

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Company is firmly committed to the overall standards of corporate governance and has always recognised the importance of accountability and communication with shareholders. Following the issue of the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), the Company adopted the code provisions of the Code as its own corporate governance code on 30 June 2005.

COMPLIANCE WITH THE CODE PROVISIONS OF THE CODE

In the opinion of the directors, the Company has applied the principles in the Code through the adoption of the code provisions of the Code and has complied with the code provisions of the Code throughout the year ended 31 December 2005, except for those deviations detailed below.

BOARD OF DIRECTORS

The board of directors of the Company (the “Board”) currently comprises nine directors, namely, Mr Zhang Zhao Dong (Chairman), Mr Cheung Shuen Lung, Professor Wei Xin, Mr Xia Yang Jun and Mr Xie Ke Hai as executive directors, Mr Yung Chih Shin, Richard as non-executive director, Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian as independent non-executive directors. The roles of the Chairman and the President (equivalent to Chief Executive Officer) are segregated and are not exercised by the same individual. All the independent non-executive directors are professional accountant, which is in compliance with the requirement of the Listing Rules. There are also two board committees under the Board, which are the audit committee and the remuneration committee.

The key responsibilities of the Board include, among other things, formulating the Group’s overall strategies, setting management targets, regulating internal controls, formulating the Company’s corporate governance practices, and supervising the management’s performance while the day-to-day operations and management of the Group are delegated by the Board to the management. The Company has received acknowledgements from the directors of their responsibility for preparing the financial statements and a statement by the external auditors of the Company about their reporting responsibilities.

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BOARD OF DIRECTORS *(Continued)*

The Board convened four board meetings during the year ended 31 December 2005. The attendance of the directors at the board meetings is as follows:

Directors	Number of attendance
Mr Zhang Zhao Dong	2
Mr Cheung Shuen Lung	4
Professor Wei Xin	2
Mr Xia Yang Jun	3
Mr Xie Ke Hai	1
Mr Yung Chih Shin, Richard	1
Mr Li Fat Chung	4
Ms Wong Lam Kit Yee	4
Ms Cao Qian	4
Mr Yang Lin, Richard*	0

* *Independent non-executive director resigned on 31 March 2005*

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. Board minutes are kept by the Company Secretary of the Company and are sent to the directors for endorsement.

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and be subject to re-election. None of the existing non-executive directors of the Company was appointed for a specific term when they were appointed, which constitutes a deviation from code provision A.4.1 of the Code. To comply with the code provision A.4.1 of the Code, the Company has entered into service contracts with all existing non-executive directors for a fixed term of one year on 30 June 2005.

Under code provision A.4.2 of the Code, all directors appointed to fill a causal 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. However, according to the then Bye-laws of the Company, one third of the directors are subject to retirement by rotation at each annual general meeting and the Chairman or Managing Director of the Company is not subject to retirement by rotation, which constitutes a deviation from code provision A.4.2 of the Code. To comply with code provision A.4.2 of the Code, relevant amendments to the Bye-laws of the Company were approved by the shareholders in the special general meeting on 4 January 2006.

Under code provision E.1.2 of the Code, the Chairman of the Board should attend the annual general meeting of the Company. The Chairman of the Board had not attended the annual general meeting of the Company held on 27 May 2005. The Chairman will endeavour to attend all future annual general meetings of the Company unless unexpected or special circumstances prevent him from doing so.

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NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The power to nominate or appoint additional directors is vested in the Board according to the Bye-laws of the Company, in addition to the power of the shareholders to nominate any person to become a director of the Company in accordance with the Bye-laws of the Company and all applicable laws.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the applicable laws and regulations. The nomination procedure basically follows Bye-law 102(B) of the Bye-laws of the Company, which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deem fit. The directors shall consider the candidate from a wide range of backgrounds, on his merits and against objective criteria set out by the Board and taking into consideration his time devoted to the position.

The Board appointed Ms Cao Qian as an independent non-executive director to fill the casual vacancy caused by the resignation of Mr Yang Lin, Richard on 31 March 2005.

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REMUNERATION COMMITTEE

Under code provision B.1.1 of the Code, a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties. To comply with code provision B.1.1 of the Code, the Company has established a remuneration committee and adopted its terms of reference on 30 June 2005.

The remuneration committee currently comprises Mr Cheung Shuen Lung (Chairman), Mr Li Fat Chung and Ms Wong Lam Kit Yee. The primary responsibilities of the remuneration committee include, among other things, determining the remuneration packages of all executive directors and senior management, making recommendations to the Board of the remuneration of non-executive directors, reviewing and approving performance-based remuneration, and ensuring that no director or any of his associates is involved in deciding his own remuneration. The terms of reference of the remuneration committee are available on the Company's website.

In 2005, the remuneration committee met once to review and discuss the remuneration policy for the directors of the Company and the remuneration packages of all directors of the Company. All members of the remuneration committee attended the meeting.

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AUDIT COMMITTEE

The Company has established an audit committee since 1998, which is comprised solely of independent non-executive directors, namely, Mr Li Fat Chung (Chairman), Ms Wong Lam Kit Yee and Ms Cao Qian. All committee members possess appropriate professional accounting and financial qualifications. The primary responsibilities of the audit committee include, among other things, making recommendation to the Board on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, developing and implementing policy on the engagement of external auditors to supply non-audit services, monitoring the integrity of the financial statements and the reports of the Company, and overseeing the Company's financial reporting system and internal control procedures. The terms of reference of the audit committee are available on the Company's website.

In 2005, the audit committee met four times. During these meetings, the audit committee reviewed reports from the external auditors regarding their audit on annual financial statements, review on interim financial results and review on connected transactions, discussed the internal control of the Group, and met with the external auditors. The attendance of the members of the audit committee at the meetings is as follows:

Director	Number of attendance
Mr Li Fat Chung	4
Ms Wong Lam Kit Yee	4
Ms Cao Qian	4
Mr Yang Lin, Richard*	0

* Independent non-executive director resigned on 31 March 2005

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") to regulate the directors' securities transactions. Following specific enquiry by the Company, all directors have confirmed that they have complied with the Model Code regarding directors' securities transactions during the year ended 31 December 2005.

AUDITORS' REMUNERATION

The Company engaged Ernst & Young as statutory auditors of the Company. The principal services provided by Ernst & Young in 2005 include the review of interim consolidated financial statements of the Group, the audit of annual consolidated financial statements of the Group, and the audit of the financial statements of certain subsidiaries of the Group.

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AUDITORS' REMUNERATION *(Continued)*

Apart from the aforementioned audit services, associates of Ernst & Young were also engaged in providing taxation services and corporate finance advisory services to the Group.

The remuneration in respect of audit and non-audit services provided by Ernst & Young and its associates to the Group in 2005 is summarised as follows:

	<i>HK\$'000</i>
Audit fees	1,030
Non-audit fees:	
Accounts review service	240
Taxation service	95
Corporate finance advisory service	150
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	485
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Total	<u>1,515</u>