial results of the Group are announced in a timely manner in accordance with all statutory requirements, particularly the timeframe stipulated in Rule 13.49(1) and (6) of the Listing Rules.

All directors acknowledge their responsibility for preparing the financial statements for the year ended 31st December, 2005.

The Group's external auditors are Moores Rowland Mazars (the "Auditors"). The statement of the Auditors about their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 42 of this annual report.

Corporate Governance Report (Cont'd)

For the year ended 31st December, 2005, the Auditors' remuneration paid or payable in respect of the audit services and other non-audit services provided by the Auditors to the Group amounted to RMB3,146,000 and RMB723,000 respectively. Such non-auditing services included review of interim consolidated financial statements and provision of general training service.

C.2 Internal controls

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

The Board is entrusted with an overall responsibility of devising the Company's system of internal controls and conducting an annual review of its effectiveness. This ensures that the Board oversees and monitors the Group's overall financial position so that the interests of the shareholders are well protected and covered. The system of internal controls covers the areas of financial, operational, compliance and risk management of the Group's business.

In light of the new requirements of the Listing Rules and Section 404 of the Sarbanes Oxley Act of 2002 of the United States of America, the Board on 28th November, 2005 approved the establishment of the Company's internal audit department to further strengthen the Company's internal controls and for good corporate governance purposes. Subsequently, the Audit Committee approved the appointment of the Chief Internal Auditor and the adoption of the Internal Audit Charter for the internal audit department of the Company.

C.3 Audit Committee

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by the issuer pursuant to the Listing Rules should have clear terms of reference.

The Audit Committee was established on 20th December, 1999 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. With the amendments of the Listing Rules which came into effect on 31st March, 2004 and the introduction of the CG Code effective 1st January, 2005, the then Terms of Reference was revised on 27th September, 2004 and 17th June, 2005, respectively. The Terms of Reference of the Audit Committee have included the duties set out in Code Provision C.3.3(a) to (n). The existing members of the Audit Committee comprise Mr. Xu Bingjin, Mr. Song Jian and Mr. Jiang Bo, all of whom are independent non-executive directors. Mr. Xu Bingjin is the chairman of the Audit Committee. The Audit Committee does not have as a member a former partner of the Group's existing audit firm.

Corporate Governance Report (Cont'd)

During 2005, the Audit Committee met on two (2) occasions and discharged its responsibilities. Attendance of individual members at Audit Committee meeting in 2005:

Number of meetings	2
Mr. Xu Bingjin	1/2 (50%)
Mr. Song Jian	2/2 (100%)
Mr. Jiang Bo	2/2 (100%)
Average attendance rate	83%

During 2005, apart from the two meetings of the Audit Committee, consent/approval from the Audit Committee has also been obtained via circulation of written resolutions on a number of issues.

The principal duties of the Audit Committee included reviewing the Company's financial controls, internal control and risk management system, annual report and accounts and half-year report.

The following is a summary of the work performed by the Audit Committee during 2005:

- reviewed the Auditor's management letter and management's response;
- reviewed and considered the recently issued accounting standards and the adoption of new accounting standards;
- reviewed the audited financial statements and final results announcement for the year ended 31st December, 2004;
- reviewed the interim report and the interim results announcement for the six months ended 30th June, 2005;
- met with the Auditors to go through any significant audit issues or key findings noted during the audit of the Group's final results;
- met with the Auditors to go through any significant key findings on the internal control and financial reporting matters based on the agreed-upon procedures performed for the Group's unaudited interim results;
- approved the re-appointment of external auditors and the fee proposals for the audit of the Group's 2005 final results and interim review of the 2006 half-yearly results;
- approved the provision of certain non-audit services provided by the Auditors;

Corporate Governance Report (Cont'd)

- approved the establishment of the internal audit department in the Company;
- reviewed and approved a planning document of Section 404 of the Sarbanes-Oxley Act of 2002; and
- reviewed the progress of implementation work relating to the Sarbanes-Oxley Act of 2002.

All issues raised by the Audit Committee have been addressed by the management. The work and findings of the Audit Committee have been reported to the Board. During 2005, no issues brought to the attention of the management and the Board were of sufficient importance to require disclosure in the annual report.

Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Audit Committee meetings are sent to all members of the Audit Committee for comments and approval.

The Audit Committee has made available its Terms of Reference, explaining its role and the authority delegated to it by the Board, on request. The Terms of Reference are also available on the website of the Company.

