

Corporate Governance Report

The Group recognizes the importance of achieving and monitoring the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders and is fully committed to doing so. It is also with the objectives in mind that the Group has applied the principles of the Code of Corporate Governance Practices (the “New CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

To ensure continual compliance with the New CG Code, the Company has undertaken a review of its Articles of Association (the “Articles”). At the forthcoming 2006 annual general meeting of the Company, a special resolution will be proposed to make the necessary amendments to the Articles to bring them even more in line with the requirements under the New CG Code. In particular, under the Articles after the proposed amendments (i) any director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the Company’s first general meeting after the appointment rather than the Company’s next following annual general meeting after the appointment and (ii) each and every director shall be subject to retirement by rotation at least once every three years.

In the opinion of the directors of the Company (the “Directors”), the Company has met the code provisions set out in the New CG Code.

Board of Directors

The Board comprises two Executive Directors, being Mr. Zhang Chunting and Mr. Deng Rongjun, two Non-Executive Directors, being Mr. Xiong Guangyang and Mrs. Ho Lam Lai Ping Theresa, and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat.

The Board is responsible for the leadership and control of the Company and oversees the Group’s businesses, strategic decisions and performances. The Management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the Management include the preparation of interim and annual reports and announcements for board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

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Board of Directors (Continued)

During the financial year ended 31 December 2005, the Board had four scheduled meetings at quarterly intervals. The attendances of the directors at the board meetings are as follows:

Directors	Number of Attendance
Zhang Chunting	5/5
Deng Rongjun (appointed on 21 December 2005)	1/5
Xiong Guangyang	3/5
Ho Lam Lai Ping Theresa	5/5
Fung Lak	5/5
Choi Kam Fai Thomas	5/5
Chan Cheong Tat (appointed on 22 March 2006)	N/A
Wu Jiesi (resigned on 29 April 2005)	0/5
Chen Hong (resigned on 8 June 2005)	1/5
Hui Wai Man Lawrence (resigned on 21 December 2005)	4/5
Cheng Hok Lai James (resigned on 23 December 2005)	3/5

The Company has received confirmation of independence from the three Independent Non-Executive Directors, namely: Messrs. Fung Lak, Choi Kam Fai Thomas and Chan Cheong Tat, in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. Such balanced board composition also ensures that strong independence exists across the Board. The biographies of the Directors are set out on pages 7 and 8 to the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

Chairman and Managing Director

The Chairman is Mr. Zhang Chunting and the Managing Director is Mr. Deng Rongjun. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Zhang Chunting as the Chairman has executive responsibilities, provides leadership to the Board and ensures the proper and effective functioning of the Board in the discharge of its responsibilities. Mr. Deng Rongjun as the Managing Director is accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations.

Non-executive Directors

Each of the non-executive directors of the Company will hold office for a specific term expiring on the earlier of either (i) the conclusion of the annual general meeting of the Company in the year of the third anniversary of the appointment or re-election of that director or (ii) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election of that director and in any event, subject to earlier determination in accordance with the Articles of the Company and/or applicable laws and regulations.

Directors' Securities Transactions

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. All Directors have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the year.

Remuneration of Directors

The Company established a remuneration committee (the "Remuneration Committee") in June 2005. The authorities and duties of the Remuneration Committee are as follows:

Authority

- a. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- b. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

- a. To make 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.
- b. To have the delegated responsibilities to determine 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. Factors which should be taken into consideration include but are not limited to salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration.
- c. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.
- d. To review 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.
- e. To review 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.

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Remuneration of Directors (Continued)

Duties (Continued)

- f. To make recommendations to the Board on the remuneration of non-executive directors.
- g. To ensure that no director or any of his associates is involved in deciding his own remuneration.
- h. To consult the chairman and/or the managing director about their proposals relating to the remuneration of executive directors and senior management and have access to professional advice if considered necessary.
- i. To consider other topics as defined by the Board.

The Remuneration Committee comprises one Executive Director, being Mr. Zhang Chunting and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat. Mr. Zhang Chunting is the Chairman of the Remuneration Committee.

