

## Report on Corporate Governance Practices

The Group is committed to achieve the best corporate governance practices as a listed company. The Board believes that high standards and rigorous corporate governance practices can improve the accountability and transparency of the Group. During the year ended 30 June 2006, the Group applied the principles and met the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUER (THE "MODEL CODE")

The Group has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company (the "Directors") have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 30 June 2006.

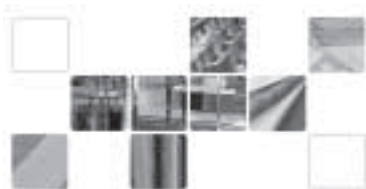
### BOARD OF DIRECTORS (THE "BOARD")

The composition of the Board, with at least one-third of which are independent non-executive directors, is as follows:

Mr. Chen Jinyan	<i>(Chairman, Executive Director)</i>
Mr. Chen Dong	<i>(Chief Executive Officer, Executive Director)</i>
Ms. Kong Ping	<i>(Executive Director)</i>
Mr. Huang Yongfeng	<i>(Independent Non-executive Director)</i>
Mr. Yu Zhong Ming	<i>(Independent Non-executive Director)</i>
Mr. Lo Kin Chung	<i>(Independent Non-executive Director)</i>

Each executive Director of the Company (the "Executive Director") has sufficient experience to hold the position so as to carry out his or her duties effectively and efficiently.

Each independent non-executive Director of the Company (the "Independent Non-executive Director") has confirmed his independence with the Company and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules. Each Independent Non-executive Director was appointed for a term of one year. The Board members have no financial, business or other material/relevant relationships with each other; except that Mr. Chen Jinyan is the elder brother of Mr. Chen Dong.



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The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company. During the financial year ended 30 June 2006, 4 board meetings were held and the attendance of all Directors at the Board meetings is as follows:

Name of Directors	Attendance
Mr. Chen Jinyan	4/4
Mr. Chen Dong	4/4
Ms. Kong Ping	4/4
Mr. Huang Yongfeng	4/4
Mr. Yu Zhong Ming	4/4
Mr. Lo Kin Chung	4/4

The Board convened the Board meetings in performance of its duties, to consider, *inter alia*,

- setting up of nomination and remuneration committees and approve recommendations made by the audit committee;
- amendments to the Articles of Association (the "Articles") of the Company and other matters under the provisions of the Articles of the Company;
- approval of the audit fee for the year ended 30 June 2006;
- declaration, recommendation and payment of interim and final dividend; and
- approval for publication of interim and annual results announcements.

### OPERATION OF THE BOARD

The principal roles of the Board are to oversee the Company's operation, administration and finance, to design and set corporate policies and development strategies and to implement and monitor the Company's business plans, such as market expansion and product development while the senior management is responsible for execution of the Board's decision in order to achieve the Company's goals and objectives. The Board has separate and independent access to the senior management for collecting information on operation.

The Board is responsible for the preparation of financial statements by selecting and applying appropriate accounting policies. It is the responsibility of the auditors to form an independent opinion on those statements and to report their opinion to the Group; whether the financial statements give a true and fair view of the state of affairs of the Group as at balance sheet date and of the income statement and cash flows of the Group for each financial year, as well as proper preparation in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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### DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer are segregated in order to ensure a balance of power and authority in the management of the Board and the day-to-day management of the business. The Chairman of the Company is Mr. Chen Jinyan while the Chief Executive Officer is Mr. Chen Dong who is the younger brother of Mr. Chen Jinyan.

The duties of the Chairman include the following:

- (a) to ensure all Directors are properly briefed on issues arising at board meetings;
- (b) to ensure Directors receive adequate information, which must be complete and reliable, in a timely manner;
- (c) to ensure appropriate steps have been taken to provide effective communication with shareholders, such as release of website/press announcements, circular, interim and annual reports and holding of annual general meeting etc.;
- (d) to ensure that good corporate governance practices and procedures are established; and
- (e) to conform to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by the Listing Rules or other applicable laws, rules and regulations.

The duties of the Chief Executive Officer include the following:

- (a) to be responsible for the day-to-day management of the Group's business;
- (b) to be responsible for the performance of the Group and the implementation of the Board's strategy and policies;
- (c) to maintain an effective system of internal control;
- (d) to ensure that proper financial records and accounts are kept; and
- (e) to ensure all applicable laws, rules and regulations and other relevant statements of best practice are complied with.



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### COMMITTEES OF THE COMPANY

The Board had established the audit committee, remuneration committee and nomination committee and their authorities and duties were discussed and approved in the Board meeting.

#### Audit Committee

With specific terms of reference, the audit committee of the Company (the "AC") comprises three members, all being Independent Non-executive Directors, namely, Mr. Huang Yongfeng, Mr. Yu Zhong Ming and Mr. Lo Kin Chung. Mr. Lo Kin Chung is a Certified Public Accountant and chairman of the AC.

The role and function of the AC are as follows:

- (a) to recommend the Board on the appointment, reappointment and removal of external auditors, as well as approve the remuneration and terms of engagement of the external auditors;
- (b) to monitor the integrity of financial statements of the Group and the annual reports and interim reports;
- (c) to review and make recommendations of the Group's financial control, internal control and risk management systems;
- (d) to discuss with the management the system of internal control and ensure that the management has discharged its duty to have an effective internal control systems; and
- (e) to review the Group's financial and accounting policies and practices.

