

CODE OF BEST PRACTICE AND CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors of the Company (the “Board”) is committed to maintaining high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, maintain high standards of accountability and protect interests of shareholders and other stakeholders.

The Company has complied with the all Code Provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) of the Stock Exchange of Hong Kong Limited throughout the year ended 30 April 2006 except for the certain deviations disclosed herein:

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 of the Listing Rules of the Stock Exchange. The Company had made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

The Board is collectively responsible for the formulating of the Group’s overall strategy, reviewing and monitoring the business performance of the Group preparing and approving financial statements, recommendation of the directors’ appointment or re-appointment, considering and approving material contracts and transactions as well as other significant policy and financial matters. The Board also gives clear directions as to the powers delegated to the management for the day-to-day operation and administration function of the Group.

During the fiscal year, the Board comprises nine members, including Chairman, five executive directors and three independent non-executive directors. One of the independent non-executive directors has relevant financial management expertise required by the Listing Rules.

The Board schedules four meetings a year and also meets as and when required. During the year, the Board held four regular meetings.

The members of the Board and the attendance of each member are as follows:–

Directors	Number of attendance
<i>Executive Directors</i>	
Mr. Li Song Xiao	4/4
Mr. Liu Yi	4/4
Ms. Song Xuan	4/4
Ms. Niu Xiao Rong	4/4
Mr. Zhang Huai An	4/4
Mr. Yuan Kun	4/4
<i>Independent Non-executive Directors</i>	
Ms. Nie Mei Sheng	2/4
Mr. Wang Shi Yong	3/4
Mr. Zheng Kuan	2/4

The Company has received annual confirmation of independence from independent non-executive directors and the Company considers them to be independent.

Given the nature and business objective of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of directors and their respective biographies are set out on pages 18 to 19 of this annual report respectively.

CHAIRMAN AND CHIEF EXECUTIVE DIRECTOR

Mr. Li Song Xiao is the Chairman of the Board and Mr. Liu Yi is the Chief Executive Officer (“CEO”) of the Company. The roles of the Chairman and the CEO are two distinctively separate positions. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively. The CEO is responsible for the Group’s business development and management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Under the Code Provisions A.4.1, independent non-executive director should be appointed for a specific term and every Director should be subject to retirement by rotation at least once every three years. The existing three independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election in accordance with the Company’s Bye-laws.

REMUNERATION COMMITTEE

The Remuneration Committee has been established. It currently consists three independent non-executive directors of the Company namely Ms. Nie Mei Sheng, Mr. Zheng Kuan and Wang Shi Yong (as Chairman).

The main responsibilities for the Remunerations Committee are:

1. To make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management;
2. To have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management;
3. To review and approve above performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
4. To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office;
5. To review and approve compensation arrangements relating to dismissal or removal of directors; and
6. To ensure that no director or any of his associates is involved in deciding his own remuneration.

There was no meeting held for the year ended 30 April 2006. Nevertheless, the remuneration packages of the Board for the year ended 30 April 2006 had been reviewed by the Remuneration Committee and approved by the Board by taking into consideration factors such as salaries paid by comparable companies, time commitment, responsibility, market conditions elsewhere in the Group and desirability of performance-based remuneration.

NOMINATION OF DIRECTORS

The Company has not established a Nomination Committee. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no director being involved in fixing his/her own terms of appointment and no independent non-executive director being involved in assessing his/her own independence.

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors, Deloitte Touche Tohmatsu, is set out below:–

	HK\$'000
Services rendered	
– audited services	2,034
– non-audit services	
Review on 11-month accounts for Issuance of convertible note	1,341
Preparation of accountants' report for inclusion in a circular to shareholders in respect of a very substantial acquisition	2,300
	<u>5,675</u>
During the year, audit fees paid to other auditors are as follows:	
– PRC auditors	121
– Grant Thornton (for Chongqing Project)	350
	<u>471</u>

AUDIT COMMITTEE

The Audit Committee has been established. It currently consists of three independent non-executive directors namely Ms. Nie Mei Sheng, Mr. Zheng Kuan and Mr. Wang Shi Yong (as Chairman).

The main responsibilities for the Audit Committee are:–

1. To review the accounting principles and practices adopted by the Group; and
2. To review the financial reporting process and internal control system of the Group.

There were two Audit Committee meetings held for the year ended 30 April 2006. The following was the attendance record of the Audit Committee meetings held during the year:–

Audit Committee Members	Number of attendance
Ms. Nie Mei Sheng	2/2
Mr. Zheng Kuan	2/2
Mr. Wang Shi Yong	2/2

The Audit Committee reviewed the independence and objectivity of the external auditors, the scope of audit services and related audit fees payable to the external auditors for the Board's approval. The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the year ended 30 April 2006.

The Chairman of the Audit Committee, Mr. Wang Shi Yong, possesses relevant financial management expertise and meets the requirements of rule 3.21 of the Listing Rules.

ACCOUNTABILITY

The directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Company and the Group and of the Group's results and cash flow for the period. In preparing the financial statements for the year ended 30 April 2006, appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants which are pertinent to its operations and relevant to the financial statements on the going concern basis. The Company has received acknowledgements from all directors of their responsibility for preparing the financial statements. It is the responsibility of the auditors to form an independent opinion, based on their audit, on these financial statements and to report their opinion to the members of the Company, as a body, and for no other purpose. The auditors do not assume responsibilities toward or accept liability to any other person for the contents of this report.

INTERNAL CONTROLS

The Board has, through the Audit Committee, conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions. The internal control system is designed to provide reasonable, but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievements of the Group's objectives.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognizes the importance of good communications with all shareholders. Extensive information on the Company's activities is provided in the annual and interim reports, which are sent to shareholders. The Company's annual general meeting is a valuable forum for the board to communicate directly with the shareholders. The Chairman of the board as well as Chairman of the Audit Committee and Remuneration Committee are present to answer shareholders' questions. Details of some transactions undertaken by the Group are also disclosed on a timely manner to shareholders through press announcements to facilitate shareholders' understanding of the Group's activities.