

Corporate Governance Report

The Board is committed to maintain a high standard of corporate governance by continuously improving its management accountability and transparency to shareholders and the public.

CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices ("Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") since our IPO date being October 20, 2005 to December 31, 2005 (the "Period"), except for Mr. Zhu Zhangjin who had served as both the Chairman of the Board and the Chief Executive Officer of the Company (see the details set out in the section "Chairman and Chief Executive Officer" below).

DIRECTORS' SECURITIES TRANSACTIONS

During the Period, 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 inquiry with all directors of the Company and they have all confirmed their compliance during the Period with the required standards set out in the Model Code.

BOARD OF DIRECTORS

Board Composition

The Board currently comprises seven members, including three executive Directors, one non-executive Director and three independent non-executive Directors. The names, biographical details of the Directors and the relationships among them are set out in the "Directors and Management Profiles" section on pages 5 to 8 of this annual report.

The Company has received an annual confirmation of independence from each of the three independent non-executive directors pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive directors are independent and that they all met the specific independence guidelines as set out in rule 3.13 of the Listing Rules.

Board Functions

The Board oversees the overall management and operations of the Company. Major responsibilities include:

1. devising the company's overall business and financial strategies;
2. setting key performance targets;
3. approving budgets and major expenditures;
4. monitoring the performance of the management.

The Directors acknowledge that they are responsible for preparing accounts for each financial period on a going concern basis, with supporting assumptions or qualification as necessary.

Corporate Governance Report (cont'd)

Board Meetings

The Board held six meetings in 2005. The attendance records of individual Directors are set out below:

	Attendance
<i>Executive Directors</i>	
Zhu Zhangjin	6/6
Zhou Xiaosong	6/6
Zhu Jianqi	6/6
<i>Non-Executive Director</i>	
Sun Qiang Chang	6/6
<i>Independent Non-Executive Directors</i>	
Lu Yungang (appointed on June 17, 2005)	2/3
Chow Joseph (appointed on July 11, 2005)	2/3
Shi Zhengfu (appointed on June 17, 2005)	2/3

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company does not at present separate the roles of Chairman and Chief Executive Officer. Mr. Zhu Zhangjin is the Chairman and Chief Executive Officer of the Company responsible for overseeing the operations of the Group. The Company is currently considering to appoint a new Chief Executive Officer to replace Mr. Zhu if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. However, due to the nature and extent of the Group's operations, in particular in Mainland China and the in-depth knowledge and experience in the leather and upholstery furniture market required for the position of Chief Executive Officer, it is not possible to determine as to when the appointment of a new Chief Executive Officer of the Company can be effected. However, the Board believes that the appointment of Mr. Zhu as the Chairman and Chief Executive Officer of the Company will not impair the balance of power and authority between the Board and the management of the Company, and is most beneficial to the Company's interest at present.

NON-EXECUTIVE DIRECTORS AND RE-ELECTION

There is no service contract between the Company and the non-executive Director and independent non-executive Directors. They are subject to rotational retirement and re-election at annual general meetings pursuant to Article 87 of the Articles of Association of the Company every three years. At every 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 less than one-third, shall retire from office by rotation.

REMUNERATION OF DIRECTORS

The Group's policy on remuneration for its executive Directors is that remuneration level is linked with specified performance targets. Bonus payments are determined based on an annual performance evaluation and share option scheme is also introduced to ensure interests of executive Directors are in alignment with that of the shareholders.

Remuneration of independent non-executive Directors is determined with reference to the market level and will be reviewed to reflect changes in the market.

Corporate Governance Report (cont'd)

REMUNERATION COMMITTEE

The Remuneration Committee was set up in September 2005 and it comprises three members, two of which are independent non-executive directors, as follows:

SUN Qiang Chang (*Chairman of the Remuneration Committee*)

LU Yungang

SHI Zhengfu

The Remuneration Committee meets at least once a year and at such other times as its chairman requires. No meeting was held by the Remuneration Committee after the listing of the Company's shares on the Stock Exchange of Hong Kong on October 20, 2005.

