

Corporate Governance Report

The Company is committed to maintaining high standards of corporate governance at all times and in all areas of its operations. The Board believes that good corporate governance is an essential element in enhancing the confidence of current and potential shareholders, investors, employees, business partners and the community as a whole.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board regularly reviews the Group's corporate governance guidelines and developments. It is our belief that, during the year ended 31 December 2005, the Group has endeavored to comply with the relevant recommendations as laid down in the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and Corporate Governance Report as set out in Appendix 23 to the Listing Rules. The Board has also reviewed the Group's corporate governance practices and is satisfied that the Group has been in full compliance with all the code provisions of the Code except that, with respect to Code A.4.1, a non-executive director of the Company had not been appointed for a specific term throughout the Year but is subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's articles of association ("Articles"). During the Year, such non-executive director has subsequently been appointed by the Company with a definite term of two years by virtue of an appointment letter.

THE BOARD

Member Attendance of Board and Committee Meetings for the year 2005

	Meetings Attended and Held			Remuneration Committee
	Board Meetings	Audit Committee		
Executive Directors				
Liu Xiaoming	5/5			
Xu Zhouwen	5/5			
Kong Zhanpeng	4/5			1/1
Wang Tieguang	3/5			
Non-Executive Directors				
Patrick E Bowe	0/5			
Steven C Wellington, (alternative director to Patrick E Bowe)	2/5			
Independent Non-Executive Directors				
Lee Yuen Kwong	3/5	3/3		1/1
Chan Man Hon, Eric	3/5	3/3		1/1
Li Defa	2/5	1/3		

As on the date of this report, the Board comprises eight directors, being four executive directors, one non-executive director and three independent non-executive directors. There is no family relationship between any of the directors or chief executive officer. Detailed biographies outlining each individual directors' range of specialist experience and suitability for the successful long-term running of the Group can be found on page 14.

The Group believes that its non-executive and independent non-executive directors comprise a good mix of local and overseas experts, financial consultants and industry experts. The Board believes that such a group is ideally qualified to advise the management team on future strategy development, finance and other statutory requirements, and to act as guardians of shareholders' interests. The Board evaluates the independence of all independent non-executive directors on an annual basis and has received written confirmation from each independent non-executive director regarding his independence. As on the date of this report, the Board considers that all such independent non-executive directors are in full compliance with the independence guidelines as laid down in the Listing Rules.

The Board meets at least four times each year at approximately quarterly intervals to discuss the Group's overall strategy, operation and financial performance. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties. All Board meetings adhere to a formal agenda in which a schedule of matters is specifically addressed to the Board for its decision. Specific topics discussed at these quarterly Board meetings include: overall strategy; major acquisitions and disposals; annual budgets; interim and annual results; recommendations on Directors' appointment(s) or reappointment(s); matters relating to share capital; approval of major capital projects; dividend policies; and other significant operational and financial matters. All businesses transacted at individual Board meetings are documented in the minutes of each meeting. Some Board decisions are made via written resolutions authorised by all Directors. All Board members have access to the advice and services of the Group's Company Secretary. If necessary, Directors also have recourse to external professional advice at the Group's expense. During the intervals between Board meetings, individual Directors are provided with appraisals of all major changes that may affect the Group's businesses.

The Board decides on corporate strategies, approves overall business plans and supervises the Group's financial performance, management and organisation on behalf of the shareholders. Specific tasks that the Board delegates to the Group's management include the preparation of annual and interim accounts for the Board's approval before public reporting; implementation of strategies approved by the Board; monitoring of operating budgets; the implementation of internal controls procedures; and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

All new non-executive directors, if any, will be briefed by the Company lawyers about the duties and obligations as a director of a listed company. Newly-appointed non-executive directors are also encouraged to discuss with the Chairman any additional information or training they feel they may require, to more effectively discharge their duties.

Every member of the Board has or will retire by rotation at the annual general meeting of the Company at least once every three years. Directors who stand down may subsequently become eligible for re-election at the same annual general meeting.

The Board considers that the Group has sufficient and appropriate liability insurance to cover its directors and senior management team against any legal liability arising from their performance of their duties.

