

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

In view of the corporate governance practices, the Company has adopted a set of clear guidelines to explain its policies, practices and procedures which we aim to follow to ensure that our standards meets our shareholders' expectations. The Company has committed to maintain a high standard of corporate governance based on the principles of the code provisions set out in the Code of Corporate Governance Practice (the "CG Code") in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") effective on 1 January, 2005. The Company recognizes the maintenance of good corporate governance practices is essential to the growth of the Company and has complied with all the CG Code except for certain deviations that are discussed later in this report.

BOARD OF DIRECTORS

Composition

The board of directors ("Board") comprises seven directors ("Director(s)") of the Company of which four are executive Directors and three are independent non-executive Directors. The members of Directors and Board Committees as at the date of this annual report are as follows:

<i>Executive Directors</i>	Audit Committee	Remuneration Committee
Mr. Yeung Chung Lung (<i>Chairman</i>)		✓
Mr. Yang Le (<i>Chief Executive Officer</i>)		
Mr. Ni Chao Peng		
Mr. Yip Tze Wai, Albert		
<i>Independent Non-executive Directors</i>		
Mr. Tsui Chun Chung, Arthur	✓	✓
Mr. Lu Ze Jian	✓	
Mr. Leung Chiu Shing	✓	✓

The Board formulates overall strategies and policies of the Group. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal controls and the conduct of business in conformity with applicable laws and regulations. The Board undertakes responsibility for decision making in major Company matters. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors. The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and senior management.

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The Board members are fully committed to their roles and have always acted, individually and collectively, in the best interests of the Company and its shareholders at all times. Except (1) Mr. Yang Le is the son of Mr. Yeung Chung Lung and (2) Mr. Yeung Chung Lung is the father-in-law of Mr. Ni Chao Peng and to the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship amongst Directors. Biographical details of the Directors are set out on pages 14 to 16 under the section headed “Biographical Information of Directors and Senior Management” of this annual report.

During the year ended 31 December 2005 (the “Year”), the Board held seven regular/special Board meetings. The attendance of each member at the Board meetings is set out below:

Name	Number of meetings attended/Total
<i>Executive Directors</i>	
Mr. Yeung Chung Lung	7/7
Mr. Yang Le	6/7
Mr. Ni Chao Peng	6/7
Mr. Yip Tze Wai, Albert	7/7
<i>Independent Non-executive Directors</i>	
Mr. Tsui Chun Chung, Arthur	5/7
Mr. Lu Ze Jian	6/7
Mr. Leung Chiu Shing	6/7

(Note: One of the aforesaid meetings discussed matters regarding the re-election of Directors).

Chairman and Chief Executive Officer

The roles of the chairman of the Board and the chief executive officer of the Company are segregated to ensure their respective independence, accountability and responsibility.

Mr. Yeung Chung Lung, being the Chairman of the Group since its establishment in 1995, takes the lead in formulating overall strategies and policies of the Group; ensures the effective performance by the Board of its functions, including compliance with good corporate governance practices and encourages and facilitates active contribution of Directors in Board activities. He also ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner with the assistance of the company secretary.

Mr. Yang Le, the Group’s Chief Executive Officer, supported by other Board members and senior management, is responsible for managing day-to-day business of the Group. He is also accountable to the Board for the implementation of the Group’s overall strategies and coordination of overall business operations.

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Executive Directors

The executive Directors are responsible for running the Group and executing the strategies adopted by the Board. They lead the Group's management team in accordance with the directions set by the Board and are responsible for ensuring that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

Independent Non-executive Directors

The independent non-executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participations provide adequate checks and balances to safeguard the interests of the Group and its shareholders. The Board consists of three independent non-executive Directors and one of them have appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of the independent non-executive Directors a confirmation of independence for the Year pursuant to Rule 3.13 of the Listing Rules. On this basis, the Company considers all such Directors to be independent.

