

The Company has adopted most of the Code Provisions as stated in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the Code on Corporate Governance Practices (the "Code") of the Company and the Board is committed to complying with the Code to the extent that the directors consider it is applicable to the Company and practical.

The corporate governance principles of the Group emphasis an effective Board, sound internal controls, appropriate independence policy, and transparency and accountability to all shareholders of the Company.

The Company had complied with the CG Code throughout the year ended 30 June 2006 with the following deviations:

- A4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's Bye-laws. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.
- A4.2 The Chairman and the Group Managing Director are not, whilst holding such office, subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year in accordance with the Company's Bye-laws. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that both should not be subject to retirement by rotation or hold office for a limited term at the present time.

The Board will keep these matters under review. Following sustained development and growth of the Company, we will continue to monitor and revise the Company's governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders.

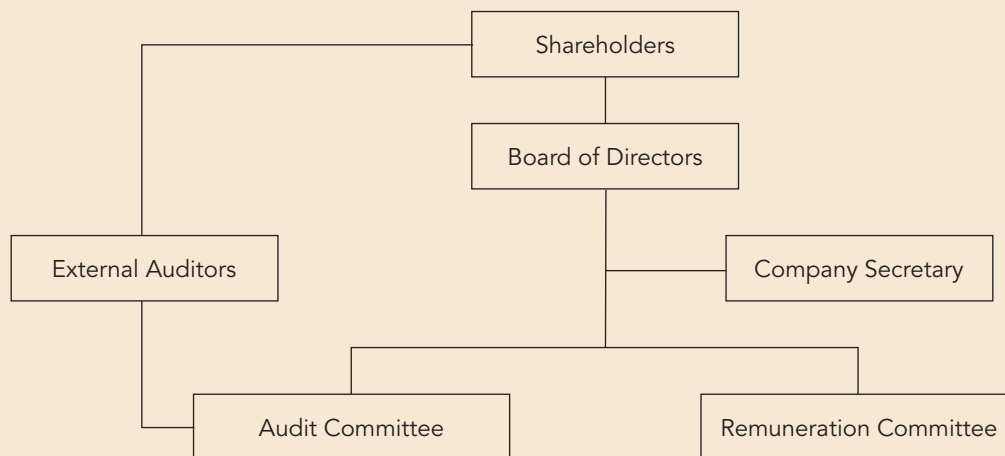
The key corporate governance principles and practices of the Company are summarized as follows:

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules. The Company has confirmed with the Directors that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

## THE BOARD AND CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The directors are responsible for leadership and control of the Group. The overall corporate governance structure of the Company is depicted in the following chart:



## BOARD

### A) BOARD COMPOSITION

The Board currently comprises two executive Directors and three independent non-executive Directors, serving the important function of guiding the management.

The Board members for the year ended 30 June 2006 were:–

#### *Chairman*

Mr. Zhang Yang

#### *Executive directors*

Mr. Zhang Yang  
Mr. Lam Cheung Shing, Richard

#### *Independent non-executive directors*

Mr. Tam Sun Wing  
Mr. Ko Ming Tung, Edward  
Mr. Ng Ge Bun

### B) ROLE AND FUNCTION

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that Board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The Board has the full support of the chief executive officer and senior management to discharge its responsibilities. Appropriate insurance cover for the directors' and officers' liabilities in respect of legal actions against the directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group has been arranged by the Company.

For the year ended 30 June 2006, the Board:-

- i. reviewed the performance of the Group and formulated business strategy of the Group;
- ii. reviewed and approved the annual and interim results of the Group for the year ended 30 June 2005 and for the period ended 31 December 2005 respectively;
- iii. reviewed and approved the issuance of convertible note by the Group;
- iv. reviewed and approved the new tendency agreement;
- v. approved the change of auditors;
- vi. reviewed the general mandates to issue and repurchase shares of the Company; and

- vii. reviewed and approved the very substantial transaction/major transactions/discloseable transaction as herein below:-

<b>Date of Announcement</b>	<b>Type of Transaction</b>	<b>Description</b>
16 September 2005	Major transaction	Further acquisition of properties in Beijing, PRC
20 October 2005	Discloseable transaction	Execution of an Deed of Settlement in relation to the termination of the Subcontracting Agreement and the Service Agreement and the cancellation of Convertible Note
30 December 2005	Very substantial transaction	The acquisition of Sale Share and Shareholder's Loan of Easy Rider Group Limited.
18 May 2006	Major transaction	The disposal of the entire interest in and shareholder loan due from Guo Xin (China) Limited

To the best knowledge of the Company, there is no financial, business and family relationship among our directors between the chairman and the chief executive officers. All of them are free to exercise their independent judgment.