In compliance with the Code, the Company has set up an audit committee ("**Audit Committee**") and a remuneration committee ("**Remuneration Committee**"). The Board considers the determination of the appointment and removal of directors to be the Board's collective decision and thus does not intend to adopt the recommended best practices of the Code to set up a nomination committee.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the Year, the Company did not have any officer with the title “chief executive officer”. The duties of a chief executive officer are substantially undertaken by Mr. Liu Xiaoming and Mr. Xu Zhouwen, the co-chairman of the Company. Mr. Xu is responsible for overseeing the operations of the Group in Mainland China while Mr. Liu is responsible for providing leadership to the Board.

Term of appointment of non-executive directors

The non-executive director, Mr. Patrick Earl Bowe, is appointed for a term of two years commencing on 6 April 2006.

DIRECTORS' REMUNERATION

During the period under review, directors' remuneration is disclosed as follows:

	Notes	Group 2005 HK\$'000	2004 HK\$'000
Fees	(a)	870	690
Other emoluments:	(b)		
Basic salaries, housing benefits, other allowances and benefits in kind		10,320	10,290
Performance related bonuses		10,000	16,310
Pension scheme contributions		48	48
		20,368	26,648
		21,238	27,338

According to the directors' service contracts, each of the executive directors, upon completion of every 12 months of service, is entitled to a management bonus. The aggregate amount of the bonuses payable to all the executive directors for any financial year may not exceed 5% of the consolidated net profit from ordinary activities attributable to shareholders in respect of that financial year. For the year ended 31 December 2005, the aggregate amount of the bonuses payable to the executive directors was equivalent to 2% (2004: 2%) of the net profit from ordinary activities attributable to shareholders.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Mr. Chan Man Hon, Eric	345	345
Mr. Lee Yuen Kwong	345	345
Mr. Li Defa	180	—
	870	690

There were no other emoluments payable to the independent non-executive directors during the Year (2004: Nil).

(b) Executive directors

	Basic salaries, housing benefits, other allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2005				
Executive directors:				
Mr. Liu Xiaoming	3,000	3,000	12	6,012
Mr. Kong Zhanpeng	2,160	2,000	12	4,172
Mr. Wang Tieguang	2,160	2,000	12	4,172
Mr. Xu Zhouwen	3,000	3,000	12	6,012
	10,320	10,000	48	20,368
2004				
Executive directors:				
Mr. Liu Xiaoming	2,970	4,741	12	7,723
Mr. Kong Zhanpeng	2,160	3,414	12	5,586
Mr. Wang Tieguang	2,160	3,414	12	5,586
Mr. Xu Zhouwen	3,000	4,741	12	7,753
	10,290	16,310	48	26,648

The Board will meet at least once each year to review the nomination procedures and the process and criteria adopted by the Board to select and recommend candidates for directorship.

Corporate Governance Report

During the meeting, the Board will review the structure, size and composition (including the skills, knowledge and experience) of the Board, identify individuals suitably qualified to become Board members, assess the continual independence of independent non-executive directors, having regard to the requirements under the applicable laws, rules and regulations and consider and recommend the re-election of the retiring directors.

In selecting a suitable candidate to become a member of the Board, the Board will consider various criteria such as education, qualification, experience and reputation of such candidate.

Code provision A.4.2 requires that every director should be subject to retirement by rotation at least once every three years and all directors appointed to fill a casual vacancy should be subject to election at the first general meeting after his appointment.

Article 111 of the Company's Articles provides that any director appointed to fill a causal vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall be eligible for re-election (but shall not be taken into account in determining the directors or the number of directors who are to retire by rotation at such meeting). The Board will propose relevant amendments to be made to the Company's Articles for approval by the shareholders at the forthcoming annual general meeting of the Company such that any director appointed to fill a causal vacancy shall be subject to election by shareholders of the Company at the first general meeting after his appointment.

Pursuant to Article 108(A) of Company's Articles, at each annual general meeting of the Company, at least one-third of the directors for the time being shall retire from office, except the director holding office as chairman or managing director of the Company. The Company has reviewed its Articles in order to align the Code provisions of the Code and recent amendments to the Listing Rules, the Board will propose relevant amendments to be made to the Company's Articles for approval by the shareholders at the forthcoming annual general meeting of the Company such that every director, including those appointed for a specific term shall subject to retirement by rotation at least once every three years.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely, Mr. Lee Yuen Kwong, Mr. Chan Man Hon, Eric and Mr. Li Defa. Mr. Lee Yuen Kwong is the Chairman of the Audit Committee. The Committee assists the Board in, among other matters, providing an independent and objective review of the effectiveness of the financial reporting process, internal control and risk management system as well as internal audit function of the Group. It primarily aims to increase the Board's accountability, transparency and objectivity.