The annual report of the Company has been reviewed by the Audit Committee.

D. DELEGATION BY THE BOARD

D.1 Management functions

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management. The Board is entrusted with the following reserved powers:

1. Business strategy
 - approval of strategic objectives, annual plans and performance targets for the Group;
 - approval of proposals for expansion or closures other than those which have been specifically approved in the strategic objectives and/or annual plans of the Group;
 - approval of budgets;

Corporate Governance Report (Cont'd)

- approval of performance indicators.
2. Appointment
- appointment of any person as director to fill a casual vacancy or as an additional director;
 - appointment of the Chairman and Chief Executive Officer;
 - appointment of senior executives;
 - appointment, resignation, dismissal or removal of external auditor and fixing of auditor's remuneration;
 - appointment, resignation and removal of company secretary;
 - formation of Board committees and approval of the membership and terms of reference of the Board committees.
3. Board and senior management
- delegation of authority to the Chairman, Chief Executive Officer, management and Board committee(s);
 - approval of remuneration and incentive policies;
 - approval of Group benefit policies;
 - approval of remuneration of directors and senior management;
 - assessment of the performance of the Company and the Board.
4. Relations with the shareholders
- arrangements for the annual general meeting and any other shareholders' meetings;
 - matters relating to disclosure as required by the applicable law and regulations;
 - recommendations for nomination of directors for election by the shareholders at general meetings.

Corporate Governance Report (Cont'd)

5. Financial matters
 - approval of annual accounts and directors' reports;
 - approval of accounting policies;
 - approval of any substantial change in the policies of the Company for balance sheet management including but without limitation capital adequacy, credit, liquidity, debt maturity profile, interest rate and exchange rate risks and asset concentration both geographically and by sector;
 - approval of internal audit plan;
 - approval of internal control policy and procedures;
 - acceptance of auditor's reports including management letters;
 - declaration of interim dividends and making recommendations on final dividends.
6. Capital expenditures
 - approval of the capital expenditure budget;
 - approval of capital commitment, whether or not the same has been provided for in the capital expenditure budget and/or annual budget;
 - approval of priorities.
7. Transactions not included in the budget. In respect of those transactions which are of a revenue nature and carried out in the ordinary and usual course of business of the Group, approval of the Board is required where such transactions are of a continuous nature and for a period of 12 months or more.
8. Any transaction that constitutes notifiable transaction or connected transaction for the Company under the Listing Rules (as amended from time to time).
9. To assess the likely impact of unexpected and significant events and other events which can affect price and market activity of the shares of the Company and to decide whether the relevant information would be price-sensitive and need to be disclosed.
10. Risk management
 - risk assessment and insurance.

Corporate Governance Report (Cont'd)

- risk management policies.
11. Internal control and report systems
 - approval and establishment of any effective procedures for monitoring and control of operations including internal procedures for audit and compliance.
 12. Use of the company seal(s).
 13. Donations and sponsorships (if any) above approved limits.

D.2 Board committees

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Apart from the Audit Committee (as described under paragraph C.3) and the Remuneration Committee (as described under paragraph B.1), the Board has not established any other committee of the Board.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

The Company attaches great importance to communications with shareholders. Information on the Group's activities, business, strategies and developments is provided in the Company's annual reports and interim reports. Shareholders of the Company are encouraged to attend the annual general meetings of the Company which offer a valuable forum for dialogue and interaction with management.

At the 2005 annual general meeting, a separate resolution was proposed by the Chairman in respect of each issue to be considered by the meeting, including the re-election of directors. At the forthcoming annual general meeting to be held on 23rd June, 2006, a separate resolution will be proposed by the Chairman in respect of each issue to be considered at that annual general meeting, including the re-election of directors.

Corporate Governance Report (Cont'd)

The Chairman of the Board, the chairman of the Audit Committee and the chairman of the Remuneration Committee, or in their absence, another member of the relevant committee or an appointed representative, will attend the forthcoming annual general meeting to answer questions of shareholders.

E.2 Voting by poll

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.

The procedures for demanding a poll by the shareholders were incorporated in all circulars sent to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained. Poll results will be published in newspapers on the business day following the shareholders' meetings and posted on the website of the Stock Exchange.

At the 2005 annual general meeting, the Chairman has provided an explanation of the procedures for demanding poll by shareholders at the commencement of the meeting.