### C) MEETING RECORDS

There were 5 board meetings held for the year ended 30 June 2006.

The following was an attendance record of the board meetings held by the board during the year:

<b>Board Members</b>	<b>Attendance at meetings held for the year ended 30 June 2006</b>
Mr. Zhang Yang	4/5
Mr. Lam Cheung Shing, Richard	5/5
Mr. Tam Sun Wing	5/5
Mr. Ko Ming Tung, Edward	5/5
Mr. Ng Ge Bun	5/5

### D) INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 30 June 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence 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.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman and chief executive officer of the Company are Mr. Zhang Yang and Mr. Lam Cheung Shing, Richard respectively.

The chairman's responsibility is to manage the Board and the chief executive officer's responsibility is to manage the Company's business. The division of responsibilities between the chairman and chief executive officer is clearly established and set out in the Code of Corporate Governance of the Company.

### BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:-

- Audit Committee
- Remuneration Committee

Each Board Committee makes decisions on matters within its term of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

## A) AUDIT COMMITTEE

On 14 December 2001, the Audit Committee had been established. It currently consists of three independent non-executive directors.

### *Composition of Audit Committee members*

Mr. Tam Sun Wing (Chairman)  
 Mr. Ko Ming Tung, Edward  
 Mr. Ng Ge Bun

### *Role and function*

The Audit Committee is mainly responsible for:

- i. to discuss with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved;
- ii. to review the draft Company's annual report and accounts and interim report before submission to, and providing advice and comments thereon on to the Board of Directors;
- iii. to consider the appointment of external auditors, their audit fees and questions of resignation or dismissal;
- iv. to discuss problems and reservations arising from the interim and final audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary); and
- v. to assess the risk environment and review internal control procedure manual of the Group.

### *Meeting Record*

The Audit Committee met twice during the year, particular in reviewing the interim and annual results, and the internal control of the Group.

The following was an attendance record of the of the Audit Committee meetings for the year ended 30 June 2006:

<b>Committee member</b>	<b>Attendance at meetings held for the year ended 30 June 2006</b>
Mr. Tam Sun Wing	2/2
Mr. Ko Ming Tung, Edward	2/2
Mr. Ng Ge Bun	2/2

During the meetings, the Audit Committee would discuss the following matters:-

1) Financial Reporting

The Audit Committee met with the external auditors to discuss the interim and annual financial statements and system of control of the Group. The auditors, the chief executive officer and the company secretary, and the financial controller of the Company were also in attendance to answer questions on the financial results.

Where there were questions on the financial statements and system of control of the Group reviewed by the Audit Committee, the management of the Company would provide breakdown, analysis and supporting documents to the Audit Committee members in order to ensure that the audit committee members were fully satisfied and make proper recommendation to the Board.

2) External Auditors

The appointment of the external auditors and the audit fee were considered by the Audit Committee and recommendations were made to the Board on the selection of external auditors of the Company.

3) Internal Control

The sufficiency and efficiency of the internal control system and risk management.

### B) REMUNERATION COMMITTEE

The Remuneration Committee was established on 21 March 2005. It currently consists of one executive Director and two independent non-executive Directors.

*Composition of Remuneration Committee members*

Mr. Lam Cheung Shing, Richard (Chairman)

Mr. Tam Sun Wing

Mr. Ko Ming Tung, Edward

*Role and function*

The Remuneration Committee is mainly responsible for:

1. reviewing any significant changes in human resources policies and structure made in line with the then prevailing trend and business requirements;
2. making recommendations to the board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

3. determining the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors;
4. considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;
5. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;
6. reviewing and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
7. reviewing and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
8. ensuring that no director or any of his associates is involved in deciding his own remuneration; and
9. advising the shareholders on how to vote in respect of any service contract of director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

Where circumstances are considered appropriate, some remuneration committee decisions are approved by way of written resolutions passed by all the committee members.

For the year ended 30 June 2006, there was one meeting held. The following was an attendance record of the of the remuneration committee meeting for the year ended 30 June 2006:

<b>Committee member</b>	<b>Attendance at meetings held for the year ended 30 June 2006</b>
Mr. Lam Cheung Shing, Richard	1/1
Mr. Tam Sun Wing	1/1
Mr. Ko Ming Tung, Edward	1/1

During the meeting, the remuneration committee discussed the incentive scheme and option scheme for all staffs to enhance their motivation.



## SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholder's interest. To do so, the Company maintains on-going dialogue with shareholders to communicate with them and encourage their participation through annual general meetings or other general meetings.

Registered shareholders are notified by post for the shareholders' meetings. The notice of meeting contains the agenda, the proposed resolutions and a postal voting form.

