

CORPORATE GOVERNANCE REPORT

The Company is committed to upholding high standards of corporate governance, and has adopted corporate governance practices in conformity with the Code on Corporate Governance Practices (the “CG Code”). The Directors believe that good corporate governance is essential to the success of the Company and the enhancement of shareholders’ value.

(a) Compliance with the CG Code

In the opinion of the Board, the Company has complied with the CG Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) throughout the year ended 30 June 2006 except that the appropriate amendments of the Company’s Articles of Association (regarding re-election and retirement of directors who are appointed to fill a casual vacancy) was approved by the shareholders on 28 October 2005 and policies, procedures and practices regarding the following issues were adopted by the Company since 9 December 2005 instead of throughout the whole year under review:

- (1) approval of procedures to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company’s expense;
- (2) setting out in writing the responsibilities of the Chairman and CEO;
- (3) specifying the terms of service of the then non-executive directors;
- (4) adoption of the Company’s own code of conduct (the “Code”) regarding the securities transactions by certain employees of the Company and its subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company of its securities, in respect of their dealings in the securities of the Company. The Code represents written guidelines on no less exacting terms than the Model Code as set out in Appendix 10 of the Listing Rules; and
- (5) the setting of formalized functions reserved to the Board and the Board’s delegation of certain functions to the management which is represented by the newly established Executive Committee with specific written terms of reference. At the date of this report, the Executive Committee comprises the Chief Executive Officer, two executive directors and the Financial Controller.

(b) Directors’ securities transactions

On 9 December 2005, the Company has adopted the code of conduct (the “Code”) with respect to the Directors’ dealings in securities of the Company on terms no less exacting than the required standard of dealings as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Code during the year ended 30 June 2006 and they all confirmed having fully complied with the required standard set out in the Code.

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(c) Board of directors

As at the date of this report, the Board of directors (the “Board”) comprises ten Directors including four executive Directors, one non-executive Director and five independent non-executive Directors (“INEDs”):

Executive Directors

Dr. SZE Kwan (*Vice Chairman*)

Ms. CHAN Siu Chu, Debby (*Chief Executive Officer*)

Mr. SIEK Fui

Mr. LIU Ping

Non-executive Director

Mr. Gerard J. MCMAHON (*Chairman*)

Independent Non-executive Directors

Mr. HUI Hung, Stephen

Mr. LAU Sai Chung

Mr. NG Kwok Chu, Winfield

Mr. WEE Soon Chiang, Henny

Mr. WONG Kam Kau, Eddie

There were six meetings being held during the year ended 30 June 2006 and attendance of individual directors is as follows:

	No. of Board meeting attended	No. of Board meeting eligible to attend
Mr. LIU Ping (appointed on 4/11/2005)	4	4
Dr. SZE Kwan (appointed on 9/1/2006)	4	4
Ms. CHAN Siu Chu, Debby (appointed on 6/2/2006)	4	4
Mr. SIEK Fui (appointed on 6/2/2006)	2	4
Mr. XIONG Jian Rui (resigned on 4/11/2005)	1	1
Mr. TUNG Fai (resigned on 4/11/2005)	0	1
Mr. ZHANG Fang Hong (resigned on 4/11/2005)	0	1
Mr. SHI Simon Hao (resigned on 9/1/2006)	2	2
Mr. CHEN Ge Duo (appointed on 9/1/2006 and resigned on 21/2/2006)	0	0
Mr. SHEN Wei Ping (appointed on 9/1/2006 and resigned on 21/2/2006)	0	0
Mr. FENG Jin (appointed on 4/11/2005 and resigned on 6/2/2006)	1	1
Mr. YAO Keming (appointed on 4/11/2005 and resigned on 9/1/2006)	1	1
Mr. Gerard J. MCMAHON (appointed on 10/5/2006)	1	1
Mr. LIN Gongshi (resigned on 7/7/2006)	4	6
Mr. HUI Hung, Stephen	6	6
Mr. WEE Soon Chiang, Henny	6	6
Mr. WONG Kam Kau, Eddie	6	6
Mr. LAU Sai Chung (appointed on 15/9/2006)	0	0
Mr. NG Kwok Chu, Winfield (appointed on 15/9/2006)	0	0

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The Board reviews and approves the Group's overall business strategies, key operational proposals, financial control procedures, material acquisition and disposal of investment, major funding decisions, financial announcements, annual reports, share issuance/repurchase, nomination of directors, appointment of key management personnel, related party transactions, remuneration to directors and other significant transactions. The Board conducts meetings on a regular basis and extra meetings are convened when circumstances require.

