

## Report of Corporate Governance

### CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2005, in the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules with deviations from code provision A.4.1 of the Code in respect of the service term of independent non-executive Directors.

### MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code for securities transactions by Directors of the Company. Having made specific enquiries, the Company has confirmed that all Directors have complied with the requirements set out in the Model Code.

### THE BOARD

#### Composition and appointment

As at 31 December 2005, the Board comprises eight Directors, including four executive Directors, one non-executive Director and three independent non-executive Directors. Names and biographies of the Directors are set out on page 21 to 23 of this annual report.

Ms Lee Han Yau, Florence, the executive director, Mr. Yang Tianjun, the non-executive Director, and Mr Wong Chi Keung, the independent non-executive director, have been appointed since 2 May 2005. They are subject to retirement by rotation in accordance with the Company's articles of association.

The Company has complied with Rules 3.10 (1) and (2) of the Listing Rules, one of the independent non-executive Directors possesses the requisite appropriate professional qualifications. The Board confirmed that the independence and eligibility of the independent non-executive Directors are in compliance with the relevant requirements of the Listing Rules.

The Directors confirmed that there was no connection amongst the Directors that should be disclosed relating to finance, business, relation or other significant events or relevant matters.

The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company. After the listing on 19 May 2005 on Main Board of the Stock Exchange, the Board convened a total of 3 meetings, performing its duties in considering, inter alia, continuing connected transactions and financial and other matters under the provisions of the Articles of Association of the Company. Real-time teleconference system was adopted at each meeting to increase the attendance rate. The average attendance rate was 94%.

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term. The existing non-executive directors of the Company were not appointed for a specific term. This constitutes a deviation from Code Provision A.4.1. However, according to the Articles of Association, one-third of the directors for the time being shall retire from office by rotation at each annual general meeting and the directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those provided in the Code.

## Report of Corporate Governance

Statistics of Directors' attendance at the Board meetings held on 30 July 2005, 21 September 2005 and 13 December 2005 are as follows:

Name of Director	Attendance		Title
	Times	Rate (%)	
Dong Shutong	3	100	Chairman, Executive Director, Chief Executive Officer
He Weiquan	3	100	Executive Director, Chief Operation Officer
Lee Han Yan, Florence	3	100	Executive Director, Chief Financial Officer
Song Wenzhou	3	100	Executive Director
You Jinzhou*	2	50	Executive Director
Yang Tianjun	3	100	Non-Executive Director
Bai Baohua	3	100	Independent Non-Executive Director
Huang Changhuai	3	100	Independent Non-Executive Director
Wong Chi Keung	3	100	Independent Non-Executive Director

\* resigned effective from 2 August 2005

### Chairman and chief executive

The executive Director, Dong Shutong, served as the Chairman and Chief Executive Officer of the Company. The Chairman is responsible for overseeing the Company's operations in respect of compliance with internal rules, and compliance with statutory requirements and promoting the corporate governance of the Company, whereas the Company did not appoint another individual to act as a chief executive for the year ended 31 December 2005 and up to the date of the report. This constitutes a deviation from Code Provision A.2.1. The Board believes that it is in the best interest of the Company and the shareholders as a whole for Mr. Dong Shutong, who is knowledgeable in the business of the Group and possesses the essential leadership skills to guide discussions of the Board. The significant decision-making and the day-to-day management of the Company is carried out by all of the executive Directors. Therefore, the roles of the Chairman and the chief executive of the Company are not segregated in the sense that two different individuals took up these roles, however, the functions of the chief executive were carried out by all of the executive Directors. The role of the Chairman and chief executive are not exercised by the same individual.

### Remuneration Committee

On 10 April 2006, the Company formed a remuneration committee for determining the remuneration of Directors. The members of the remuneration committee are: Mr Dong Shutong, Mr Bai Baohua, Mr. Huang Changhuai and Mr. Wong Chi Keung.

The remuneration committee is responsible for the following functions: determining the policy for remuneration of Directors and senior management, assessing performance of executive Directors, as well as determining the long-term incentive schemes of the Company.

## Report of Corporate Governance

### AUDITORS' REMUNERATION

For the year ended 31 December 2005, the auditors of the Company, Ernst & Young, have carried out the statutory audit for the Company. The total fee for audit work amounted to HK\$1,500,000.

### AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, and Mr. Wong Chi Keung serves as the chairman of the audit committee.

After the listing of the Company on 19 May 2005 and up to the year ended 31 December 2005, the audit committee held two committee meetings on 21 September 2005 and 13 December 2005. The attendance of each of the members of the audit committee at such meetings is as follows:

Name of member	Attendance		Title
	Times	Rate (%)	
Wong Chi Keung	2	100	Independent Non-Executive Director
Bai Baohua	2	100	Independent Non-Executive Director
Huang Changhuai	2	100	Independent Non-Executive Director

Responsibilities of the audit committee include:

- (1) reviewing the financial reporting process, internal control system and the completeness of financial reports of the Company;
- (2) to be in charge of the appointment of external auditors, auditing expenses and any matters regarding the resignation or dismissal of the external auditors;
- (3) to discuss with the external auditors on the nature and scope of audit prior to the commencement of the auditing procedures; and
- (4) to review the interim and annual accounts.

The audit committee has reviewed the auditing performance, the internal controls and the audited accounts of the Company for the year ended 31 December 2005.