

The board of directors ("Board") is committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance with emphasis on transparency, independence and accountability. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply with increasingly tightened regulatory requirements.

The Code on Corporate Governance Practices ("CGP Code") issued by The Stock Exchange of Hong Kong Limited ("Stock Exchange") in its Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") sets out two levels of corporate governance practices, ie, mandatory code provisions that a listed company must comply with or explain its non-compliance, and recommended best practices that listed companies are encouraged to comply with but need not disclose in the case of non-compliance. The Company is in compliance with the mandatory code provisions of the CGP Code, save for the deviations discussed below.

THE BOARD

The Board is responsible for guiding and leading the Company. The directors, individually and collectively, must act in good faith in the best interests of the Company and its shareholders.

The Board currently comprises six Executive Directors and two Independent Non-executive Directors. Under rule 3.10 of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors. The Board is at present falling short of one Independent Non-executive Director since the cessation of directorship of Dr. Lu Jianhua on 8 February 2006. The Board is endeavouring to fill the vacancy as soon as possible.

The Board has appointed committees to oversee different areas of the Company's affairs. The composition of the Board and the committees are given below and their respective responsibilities are discussed in this report. The Board members have no financial, business, family or other material/relevant relationships with each other.

The numbers of Board Meetings and Audit Committee Meetings attended by each Director during the year under review are set out in the following table. Figure in brackets indicates maximum of meetings in the period in which the individual was a Board Members or Audit Committee Members (as the case may be).

	Note	Meetings Attended/(Held)	
		Board	Audit Committee
Executive Directors			
Mr. Chan Lap Tat, Dickman	2	4/(4)	N/A
Mr. Chen Jung Hsin	3	14/(14)	N/A
Mr. Kuang Yong	4	11/(11)	N/A
Mr. Lam Wai Kit	5	10/(11)	N/A
Mr. Long Changqing		23/(24)	N/A
Mr. Lu Junsi	6	18/(24)	N/A
Mr. Su Xixiong		24/(24)	N/A
Ms. Wong Lin Chooi		0/(24)	N/A
Mr. Zhang Fan	7	11/(12)	N/A
Non-executive Director			
Mr. Cheng Chun Ping, <i>JP</i>	8	3/(11)	1/(1)
Independent Non-executive Directors			
Mr. Hu Dehua	9	1/(24)	0/(1)
Mr. Li Wing Sum, Steven	10	8/(11)	1/(1)
Dr. Lu Jianhua		5/(24)	0/(2)
Mr. Ng Fuk Leung	11	2/(4)	1/(1)
Dr. Xu Weidong	12	7/(12)	1/(1)

Notes:

1. There were no Remuneration Committee nor Nomination Committee in the year under review.
2. Appointed as Executive Director on 13 September 2005.
3. Resigned as Chief Executive Officer and Executive Director on 14 July 2005 and 15 July 2005 respectively.
4. Resigned as Executive Director on 7 July 2005.
5. Retired as Executive Director on 6 July 2005.
6. Resigned as Chairman and Executive Director on 31 December 2005.
7. Appointed as Executive Director and Chief Executive Officer on 12 July 2005 and 14 July 2005 respectively.
8. Retired as Non-executive Director on 6 July 2005.
9. Resigned as Independent Non-executive Director on 13 September 2005.
10. Retired as Independent Non-executive Director on 6 July 2005.
11. Appointed as Independent Non-executive Director on 13 September 2005.
12. Appointed as Independent Non-executive Director on 12 July 2005.

Each of the Independent Non-executive Directors have confirmed in writing their independence from the Company in accordance with the guidelines on director independence of the Listing Rules. On this basis, the Company considers all such Directors to be independent.

Biographical details of the Directors of the Company as at the date of this report are set out on pages 5 to 6 of this annual report. Given the composition of the Board and the skills, knowledge and expertise of the Director, the Board believes that it is appropriately structured to provide sufficient checks and balances to protect the interests of the Group and the shareholders. The Board will review its composition regularly to ensure that it has the appropriate balance of expertise, skills and experience to continue to effectively oversee the business of the Company.

The Directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. Details of emoluments of the Directors from the Group for the year are disclosed in note 11 to the financial statements.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

During the year under review, appointment of new Directors was considered and approved by the full Board by taking into account criteria such as expertise, experience, integrity and commitment. Since the inception of the Nomination Committee on 8 February 2006, the proposed appointments will be considered first by the Nomination Committee before recommendation is made to the Board.

