

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (“Corporate Governance Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), which became effective on 1 January 2005 and in replacement of the Code of Best Practice, as its own code of corporate governance practices.

The Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules during the year ended 31 December 2005.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors of the Company (the “Directors”), the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2005.

BOARD OF DIRECTORS

The Board currently comprises six Directors, of which three are executive directors and three are independent non-executive directors, namely,

Executive Directors:

Xu Lian Guo (*Chairman*)

Xu Lian Kuan (*Vice-chairman and Chief Executive Officer*)

Zhang Yuqing (*Vice-chairman*)

Independent Non-executive Directors:

Chan Wai Dune

Gu Yao Tian

Li Xin Zhong

The Board has two scheduled meetings held half yearly and meets as and when required. During the year ended 31 December 2005, the Board held 4 meetings.

The attendance of the Directors at the meetings is as follows:

Directors	Number of attendance
Xu Lian Guo	3/4
Xu Lian Kuan	3/4
Zhang Yuqing	4/4
Chan Wai Dune	2/4
Gu Yao Tian	4/4
Li Xin Zhong	3/4

The Board is responsible for the leadership and control of the Company and oversees the Company and its subsidiaries (the "Group")'s businesses, strategic planning and decisions making. During the year, the Company has formed the executive committee (the "Executive Committee") comprising of two executive directors of the Company, namely, Mr. Xu Lian Kuan and Mr. Zhang Yuqing. The duties and responsibility of the Executive Committee are to formulate, administer, enforce, interpret and supervise the compliance of the rules, regulations and operational procedures of the Group. In addition, the management of the Group is delegated the authority to prepare annual budget and submit to the Board for consideration and approval.

The Company appointed three independent non-executive directors ("INEDs") who have sufficient experience and qualification to carry out their duties. The qualification and experience of the INEDs are set out in the Biographical Details of Directors contained in the 2005 Annual Report. In addition, the Company has received annual confirmations of independence pursuant to the rule 3.13 of the Listing Rules, from all the INEDs.

**THE CHAIRMAN
AND CHIEF
EXECUTIVE
OFFICER**

The Board appointed Mr. Xu Lian Guo as the chairman of the Group and Mr. Xu Lian Kuan as the vice-chairman and chief executive officer of the Group. Mr. Xu Lian Guo is the elder brother of Mr. Xu Lian Kuan. The roles of the chairman and the chief executive officer are segregated and are not exercised by the same individual.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive directors of the Company were appointed with specific terms and subject to re-election at the annual general meeting of the Company.

REMUNERATION OF DIRECTORS

The Company established the remuneration committee on 1 January 2005. The committee comprises three members of which two are INEDs.

The major roles and functions of the remuneration committee is to make recommendation to the Board on the Company's policy and structure for all remuneration of Directors and senior management, to establish a formal and transparent procedure for development the remuneration policy, to determine the specific remuneration packages of all executive directors and senior management, to review and approve the performance-based remuneration and the compensation payable to executive directors and senior management in connection with any loss or termination of their office, dismissal and removal, to ensure that no director or his associates is involved in deciding his own remuneration to consult the chairman and/or the chief executive officer about their proposals relating to the remuneration of executive directors and have access to professional advice of considered necessary, and to consider other topics as defined by the Board.

During the year under review, a meeting of the remuneration committee was held on 10 June 2005. Details of the attendance of the remuneration committee meeting are as follows:

Members	Number of attendance
Gu Yao Tian (<i>Chairman</i>)	1/1
Li Xin Zhong	1/1
Zhang Yuqing	0

AUDITORS' REMUNERATION

During the year, the remuneration paid to the auditors of the Company, ShineWing (HK) CPA Limited, is set out as follows:

	Fee paid/ Payable RMB'000
Audit services rendered	998
Non-audit services rendered	Nil

**AUDIT
COMMITTEE**

The Company revised the terms of reference of the audit committee in December 2004 in accordance with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and the internal control system of the Group. The audit committee has three members comprising the three independent non-executive directors, namely, Mr. Chan Wai Dune, Mr. Gu Yao Tian and Mr. Li Xin Zhong.

The audit committee held four meetings during the year ended 31 December 2005. Details of the attendance of the audit committee meetings are as follows:

Members	Number of attendance
Chan Wai Dune (<i>Chairman</i>)	4/4
Gu Yao Tian	3/4
Li Xin Zhong	3/4