

CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the "Board") is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2005.

Good corporate governance has always been recognized as vital to the Group's success and to sustain development of the Group. We commit ourselves to a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of the business.

The Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") sets out the principles of good corporate governance ("Principles") and two levels of corporate governance practices:

- (a) code provisions ("Code Provisions") which listed issuers are expected to comply with or to give considered reasons for any deviation; and
- (b) recommended best practices ("Recommended Best Practices") for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company has applied the Principles set out in the CG Code and complied with most of the Code Provisions save for (i) the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code; (ii) the Code Provision A.4.2 which requires that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years, and (iii) the Code Provision A.2.1 which requires that the division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing. The details of such deviations of the Code Provisions A.4.2 and A.2.1 will be explained below.

The Company has also put in place the Recommended Best Practice in respect of the establishment of a Nomination Committee.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code. It acknowledges the important role of its Board in providing effective leadership and direction to the Company's business and ensuring transparency and accountability of the Company's operations.

The key corporate governance principles and practices of the Company are summarised as follows:-

A. THE BOARD

(1) Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

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Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer/Managing Director and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the senior management to discharge its responsibilities.

(2) Composition

The composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business of the Company and for the exercise of independent judgement.

The Board comprises the following directors:–

Executive directors:–

Mr Fu Kwan, *Chairman of the Board, the Remuneration Committee & the Nomination Committee*

Mr Wu Xiang Dong, *Deputy Chairman*

Mr Shu Shi Ping, *Chief Executive Officer/Managing Director & member of the Remuneration Committee and the Nomination Committee*

Mr Chan Yeuk

Mr Zhang Jian

Non-executive director:–

Mr Hung Kin Sang, Raymond, *member of the Audit Committee*

Independent non-executive directors:–

Mr Cao Kuangyu, *member of the Audit Committee, the Remuneration Committee & the Nomination Committee*

Mr E Meng, *member of the Audit Committee, the Remuneration Committee & the Nomination Committee*

Mr Ting Leung Huel, Stephen, *Chairman of the Audit Committee & member of the Remuneration Committee and the Nomination Committee*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

There is no relationship (including financial, business, family, or other material/relevant relationship(s)) among the Board members.

During the year ended 31 December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

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The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

(3) Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors. The Nomination Committee of the Company 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.

Each of the non-executive directors of the Company has been appointed for a term of one year and shall be subject to retirement by rotation and re-election.

Code Provision A.4.2 of the CG Code stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Bye-laws deviates from the Code Provision A.4.2 of the CG Code as it which provides that one-third of the directors for the time being (save for the Chairman/Managing Director), or if their number is not a multiple of three, then the number nearest to one-third but not greater than one-third, shall retire from office by rotation and shall be eligible for re-election at annual general meetings and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

In the opinion of the Board, the continuity of leadership by the Chairman and Managing Director is important for the stability and growth of the Company. The Board therefore considers that both the Chairman and Managing Director of the Company should not be subject to retirement by rotation.

Notwithstanding the above deviation, the Company in practice has complied with and adopted the remaining provisions of the Code Provision A.4.2 of the CG Code. According to the current corporate governance practices of the Company, all directors of the Company, except for the Chairman and Managing Director, shall submit themselves for re-election once every three years and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

(4) Training for Directors

There was no director newly appointed during the year ended 31 December 2005. In case there is any newly appointed director, he/she will be provided comprehensive, formal and tailored induction so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company will consider engaging external legal and other professional advisers for providing professional briefings and training programmes to directors on an occasional basis.

