

CORPORATE GOVERNANCE PRACTICES

The Board is committed to establish and maintain high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices ("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") for the year ended 31 July 2006, except for the following deviations:

1. Code Provision A.2.1

Code provision A.2.1 of the CG Code provides that, "The roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing." Mr. Yip Kwong, Robert is the Chairman. The Company does not maintain the office of CEO and the day-to-day operation of the Group is managed by Mr. Yip, the Chairman. The Board considers that vesting the roles of both chairman and CEO in Mr. Yip at the present stage of development of the Group can maximize effectiveness and ensure execution of the business plan and strategy of the Group.

2. Code Provision A.4.1

Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election. However, all the Independent Non-Executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws. The Company considers that sufficient measures have been taken to ensure good corporate governance practices of the Company in this aspect of the CG Code.

The Board will continuously review and improve the corporate governance standards and practices of the Company, including whether the separation of the roles of the Chairman and the CEO is necessary to ensure that business activities and decision-making processes are regulated in a proper and prudent manner.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listing Rules (the "Model Code") as contained in Appendix 10 of the Listing Rules. In response to specific enquiry made by the Company, all directors confirmed they have complied with the required standard set out in the Model Code throughout the year ended 31 July 2006.

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THE BOARD OF DIRECTORS

The Board currently comprises 6 Directors. There are 3 Executive Directors (including the Chairman) and 3 Independent Non-executive Directors. Detailed biographies outlining each individual Director's range of specialist experience are set out in the section entitled "Biographical Details of Directors and Senior Management" in this Annual Report.

The Board held 4 regular meetings for the year ended 31 July 2006 in addition to additional meetings of the Board and telephone conferences and committee meetings convened when the Board considers necessary. Attendance of the 4 regular meetings of the Board and those of the committees are set out as follows:

Name of Directors	Attendance/Number of Meetings		
	Regular Board	Audit Committee	Remuneration Committee
<i>Executive Directors</i>			
Mr. Yip Kwong, Robert (<i>Chairman</i>)	4/4		
Mr. Dai Zhong Cheng	4/4		
Mr. Kam Shing	4/4		1/1
<i>Independent Non-executive Directors</i>			
Dr Wong King Keung, Peter	4/4	2/2	
Dr Lau Lap Ping	4/4	2/2	
Mr. Edmund Siu	4/4	2/2	1/1

There is a clear division of responsibilities between the Board and the management. The Board is responsible for providing strategy, policy, guidance and monitoring implementation thereof and overseeing the performance of the management. While day-to-day management of the Group is delegated to the management team of each respective subsidiary under the overall management and leadership of the Chairman and other Executive Directors. Without prejudice to the generality of the responsibility aforesaid, the Board is responsible for:

- Formulating the strategy and policy for the operation and development of the businesses of the Group and monitoring the implementation thereof;
- Recommending dividends;
- Reviewing and approving the annual and interim reports;
- Establishing and maintaining good corporate governance standards and practices; and

THE BOARD OF DIRECTORS *(Continued)*

- Ensuring and monitoring other continuing obligations and compliance of the Company under the Listing Rules.

The Board believes that the balance of power and authority is adequately ensured by the operating of the Board, which comprises experienced and high caliber individuals with a sufficient number thereof being Independent Non-Executive Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company does not maintain the office of CEO. The usual leadership and day-to-day management duties of CEO are vested in the Chairman of the Company, namely, Mr. Yip Kwong, Robert.

INDEPENDENT NON-EXECUTIVE DIRECTOR

It is noted that there is a deviation in the appointment of Non-executive Director from CG Code A.4.1 as discussed above. However, the Board considers that sufficient measures have been taken to ensure that the corporate governance practices of the Company are similar to those under the CG Code because under the Bye-laws of the Company, all Directors (including all Non-executive Directors) are subject to retirement by rotation at least once every three year. One-third of the directors must retire from office at each annual general meeting and their re-election is subject to vote of shareholders.

The roles of the Independent Non-executive Directors include the followings:

- provision of independent judgment at the Board;
- take the lead where potential conflicts of interests arise;
- serve on audit and remuneration committees; and
- scrutinize the performance of the Group as necessary

The Board complied with Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of all the three Independent Non-executive Directors. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules.

NOMINATION OF DIRECTORS

The Company has not established any nomination committee. The Board will identify individuals who are suitably qualified to become board members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account of his/her experience, qualification and other relevant factors. All candidates must also meet the standards as set forth in Rule 3.09 of the Listing Rules. A candidate who is to be appointed as an Independent Non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

SUPPLY OF AND ACCESS TO INFORMATION AND ACCESS TO LEGAL AND OTHER PROFESSIONAL ADVICE

To allow the Directors, in particular, all the Independent Non-executive Directors to make informed decisions and properly discharge their duties and responsibilities, the Company Secretary ensures the relevant Board papers are sent to all the Directors in a timely manner. All Board papers and minutes are also made available for inspection by the Directors and the Committees. All Directors, in particular, the Independent Non-executive Directors are informed and authorized to seek any information it requires from any employee and obtain outside legal or other independent professional advice at the cost of the Company if they considers necessary to discharge their duties as Directors of the Company.

REMUNERATION COMMITTEE

The Remuneration Committee was set up with the responsibility of recommending to the Board the remuneration policy of all the Directors and the senior management. The Remuneration Committee is chaired by an Independent Non-executive Director, Mr Edmund Siu and also comprises an Executive Director, Mr. Kam Shing as one of its members.

The Remuneration Committee is authorized to investigate any matter within its Terms of Reference and seek any information it requires from any employee and obtain outside legal or other independent professional advice at the cost of the Company if it considers necessary.

AUDITORS' REMUNERATION

HLB Hodgson Impey Cheng ("HLB") have been appointed by the shareholders annually as the external auditors of the Group since 2004. For the year ended 31 July 2006, the fees charged to accounts of the Group for HLBs' statutory audit amounted to approximately HK\$500,000, in addition approximately HK\$5,000 was charged for other services. The non-statutory audit services mainly consist of special audits, tax compliance and the interim review.

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ACCOUNTABILITY AND AUDIT

Financial reporting

The Directors are responsible for the preparation of financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 July 2006, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis.

INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness. The Board, through the Audit Committee, is committed to implementing an effective and sound internal controls system to safeguard the interest of the shareholders and the Group's assets.

The head of the finance team and the operating units of the Group perform financial and operational reviews of the Company and its subsidiaries, as well as other reviews as required by the Audit Committee. Summaries of major audit findings and control weaknesses, if any, are reviewed by the Audit Committee and the heads of the finance team and the operating units will perform the follow-up actions under the monitoring of the Audit Committee.

Audit Committee

The Audit Committee was set up with the responsibility of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises all three Independent Non-executive Directors, Mr. Wong King Keung, Peter (Chairman of the Audit Committee), Dr. Lau Lap Ping and Mr. Edmund Siu.

The Audit Committee has reviewed the annual and interim results of the year ended 31 July 2006, and two regular meetings were held during the year. The Audit Committee is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

Communication with Shareholders

Communication with shareholders is given high priority. Extensive information about the Group's activities is provided in the Annual Report and the Interim Report. The Group's website (www.chinarichholdings.com) provides regularly updated Group information to shareholders. Enquires on matters relating to shareholdings and the business of the Group are welcome, and are dealt with in an informative and timely manner. The Group encourages all shareholders to attend annual general meeting.