The Remuneration Committee has adopted written terms of reference in compliance with code provisions B.1.3(a) to (f) of the Code. The responsibilities of the Remuneration Committee are to review and develop the Group's policy on remuneration for its Directors (including executive Directors) so as to ensure that it attracts, retains and motivates the Directors to manage the Company and the Group successfully. The Remuneration Committee has been delegated with the powers and authorities to implement the share option scheme of the Company and to deal with all compensation matters regarding the Directors of the Company. Directors do not participate in decisions regarding their own remuneration.

The Remuneration Committee proposed to convene a committee meeting in May or June 2006 for the purpose of reviewing and approving the policy for the remuneration of directors.

NOMINATION OF DIRECTORS

For the purpose of nomination of Directors, as the Company finds it not necessary to establish a separate Nomination Committee, therefore the task of nominating Directors is vested with the Board of the Company. The Board (i) reviews the structure, size and composition (including the skills, knowledge and experience) of Board members on a regular basis and make recommendation regarding and proposed changes; (ii) identifies individuals suitably qualified to become Board members; (iii) assesses the independence of independent non-executive Directors; and (iv) makes recommendations on relevant matters relating to the appointment and re-appointment of Directors and succession planning for Directors. In 2005, the Board had nominated and appointed Mr. Lu Yungang, Mr. Chow Joseph and Mr. Shi Zhengfu as independent non-executive Directors. Before they were nominated for election, the Board had assessed their independence.

AUDITOR'S REMUNERATION

The Company's external auditors are Deloitte Touche Tohmatsu. For the year ended December 31, 2005, the auditors of the Company received approximately RMB3.0 million for audit services.

The Company also incurred approximately RMB6.2 million for the services provided by Deloitte Touche Tohmatsu as reporting accountants in respect of the listing of the Company's shares on the Stock Exchange of Hong Kong.

A statement by the auditors about their reporting responsibilities is included in the page 34 of the Annual Report 2005 under the section "Auditors' Report".

Corporate Governance Report (cont'd)

AUDIT COMMITTEE

The audit committee was set up in September 2005 and it comprises three independent non-executive Directors:

CHOW Joseph (*Chairman of the Audit Committee*)

LU Yungang

SHI Zhengfu

The Board has the responsibility to present a clean and balanced assessment of the performance, result and prospects of the Group. It is also responsible for preparing financial statements with a true and fair view.

The audit committee, delegated by the Board to assess matters related to the financial statements of the accounts and to provide recommendations and advices, was set up with written terms of reference prepared based on the Listing Rules and code provisions B.1.3(a) to (f) of the Code. The primary duties of the audit committee are (i) to review the Company's annual reports and accounts and interim reports and results announcements and to provide advice and comments thereon to the directors; (ii) to review the Company's internal control procedures; and (iii) to recommend to the Board on the appointment, re-appointment, and removal of the external auditors.

In order to review and to supervise the Company's financial reporting and internal control procedures, the Audit Committee meets at least twice a year and the Chief Financial Officer, internal auditor and a representative of the external auditors normally are invited to attend the meetings.

After the listing of the Company's shares on the Stock Exchange of Hong Kong on October 20, 2005, the Audit Committee held one meeting on December 22, 2005 with an attendance rate of 100%. The meeting was attended by external auditors and the Company's senior management to discuss audit plans.

The Audit Committee also held a meeting on April 19, 2006 to review the Group's results for the year ended December 31, 2005 with an attendance rate of 100%. The Chief Financial Officer, internal auditor and representatives of the external auditors attended the meeting.

The Audit Committee reported that there is no material uncertainty that cast doubt on the Company's ability to continue as a going concern. There is no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors.

The Board has accepted the recommendation from the Audit Committee on re-appointing Deloitte Touche Tohmatsu as the external auditors of the Group.

INTERNAL CONTROL

The Company conducted a review of its internal controls with an overall objective of providing management with information to identify significant weaknesses in relevant procedures, systems and controls. The Company intends to perform an annual review of the effectiveness of the systems of internal controls to ensure adequate control mechanism is in place.