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(5) Board Meetings

Number of Meetings and Directors' Attendance

Regular board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2005, 6 Board meetings and 2 Audit Committee meetings of the Company were held. The individual attendance record of each director at the meetings of the Board and Audit Committee during the year ended 31 December 2005 is set out below:–

Name of Directors	Attendance of Meetings	
	Board	Audit Committee
Mr Fu Kwan	5	N/A
Mr Wu Xiang Dong	2	N/A
Mr Shu Shi Ping	6	N/A
Mr Chan Yeuk	6	N/A
Mr Zhang Jian	6	N/A
Mr Ting Leung Huel, Stephen	5	2
Mr Cao Kuangyu	3	0
Mr E Meng	3	2
Mr Hung Kin Sang, Raymond	4	2

Practices and Conduct of Meetings

Annual meeting schedules and draft agendas of the Board and committee meetings are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer/Managing Director and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

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B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer/Managing Director of the Company are held by Mr Fu Kwan and Mr Shu Shi Ping respectively.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the Company Secretary and the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Chief Executive Officer/Managing Director focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer/Managing Director is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

The Board considers that the responsibilities of the Chairman and Chief Executive Officer/Managing Director are clear and distinctive, therefore, written terms thereof are not necessary.

C. BOARD COMMITTEES

The Board has established 3 committees, namely, the nomination committee ("Nomination Committee"), remuneration committee ("Remuneration Committee") and audit committee ("Audit Committee"), for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committee are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

(I) Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessment of the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge and personal integrity of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

As of the date of report, the Nomination Committee comprises of two executive directors namely Mr. Fu Kwan (Chairman) and Mr. Shu Shiping and three independent non executive directors namely Mr. Ting Leung Huel Stephen, Mr. Cao Kuangyu and Mr. E Meng.

The Nomination Committee has not held any meeting during the year ended 31 December 2005. Up to the date of the Annual Report, the Nomination Committee reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

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In accordance with the Company's Bye-laws 87, directors shall retire by rotation and, being eligible, offer themselves for re-election at the next forthcoming annual general meeting of the Company. The Nomination Committee recommended the re-appointment of these directors standing for re-election at the said annual general meeting.

The Company's circular dated 21 April 2006 contains detailed information of such directors standing for re-election.

(2) Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets annually for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer/Managing Director of the Company about these recommendations on remuneration policy and structure and remuneration packages.

As of the date of report, the Remuneration Committee comprises of two executive directors namely Mr. Fu Kwan (Chairman) and Mr. Shu Shiping and three independent non executive directors namely Mr. Ting Leung Huel Stephen, Mr. Cao Kuangyu and Mr. E Meng.

The Remuneration Committee has not held any meeting during the year ended 31 December 2005. Up to the date of the Annual Report, the Remuneration Committee reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management for the year under review.

EMOLUMENT POLICY

The directors are paid fees in line with market practice. The Group adopted the following main principles of determining the directors' remuneration:

- No individual should determine his or her own remuneration.
- Remuneration should be broadly aligned with companies with whom the Group competes for human resources
- Remuneration should reflect performance and responsibility with a view to motivating and retaining high performing individuals and promoting the enhancement of the value of the Company to its shareholders

In addition to the basic salaries, a share option scheme is adopted for rewarding good performers as well as retaining talented staff for the continual operation and development of the Group.

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(3) Audit Committee

The Audit Committee comprises one non-executive director and three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:–

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer, internal auditor (if any) or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held 2 meetings during the year ended 31 December 2005 to review the financial results and reports, financial reporting and compliance procedures, and the re-appointment of the external auditors.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2005 has been reviewed by the Audit Committee.

D. MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made to all of the directors and they have confirmed that they have complied with the Own Code and Model Code throughout the year ended 31 December 2005.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who, because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

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E. RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Auditors' Report" on page 24 to 75.

The remuneration of the external auditors of the Company in respect of audit services and non-audit services (for provision of taxation services) for the year ended 31 December 2005 amounted to HK\$750,000 and HK\$50,000 respectively.

F. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

Results on any voting conducted by poll will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the chairmen of the Board committees or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are normally available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated executive director(s) and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

INTERNAL CONTROL

The Company adopted the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code. As at the date of the Annual Report, the Board has reviewed the effectiveness of the system of internal control of the Group and is satisfied that the internal controls and accounting systems of the Group have been in place and function effectively.