In accordance with the Bye-laws of the Company ("Bye-laws"), all Directors (except the Chairman and/or Managing Director) are subject to retirement by rotation and re-election at annual general meetings of the Company. New Directors appointed by the Board during the year are required to retire and submit themselves for re-election at the first annual general meeting immediately following their appointments. Further, at each annual general meeting, one-third of the Directors (excluding the Chairman and/or Managing Director), or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third are required to retire from office. All of the eight Directors are subject to retirement by rotation.

The existing Bye-laws governing the retirement of Directors deviate from the CGP Code provisions in the following aspects: (i) unlike the other Directors, the Chairman and/or Managing Director is not subject to retirement by rotation; (ii) new Directors appointed to fill casual vacancies are subject to election by shareholders at the first annual general meeting instead of the first general meeting after their appointments; and (iii) the Directors who are subject to retirement by rotation are not explicitly subject to retirement at least once every three years. The Board may review the above-mentioned practice from time to time and consider amending the Bye-laws when necessary.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year under review, the roles of chairman and chief executive officer of the Company were separate and not performed by the same person. Since the resignation of Mr. Lu Junsi as Chairman and Executive Director on 31 December 2005, the position of Chairman has not been filled.

TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS

Code provision A.4.1 requires that non-executive directors should be appointed for a specific term and subject to re-election. Currently, all Independent Non-executive Directors have no specific term of office with the Company. All of them are subject to retirement by rotation in accordance with Company's Bye-laws. As such, the Company considers that sufficient measures have been taken to serve the purpose of this code provision.

AUDIT COMMITTEE

The Audit Committee comprises all Independent Non-executive Directors and is responsible for review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures. The Committee is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval. In performing its duties, it has unrestricted access to personnel, records and external auditors and senior management.

Since 19 April 2006, the Audit Committee has specific written terms of reference which are of no less exacting terms than those stipulated in Code provision. In 2005, the Audit Committee held two meetings, at which it reviewed the final results for the year ended 31 December 2004 and the interim accounts for the six months ended 30 June 2005 respectively.

REMUNERATION COMMITTEE

The Remuneration Committee, composed of all Independent Non-executive Directors and the CEO, is responsible for reviewing and determining the compensation and benefits of the Directors and senior management. The Remuneration Committee is chaired by an Independent Non-executive Director.

Since 19 April 2006, the Remuneration Committee has specific written terms of reference which are of no less exacting terms than those stipulated in Code Provision. Since its inception on 8 February 2006, the Remuneration Committee has held one meeting.

NOMINATION COMMITTEE

The Nomination Committee, composed of all Independent Non-executive Directors and the CEO, is responsible for reviewing and making recommendation to the Board on matters relating to the Board structure and appointment and re-appointment of Directors. The Nomination Committee is chaired by an Independent Non-executive Director. Since its inception on 8 February 2006, no meeting has been held by the Nomination Committee.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, safeguard its assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable assurance against material misstatement or loss, and to oversee the Group's operational systems for the achievement of the Group's business objectives.

AUDITORS' REMUNERATION

CCIF CPA Limited have been the auditors of the Company immediately following the resignation of Ernst and Young on 11 June 2003. Total auditors' remuneration in relation to statutory audit work of the Group amounted to HK\$435,000 (2004: HK\$470,000). No fee (2004: Nil) was paid for other non-audit services provided by the auditors for the Company and its subsidiaries during the year.

The responsibilities of the auditors with respect to financial reporting are set out in the section of "Report of the Auditors" on page 17.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code during the Period and they all confirmed that they have fully complied with the required standard set out in the Model Code. The Company is considering adopting a code of conduct governing securities transactions with terms no less exacting than that required by the Listing Rules by employees who may possess or have access to price sensitive information.

COMMUNICATION WITH SHAREHOLDERS

The Company attaches great priority to establishing effective communications with its shareholders and investors. As a means of communications, the Company provides information relating to the Company and its business in its interim and annual reports.

The Company regards its Annual General Meeting as an opportunity for direct communications between the Board and its shareholders. All Directors, senior management and external auditors make an effort to attend the Annual General Meeting to address shareholders' queries. The Company also responds to requests for information and queries from the shareholders and investors and welcomes the views of shareholders on matters concerning the Group and encourages them to attend shareholders' meetings to communicate any concerns they might have with the Board or management direct.