During the year ended 30 June 2006, the Company has complied with Rule 3.10(1) and (2) of the Listing Rules relating to the appointment of a sufficient number of independent non-executive directors and an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise, respectively.

The Company has received from each independent non-executive director an annual confirmation of his independent pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the INEDs are independent.

(d) Chairman and Chief Executive Officer

As at the date of this report, the Chairman of the Company is Mr. Gerard J McMahon whilst the Chief Executive Officer of the Company is Ms. Chan Siu Chu, Debby, the respective responsibilities of the Chairman and Chief Executive Officer were duly set out in writing and were approved by the Board on 9 December 2005.

The roles of Chairman of the Board and Chief Executive Officer of the Company are segregated with a clear division of responsibilities. The Chairman is primarily responsible for overseeing the operation of the Board while the Chief Executive Officer is mainly responsible for running the Group's business and the implementation of the approved strategies in achieving the overall commercial objectives.

(e) Non-executive directors

During the year ended 30 June 2006, the non-executive directors of the Company comprised three INEDs and a non-executive director who were appointed with the following specific terms of appointment:

	Up to the conclusion of the Company's annual general meeting to be held in
Mr. WEE Soon Chiang, Henny	Year 2007
Mr. WONG Kam Kau, Eddie	Year 2007
Mr. HUI Hung, Stephen	Year 2008
Mr. Gerard J MCMAHON	Year 2008

Subsequent to the year ended 30 June 2006, Mr. Lau Sai Chung and Mr. Ng Kwok Chu, Winfield were appointed as INEDs. They were appointed for a specific term which shall be up to the annual general meeting of the Company to be held in year 2008.

All the non-executive directors of the Company are subject to the rotation requirements and re-elections at least once three years pursuant to the Articles of Association of the Company.

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(f) Remuneration of directors

On 9 December 2005, the Board has established a remuneration committee (the “Remuneration Committee”) with written terms of reference. The principle roles of the Remuneration Committee are to review the remuneration package, performance-based remuneration and termination compensation of directors and senior management of the Group.

As at the date of this report, the Remuneration Committee comprises five INEDs, namely Mr. Wee Soon Chiang, Henny, Mr. Wong Kam Kau, Eddie, Mr. Hui Hung, Stephen, Mr. Lau Sai Chung and Mr. Ng Kwok Chu, Winfield, a Non-executive Director, namely Mr. Gerard J. McMahon and an Executive Director, namely Ms. Chan Siu Chu, Debby. Mr. Gerard J. McMahon is the Chairman of Remuneration Committee.

No meeting was held by the Remuneration Committee during the year ended 30 June 2006. However a Board meeting was held to propose the remuneration packages of the newly appointed Directors to the Remuneration Committee for determination. Such meeting was attended by Dr. Sze Kwan, Ms. Chan Siu Chu, Debby, Mr. Siek Fui, Mr. Liu Ping, Mr. Wong Kam Kau, Eddie, Mr. Wee Soon Chiang, Henny and Mr. Hui Hung, Stephen.

Subsequent to the year ended 30 June 2006, the Remuneration Committee held a meeting in July 2006 to determine the remuneration packages of four executive directors and one non-executive director. Such meeting was attended by all the then members of the Remuneration Committee, namely Mr. Gerard J McMahon, Mr. Wong Kam Kau, Eddie, Mr. Wee Soon Chiang, Henny, Mr. Hui Hung, Stephen and Ms. Chan Siu Chu, Debby.

(g) Nomination of directors

During the year ended 30 June 2006, the function of nomination committee has been performed by the Board. To maintain high quality of the Board with a balance of skill and experience, the Board identifies individuals who fulfill criteria of the Company. When assessing the quality of the individual, the Board makes reference to his/her experience, qualification, integrity and other relevant factors.

