

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Company has a policy of seeking to comply with established best practice in corporate governance. The Board believes that good corporate governance is crucial to improve the efficiency and performance of the Group and to safeguard the interests of the shareholders. For the year ended 31 December 2005, the Company has applied the principles of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and complied with all the applicable code provisions of the Code, except for the deviation from the Code Provision A.4.1 as one of the independent non-executive directors was not appointed for a specific term but is subject to retirement by rotation in accordance with the Bye-laws of the Company.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year ended 31 December 2005, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

Board of Directors

Composition

Directors during the year and up to the date of this report are as follows:

Executive Directors:

Cai Yuan, <i>Chairman</i>	(appointed on 2 August 2005)
Luk Kin Peter Joseph, <i>Deputy Chairman and Chief Executive Officer</i>	(appointed on 2 August 2005)
Fu Weimin	(resigned on 24 May 2005)
Zhao Linye	(resigned on 24 May 2005)
Qi Xianchao	(resigned on 24 November 2005)
Zhou Yucheng	(resigned on 25 November 2005)

Independent Non-executive Directors:

Tang Tin Sek	
Lee Kwan Hung	(appointed on 31 May 2005)
Poon Chiu Kwok	(appointed on 24 February 2006)
Julia Frances Charlton-Stevens	(resigned on 28 February 2005)
Wang Yiming	(resigned on 25 November 2005)

There is no relationship between members of the Board.

During the year, Ms. Julia Frances Charlton-Stevens and Ms. Wang Yiming resigned as independent non-executive directors of the Company and members of the audit committee on 28 February 2005 and 25 November 2005 respectively. The casual vacancies were filled on 31 May 2005 and 24 February 2006 respectively. Accordingly for the periods 28 February 2005 to 30 May 2005 and 25 November 2005 to 23 February 2006, the Company had only two independent non-executive directors and therefore could not strictly comply with Rules 3.10(1) and 3.21 of the Listing Rules. During the year ended 31 December 2005, the Board had at all times at least one independent non-executive director who has appropriate professional qualifications or accounting or related financial management expertise.

CORPORATE GOVERNANCE REPORT (Continued)

Board of Directors (continued)

The principal roles of the Board are to oversee the strategic development, to determine the objectives, strategies and policies of the Group, to monitor and control the financial performance and to ensure effective internal controls and risk management. Implementation of strategies and day-to-day operations are delegated to the management. In order to better understand the respective accountabilities and contributions of the Board and management, the Company has adopted a written terms of reference specifying a schedule of matters which should be reserved to the Board and which should be delegated to management.

During the year, a total of seven full board meetings were held and the attendance records are as follows:

Name of Director	Number of Board Meetings Attended	Attendance Rate
Cai Yuan	3/3	100%
Luk Kin Peter Joseph	3/3	100%
Tang Tin Sek	7/7	100%
Lee Kwan Hung	3/5	60%
Zhou Yucheng	4/5	80%
Fu Weimin	2/2	100%
Qi Xianchao	5/5	100%
Zhao Linye	2/2	100%
Wang Yiming	3/5	60%

Chairman and Chief Executive Officer

Mr. Cai Yuan and Mr. Luk Kin Peter Joseph were appointed as the Chairman and Chief Executive Officer of the Company respectively on 28 November 2005 following the resignation of Mr. Zhou Yucheng and Mr. Qi Xianchao as Chairman and Chief Executive Officer of the Company on 25 November 2005 and 24 November 2005 respectively.

The roles of Chairman and Chief Executive Officer are clearly defined by written terms of reference adopted by the Company in order to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Non-executive Directors

All the independent non-executive directors of the Company were appointed for an initial term of one year, except Dr. Tang Tin Sek. All directors appointed during the year are subject to re-election by shareholders at the next annual general meeting after their appointment and every director (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

Remuneration of Directors

The Company established the Remuneration Committee in 2005. The current members of the Remuneration Committee are:

Lee Kwan Hung (Chairman of the Committee), *Independent Non-executive Director*
Tang Tin Sek, *Independent Non-executive Director*
Poon Chiu Kwok, *Independent Non-executive Director*
Luk Kin Peter Joseph, *Executive Director*

Remuneration of Directors (continued)

The Remuneration Committee has adopted terms of reference which are in line with the Code. A copy of the terms of reference is posted on the Company's website.

The Remuneration Committee met three times during the year to review the remuneration policy and remuneration packages of the executive directors and members of the senior management, approving the service contracts of the executive directors and the share options granted to the executive directors and members of the senior management. Individual attendance of each member of the Committee is set out below:

Name of Member	Number of Remuneration Committee Meetings Attended	Attendance Rate
Lee Kwan Hung	3/3	100%
Tang Tin Sek	3/3	100%
Luk Kin Peter Joseph	3/3	100%
Poon Chiu Kwok <i>(Appointed as Committee Member on 28 March 2006)</i>	N/A	N/A

Nomination of Directors

Directors were nominated by members of the Board during the year to fill casual vacancies. The nominations were submitted to the Board for decision with reference to criteria which include the candidates' experience, qualifications, professional knowledge, personal ethics and integrity. During the year, two executive directors and one independent non-executive director have been nominated and appointed by the Board. All directors appointed during the year are subject to re-election by shareholders at the next annual general meeting after their appointment and every director (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

Auditors' Remuneration

For the year ended 31 December 2005, the Group engaged Deloitte Touche Tohmatsu, auditors of the Company, to perform audit service only.

Audit Committee

The Company established the Audit Committee in 1998. The current members of the Audit Committee are:

Tang Tin Sek (Chairman of the Committee), *Independent Non-executive Director*
Lee Kwan Hung, *Independent Non-executive Director*
Poon Chiu Kwok, *Independent Non-executive Director*

The Audit Committee has adopted terms of reference which are in line with the Code. A copy of the terms of reference is posted on the Company's website.

CORPORATE GOVERNANCE REPORT (Continued)

Audit Committee (continued)

The Audit Committee reviewed the external auditor's plan for the audit of the Group's accounts, the internal control procedures and the financial reporting systems of the Group during the year. The Audit Committee met two times during the year to review and discuss the Group's annual and interim financial statements before the same were presented to the Board for approval. Individual attendance of each member of the Committee is set out below:

Name of Member	Number of Audit Committee Meetings Attended	Attendance Rate
Tang Tin Sek	2/2	100%
Lee Kwan Hung <i>(Appointed as Committee Member on 31 May 2005)</i>	1/1	100%
Wang Yiming <i>(Resigned as Committee Member on 25 November 2005)</i>	2/2	100%
Poon Chiu Kwok <i>(Appointed as Committee Member on 24 February 2006)</i>	N/A	N/A

The financial statements for the year ended 31 December 2005 have been reviewed by the Audit Committee.

Internal Controls

The Board should maintain a sound and effective internal control system to safeguard the shareholders' investment and the Group's assets. The directors have reviewed the effectiveness of the internal control system of the Group for the year ended 31 December 2005, which covered financial, operational and compliance controls and risk management functions of the Group.

Directors' Responsibility Statement

The directors acknowledge that it is their responsibility to prepare the accounts for each financial period which give a true and fair view of the state of affairs of the Group and to present a balanced, clear and understandable assessment of the financial results and disclosures of the Group under the Listing Rules and any other rules and statutory requirements.

On behalf of the Board

Peter Luk

Deputy Chairman and Chief Executive Officer

Hong Kong, 21 April 2006