Any registered shareholder is entitled to attend the annual and extraordinary general meetings, provided that their shares have been recorded in the Register of Shareholders.

Shareholders who are unable to attend a general meeting may complete and return to the Share Registrar the proxy form enclosed with the notice of meeting to give proxy to their representatives, another shareholder or chairman of the meetings.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:-

Hotline no.: 2804-2221

By post: Room 701A, 7/F, Aon China Building, 29 Queen's Road Central, Hong Kong.

## EXTERNAL AUDITORS

It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditors' report.

Apart from the provision of annual audit services, the Group's external auditors also carried out interim review of the Group's results, taxation advisory service and the due diligence review of the Group.

For the year ended 30 June 2006, KLL Associates CPA Limited ("KLL"), BDO McCabe Lo Limited ("BDO") and HLB Hodgson Impey Cheng ("HLB"), the external auditors provided the following services to the Group:-

	KLL HK\$'000	BDO HK\$'000	HLB HK\$'000
Annual audit services	-	-	468
Other advisory services	100	220	-

## INTERNAL CONTROL

The Audit Committee assisted the Board to perform its duties to maintain an effective and sound internal control system for the Group. The committee reviewed the Group's procedure and workflow for the financial, operational and compliance, and also the risk assessment and its initiatives for business risks management and control. Recommendations will also put forward to the Board for consideration and approval.

## INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. The same materials are also available on the Company's website. Media briefings are organized from time to time to relay details of the Group's latest business initiatives and market development plans.

Regular meetings are also held with institutional investors and analysts to disseminate financial and other information related to the Group and its business. These activities keep the public aware of the Group's activities and foster effective communication.

For the year ended 30 June 2006, the following shareholder meeting was held by the Company:–

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
15 July 2005	12/F, 18 Cheong Lok Street, Jordan, Kowloon, Hong Kong.	Special General Meeting	<ol style="list-style-type: none"> <li>1. To approve the sale and purchase agreements in relation to the acquisition of the 1st batch of properties situated in 33 Deng Shi Kou Main Street, Dong Cheng District, Beijing, PRC; and</li> <li>2. To appoint KLL Associates CPA Limited to fill the casual vacancy arising from the resignation of Messrs. Deoitte Touche Tohmatsu.</li> </ol>	By show hands

## CORPORATE GOVERNANCE REPORT (Continued)

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
30 November 2005	12/F, 18 Cheong Lok Street, Jordan, Kowloon, Hong Kong.	Annual General Meeting	<ol style="list-style-type: none"> <li>To re-elect directors;</li> <li>To appoint KLL as auditors and authorize the board of directors to fix their remuneration; and</li> <li>To approve the general mandate to issue and repurchase shares of the Company.</li> </ol>	By show hands
30 November 2006	12/F, 18 Cheong Lok Street, Jordan, Kowloon, Hong Kong	Special General Meeting	<ol style="list-style-type: none"> <li>To approve the conditional supplemental agreement in relation to the sale and purchase agreements for acquisition of the 1st batch of the properties situated in 33 Deng Shi Kou Main Street, Dong Cheng District, Beijing, PRC; and</li> <li>To approve the sale and purchase agreements in relation to the acquisition of the 2nd batch of properties situated in 33 Deng Shi Kou Main Street, Dong Cheng District, Beijing, PRC.</li> </ol>	By show hands
24 April 2006	12/F, 18 Cheong Lok Street, Jordan, Kowloon, Hong Kong	Special General Meeting	<ol style="list-style-type: none"> <li>To approve the acquisition of issued share capital Easy Rider Group Limited ("ERGL") and the aggregate amount of the loan owed by ERGL;</li> <li>To approve the increase of the authorized share capital from 5,000,000,000 shares to 7,600,000,000 shares; and</li> <li>To approve the change of auditor from KLL to BDO.</li> </ol>	By show hands

## CAPITAL STRUCTURE AND SHAREHOLDER BASE

As at 30 June 2006, the market capitalization of the Company was HK\$98,663,029 and 4,484,683,140 shares were in issue, each with a par value of HK\$0.10. The following table summarized the existing shareholding structure of the Company:-

By Category	No. of Shares	% of issued share capital of the Company
Sourcebase Developments Limited (a company beneficially and wholly owned by Mr. Zhang Yang)	355,560,000	7.93%
Mr. Zhang Yang	108,720,000	2.42%
Public Shareholders	4,020,403,140	89.65%
<b>Total</b>	<b>4,484,683,140</b>	<b>100%</b>

## FINANCIAL CALENDAR FOR 2006/07

Event	Proposed Date
Announcement of 2005/06 annual results	16 October 2006
Annual General Meeting	22 November 2006
Announcement of interim results	mid March 2007