The Audit Committee has reviewed with the management and the Company's auditors (i) the accounting principles and practices adopted by the Group and (ii) reviewed and discussed auditing, internal control and financial reporting matters including the interim results and the financial statements for the Year.

The Audit Committee met three times in 2005.

INTERNAL CONTROL

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control systems and reviewing their effectiveness. The role of the Group's management is to implement all Board policies on risk and control.

The Group's internal control systems are designed to provide reasonable protection of Group's assets, and to safeguard these assets against unauthorised use or disposition by ensuring that all such transactions are executed in accordance with management's authorisation. The systems also ensure that accounting records are sufficiently accurate for the preparation of financial information used for operation and for reporting purposes. The Group has adopted proper procedures with duly assigned levels of authority in areas of financial, operational and compliance controls and risk management to ensure that its assets and resources remain secure at all times.

The role of the Audit Committee is, through discussion with management and use of other consultants, to review the effectiveness of internal control systems, including financial, operational and compliance controls and risk management functions, and to report to the Board any and significant risk issues.

In January 2006, the Board has engaged Moores Rowland Mazars Certified Public Accountants to conduct a review of the effectiveness of the system of internal control of the Group and report any weaknesses identified and recommending means for improvement to the Audit Committee.

REMUNERATION COMMITTEE

The members of the Remuneration Committee comprise two independent non-executive directors, namely, Mr. Lee Yuen Kwong and Mr. Chan Man Hon, Eric and one executive director, Mr. Kong Zhanpeng. Mr. Chan Man Hon, Eric is the Chairman of the Remuneration Committee. The duties of the Remuneration Committee are, among others, to make recommendations to the Board on the Group's policy and structure for the remuneration of directors and senior management and to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

In 2005, the Remuneration Committee held one meeting to review and approve the directors' and senior management's remuneration packages.

REMUNERATION POLICY

The primary objective of the Group's remuneration policy is to retain and motivate executive directors by linking their compensation with the Group's performance and to evaluate their compensation against corporate goals, so that the interests of the executive directors are aligned with those of shareholders. No director can, however, approve his or her own remuneration.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the Year.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

The directors are responsible for overseeing the preparation of accounts of each financial year, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that year. In preparing the accounts for the year ended 31 December 2005, the directors have selected suitable accounting policy and applied them consistently, approved adoption of all Hong Kong Financial Reporting Standards, made judgements and estimates that are appropriate, and prepared the accounts on the going concern basis.

The Group has announced its annual and interim results in a timely manner within the limits of 4 months and 3 months respectively after the end of the relevant period, as laid down in the Listing Rules.

AUDITORS' REMUNERATION

For the year ended 31 December 2005, HK\$4,450,000 was paid as remuneration to Ernst & Young for the provision of audit services and remuneration of HK\$713,000 was paid to other certified public accountant firms for the provision of audit services of the subsidiaries of the Group. During the same period, the following amounts were paid as remuneration to Ernst & Young and other certified public accountant firms for the provision of non-audit related services to the Group.

	Remuneration HK\$'000
Taxation compliance	42
Others	600
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Total	642

COMMUNICATION WITH SHAREHOLDERS

The Group establishes and maintains different communication channels with its shareholders through the publication of annual and interim reports, information on the Stock Exchange, a corporate website, and general and investor meetings held either face-to-face or via telephone conference calls. The Group reports to its shareholders twice a year and maintains a regular dialogue with investors.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of directors.

Details of the poll voting procedures and the rights of shareholders to demand a poll were included in the circular to shareholders dispatched together with the annual report. The circular also included relevant details of proposed resolutions.

Based on the information that is publicly available to the Group and within the knowledge of the directors, the Group has maintained the prescribed amount of public float during the year 2005 and up to the date of this annual report as required by the Listing Rules.

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All directors acknowledge their responsibility for preparing the accounts for the year ended 31 December 2005.

The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2005.