Service Term of Independent Non-executive Directors

In compliance with code provision A.4.1 of the CG Code, each independent non-executive Director should be appointed for a specific term and subject to re-election. All independent non-executive Directors are not appointed for a specific term but subject to retirement by rotation in accordance with the Bye-laws of the Company.

Re-election of Directors

In compliance with code provision A.4.2 of the CG Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with Bye-law 87(1) of the Company's Bye-laws, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation, the chairman of the Board and/or the managing director shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. In order to ensure full compliance with code provision A.4.2 of the CG Code, a special resolution will be proposed to amend the relevant Bye-laws of the Company at the forthcoming annual general meeting so that every Director shall be subject to retirement by rotation at least once every three years.

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Audit Committee

The Company established an audit committee on 17 January 2002. The audit committee currently comprises three independent non-executive Directors. The functions of the audit committee are:

- to make recommendations to the Board concerning the appointment, reappointment, retention, evaluation and termination of compensation and overseeing the work of the Company's independent auditor;
- to approve all non-audit services to be provided by the Company's independent auditor;
- to approve the remuneration and terms of engagement of the Company's independent auditor;
- to review the relationships between the Company and the independent auditor;
- to approve the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding one year;
- to review the Company's annual and interim financial statements, accounting policies and practices, the effectiveness of the Company's disclosure controls and procedures and developments in financial reporting practices and requirements;
- to review the Company's risk assessment and management policies; and
- to review the adequacy and effectiveness of the Company's legal and regulatory compliance procedures.

The new terms of the reference of the audit committee incorporating all the duties set out in code provision C.3.3 of the CG Code were approved by the Board.

During the Year, the audit committee held two meetings with full attendance, details of which are set out below:

Members	Number of meetings attended/Total
<i>Independent Non-executive Directors</i>	
Mr. Tsui Chun Chung, Arthur (<i>Chairman</i>)	2/2
Mr. Lu Ze Jian	2/2
Mr. Leung Chiu Shing	2/2

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Remuneration Committee

The Company has established a remuneration committee on 21 April 2005. The remuneration committee comprises three members, a majority of whom are independent non-executive Directors.

The remuneration committee is responsible for:

- to recommend to the Board on the Company's policies and structure for the remuneration of the Directors and senior management of the Group;
- to determine the remuneration packages of all executive Directors and senior management;
- to review and approve performance-based remuneration; and
- to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of office or appointment.

During the Year, the remuneration committee held one meeting with full attendance, details of which are set out below:

Members	Number of meetings attended/Total
<i>Executive Directors</i>	
Mr. Yeung Chung Lung	1/1
<i>Independent Non-executive Directors</i>	
Mr. Tsui Chun Chung, Arthur (<i>Chairman</i>)	1/1
Mr. Leung Chiu Shing	1/1

DIRECTORS' SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of the Directors, all Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the Year.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements of the Group for the Year. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable,

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informed and prudent judgment of the Board and management with an appropriate consideration to materiality. The Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The statement of the auditors of the Company regarding their responsibilities on the financial statements is set out in the Auditors' Report on page 32 of this annual report.

Internal Controls

The annual review requirement of the effectiveness of the Company's internal control system under the CG Code shall apply to the Company beginning its fiscal year ending 31 December 2006.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and the Company's assets, and reviewing the effectiveness of such on an annual basis through the audit committee.

Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, CCIF CPA Limited, for the Year is set out as follows:

Services rendered	Fee paid/ payable Approximately RMB
Audit services (2004: approximately RMB524,000)	578,000
Non-audit services	Nil
Taxation services	Nil
Other services	Nil
Total:	<u>578,000</u>

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COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to develop and maintain continuing relationships and effective communications with its shareholders and investors. To facilitate and enhance the relationships and communication, the Company has established, including but not limited to, the following various channels:

1. annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The Chairman and the Directors are available at annual general meetings to address shareholders' queries;
2. separate resolutions are proposed at general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in circulars to the shareholders of the Company to facilitate the enforcement of shareholders' rights; and
3. interim and annual results are announced as early as possible so that shareholders of the Company are kept informed of the Group's performance and operations.