During the year under review, the Board approved the appointment of eight Executive Directors and one Non-Executive Director, of which four Executive Directors, namely Mr. Chen Ge Duo, Mr. Shen Wei Ping, Mr. Feng Jin and Mr. Yao Keming, have resigned and four Executive Directors, namely Dr. Sze Kwan, Mr. Siek Fui, Ms. Chan Siu Chu, Debby and Mr. Liu Ping, and one Non-Executive Director, namely Mr. Gerard McMahon were subsequently recommended by the Board for re-election at the extraordinary general meeting held on 18 August 2006.

There was one board meeting being held during the year ended 30 June 2006 for considering, inter alia, the appointment of a Non-executive Director, nomination of Remuneration Committee’s and Audit Committee’s members and nomination of the Chairman, Vice Chairman and Chief Executive Officer. All the then Directors, namely Dr. Sze Kwan, Ms. Chan Siu Chu, Debby, Mr. Siek Fui, Mr. Liu Ping, Mr. Wong Kam Kau, Eddie, Mr. Wee Soon Chiang, Henny, Mr. Hui Hung, Stephen, except Mr. Lin Gongshi have attended such meeting.

Subsequent to the year ended 30 June 2006, the Board established a nomination committee (the “Nomination Committee”) on 15 September 2006 with written terms of references in compliance with the CG Code. The primary duties of the Nomination Committee are to review the composition of the Board and make recommendations to the Board on the selection of individuals nominated for directorship.

As at the date of this report, the Nomination Committee comprises two INEDs, namely Mr. Lau Sai Chung and Mr. Ng Kwok Chu, Winfield, a Non-executive Director, namely Mr. Gerard J. McMahon. The Nomination Committee members will meet at any time when necessary and desirable to carry out the aforesaid duties.

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(h) Auditors' remuneration

The remuneration payable in respect of the year ended 30 June 2006 for audit and non-audit services provided to the Group by the Company's auditors is as follows:

<i>Services rendered:</i>	<i>RMB</i>
(a) audit fee (audit work for the year ended 30 June 2006)	551,000
(b) non-audit fee (tax related services)	–

(i) Audit committee

The Company has established an audit committee (the "Audit Committee") with written terms of reference which were adopted by reference to the code provisions of the CG Code.

As at the date of this report, the Audit Committee comprised of five INEDs, namely Mr. Wee Soon Chiang, Henny, Mr. Wong Kam Kau, Eddie, Mr. Hui Hung, Stephen, Mr. Lau Sai Chung and Mr. Ng Kwok Chu, Winfield and a Non-executive Director, namely Mr. Gerard J. McMahon. Mr. Wee is the Chairman of Audit Committee and he has the appropriate professional qualification as defined in Rule 3.10(2) of the Listing Rules.

There were three Audit Committee meetings being held during the year ended 30 June 2006. The individual attendance of each member is as follows:

	No. of meeting attended	No. of meeting eligible to attend
Mr. WEE Soon Chiang, Henny	3	3
Mr. WONG Kam Kau, Eddie	3	3
Mr. HUI Hung, Stephen	3	3
MR. Gerard J. MCMAHON (appointed on 10/5/2006)	0	0

The Audit Committee oversees the Group's overall financial reporting process and its internal control procedures. It is responsible for making recommendations to the Board for the appointment, re-appointment or removal of external auditors and also reviews and monitors the external auditors' independence and objectivity as well as the effectiveness of the audit process to make sure that it is in full compliance with applicable standards. The Audit Committee has reviewed and approved the audit plans and the Group's interim result for the six month ended 31 December 2005 and the annual results for the year ended 30 June 2006.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

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(j) Internal controls

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, is designed to safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Directors have conducted annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls and risk management functions.

(k) Directors' responsibility for the financial statements

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensuring that the financial statements are prepared in accordance with the statutory requirements and applicable accounting standards. It is also the responsibility of the Directors to ensure the timely publication of the financial statements of the Group.

The statement of the external auditors of the Company, Moores Rowland Mazars, *Chartered Accountants, Certified Public Accountants* on their reporting responsibilities in respect of the financial statements of the Group is set out on the Auditors' report on page 24.

Save as disclosed in Note 2(b) to the financial statement on page 32, the Directors confirm that, to their best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.