During the financial year ended 30 June 2006, 4 AC meetings were held and the attendance of members is as follows:

<b>Name of members</b>	<b>Attendance</b>
Mr. Huang Yongfeng	4/4
Mr. Yu Zhong Ming	4/4
Mr. Lo Kin Chung	4/4

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The following is a summary of the work performed by the AC during the year ended 30 June 2006 in discharging its responsibilities and its duties set out in the CG Code:

- reviewed the annual report and interim report, focusing particularly on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, the going concern assumptions, compliance with accounting standard and compliance with the Listing Rules and the Companies Ordinance;
- assessed the risk environment and reviewed internal control procedure manual of the Group and concluded that the internal control system is effective and efficient;
- considered and approved the annual audit fee and interim review fee; and
- reviewed the revised terms of reference of the AC to conform to the CG Code.

The chairman of the AC will report the findings and recommendations of the AC to the Board after each meeting.

The AC had discussed with the auditors regarding the interim review for the period ended 31 December 2005 before the Board meeting.

### Remuneration Committee

With specific terms of reference, all members of the Remuneration Committee (the "RC") are Independent Non-executive Directors, namely, Mr. Huang Yongfeng, Mr. Yu Zhong Ming and Mr. Lo Kin Chung. Mr. Lo Kin Chung is the chairman of the RC.

The role and function of the RC include making recommendations to the Board on the Company's policy and structure for all remuneration of key executives of the Company, determining their specific remuneration packages by considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and the Company's performance and ensuring that no Director of the Company or any of his associate(s) is involved in deciding his own remuneration.

The chairman of the RC will report the findings and recommendations of the RC to the Board after each meeting.



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During the financial year ended 30 June 2006, there was 1 RC meeting and the attendance of members is as follows:

Name of members	Attendance
Mr. Huang Yongfeng	1/1
Mr. Yu Zhong Ming	1/1
Mr. Lo Kin Chung	1/1

The following is a summary of the work performed by the RC during the year ended 30 June 2006:

- reviewed the remuneration policy for the financial year ended 30 June 2006;
- reviewed the remuneration of Executive Directors; and
- reviewed the accounting treatment and financial implications under the newly issued Hong Kong Financial Reporting Standards.

### Nomination Committee

With specific terms of reference, all members of the Nomination Committee of the Company (the "NC") are Independent Non-executive Directors, namely, Mr. Huang Yongfeng, Mr. Yu Zhong Ming and Mr. Lo Kin Chung. Mr. Lo Kin Chung is the chairman of the NC.

The role and function of the NC include the following:

- (a) to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- (b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- (c) to make recommendations to the Board on relevant matters relate to the appointment or re-appointment of Directors of the Company and succession planning for Directors of the Company in particular the chairman and the chief executive officer of the Company; and
- (d) to assess the independence of Independent Non-executive Directors of the Company.

The chairman of the NC will report the findings and recommendations of the NC to the Board after each meeting.

## Report on Corporate Governance Practices

During the financial year ended 30 June 2006, there was 1 NC meeting and the attendance of members is as follows:

Name of members	Attendance
Mr. Huang Yongfeng	1/1
Mr. Yu Zhong Ming	1/1
Mr. Lo Kin Chung	1/1

The NC recommended that two Executive Directors, Mr. Chen Dong and Ms. Kong Ping, retiring by rotation at the annual general meeting held in November 2005, be re-elected. The NC made this recommendation for re-appointment based on contributions to the Board by the two Executive Directors. The Board accepted the NC's recommendation and accordingly, the two Executive Directors offered themselves for re-election at the annual general meeting. The NC also considered the contribution of each Director to the effectiveness of the Board, reviewed the attendance and participation of the Directors at the Board and Board meetings.

### AUDITORS' SERVICES

#### (a) Audit service

Deloitte Touche Tohmatsu ("DTT") becomes the auditors of the Company since 2004. The fees for annual audit quoted by DTT had been reviewed by the Board and the AC annually. For the year ended 30 June 2006, the auditors' remuneration was HK\$820,000.

#### (b) Non-audit service

The fee charged by DTT of interim review for the period ended 31 December 2005 was HK\$150,000. DTT reviewed the interim financial statements and made a review conclusion.

### COMMUNICATION WITH SHAREHOLDERS

The Board uses annual general meetings to communicate with shareholders and encourages their participation. At the annual general meeting held in 2005, the Chairman proposed a separate resolution in respect of each substantially separate issue and arranged a member of the AC to answer questions at the meeting.

### VOTING BY POLL

The circular in relation to general mandates to issue and repurchase shares for the year ended 30 June 2005 disclosed the procedures for and the rights of shareholders to demand a poll at the annual general meeting. At the commencement of the annual general meeting, the Chairman explained the detailed procedures for conducting a poll to the shareholders. The Company properly counted and recorded all proxy votes. Then the Chairman indicated the level of proxies lodged on each resolution and the balance for and against the resolution to shareholders.