During the financial year ended 31 December 2005, the Remuneration Committee held one meeting to (i) review the remuneration policy and annual remuneration package for the Directors and senior management of the Company and (ii) approve the 2004 performance bonuses for the senior management of the Company. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	Number of Attendance
Zhang Chunting	1/1
Fung Lak	1/1
Choi Kam Fai Thomas	1/1
Chan Cheong Tat (appointed on 22 March 2006)	N/A
Cheng Hok Lai James (resigned on 23 December 2005)	1/1

Details of the amount of Directors' emoluments are set out in note 9 to the accounts.

Nomination of Directors

The Company established a nomination committee (the "Nomination Committee") in June 2005. The authorities and duties of the Nomination Committee are as follows:

Authority

- a. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- b. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Nomination of Directors (Continued)

Duties

- a. To review the structure, size and composition (including the skills, knowledge and experience) 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 assess the independence of independent non-executive directors;
- d. To make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the managing director; and
- e. To consider other topics as defined by the Board.

The Nomination Committee comprises one Executive Director, being Mr. Zhang Chunting and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat. Mr. Zhang Chunting is the Chairman of the Nomination Committee.

The Nomination Committee identified suitable individual qualified to become board members and makes recommendation to the Board on relevant matters relating to the appointment or reappointment of directors if necessary, in particular, candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of strong and diverse Board.

During the financial year ended 31 December 2005, the Nomination Committee held one meeting to discuss and recommend to the Board the appointment of Mr. Deng Rongjun as the Managing Director of the Company. The attendance of each member of the Nomination Committee is set out as follows:

Directors	Number of Attendance
Zhang Chunting	1/1
Fung Lak	1/1
Choi Kam Fai Thomas	1/1
Chan Cheong Tat (appointed on 22 March 2006)	N/A
Cheng Hok Lai James (resigned on 23 December 2005)	0/1

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Audit Committee

The Audit Committee of the Company was established in September 1998 and its terms of reference were amended in June 2005 so as to bring them in line with the New CG Code. The authorities and duties of the Remuneration Committee are as follows:

Authority

- a. The Committee is authorized by the Board to investigate activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- b. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

- a. to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- b. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- c. to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
- d. to monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and , if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Committee should focus particularly on:
 - i. any changes in accounting policies and practices;
 - ii. major judgmental areas;
 - iii. significant adjustments resulting from audit;

Audit Committee (Continued)

Duties (Continued)

- iv. the going concern assumptions and any qualifications;
- v. compliance with accounting standards; and
- vi. compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting;
- e. In regard to (d) above:
 - i. members of the Committee must liaise with the Company's board of directors, senior management and the person appointed as the Company's qualified accountant and the Committee must meet, at least once a year, with the Company's auditors; and
 - ii. the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors;
- f. to review the Company's financial controls, internal controls and risk management systems;
- g. to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- h. to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- i. where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
- j. to review the group's financial and accounting policies and practices;
- k. to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of controls and management's response;
- l. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- m. to report to the Board on the matters set out in the terms of reference of the Committee; and
- n. to consider other topics, as defined by the Board.

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Audit Committee (Continued)

The Audit Committee comprises the three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat who all possess the required experience and knowledge in the accounting profession. Mr. Fung Lak is the Chairman of the Audit Committee.

During the financial year ended 31 December 2005, the Audit Committee held two meetings to review the 2004 annual results and the 2005 interim results of the Company before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's financial results. The Audit Committee has also met the external auditors once during the financial year ended 31 December 2005 to discuss any areas of concerns without the presence of the management. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	Number of Attendance
Fung Lak	2/2
Choi Kam Fai Thomas	2/2
Chan Cheong Tat (appointed on 22 March 2006)	N/A
Cheng Hok Lai James (resigned on 23 December 2005)	1/2

On 31 March 2006, the Audit Committee has also reviewed the results of the Group for the year ended 31 December 2005.

Auditors' Remuneration

During the year under review, the remuneration paid to the Company's auditors, Messrs Ernst & Young, is set out as follows:

	Fee paid/ payable <i>HK\$'000</i>
Services rendered	
Audit of Final Results	780,000
Review of Interim Results	185,000

Other Specified Disclosures

The Directors have acknowledged their responsibility for preparing all information and representations contained in the financial statements of the Company for the year ended 31 December 2005. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and Management with an appropriate consideration to materiality. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The Company is still in the course of further strengthening and enhancing all the internal control measures it has already had in place. Accordingly, the comprehensive overall annual review of the Company's internal control system which is required under the New CG Code would only be able to be carried out beginning from the 2006 financial year.