

This Corporate Governance Report contains information for the year ended 31st December 2005 and was prepared in accordance with Appendix 23 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The Company is committed to maintain a sound standard of corporate governance in protecting the interests of its shareholders based on the principles of integrity, fairness, independence and transparency. The Company continues to review the effectiveness of the corporate structure in order to assess whether changes are necessary and appropriate to improve its corporate governance practices.

CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices setting out in Appendix 14 of the Listing Rules (the “CG Code”) was introduced on 1st January 2005. Accordingly, the Company adopted the code provisions in the CG Code as its own code on corporate governance practices in January 2005.

During the year ended 31st December 2005, the Company has complied with the code provisions in the CG Code except for the following deviations:

Code provision A.4.2

Under the code provision A.4.2 of the CG Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to Article 98 of the Articles of Association of the Company (the “Articles”), not all the directors are subject to retirement by rotation. In order to comply with the code provision A.4.2 of the CG Code, the Company has proposed to make relevant amendments to the Articles at its forthcoming annual general meeting. A circular containing the proposed amendments to the Articles and notice of the Annual General Meeting will be dispatched to the shareholders of the Company.

Code provision B.1.1

Under the code provision B.1.1 of the CG Code, a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

In order to comply with the code provision B.1.1 of the CG Code, a remuneration committee comprising a majority of independent non-executive directors with specific written terms of reference was established in June 2005.

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted all the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by directors.

After specifically inquiring with all the directors of the Company, the Company confirms that its directors' securities transactions have been fully complied with the standard laid down in the Model Code and its own code of conduct during the year ended 31st December 2005.

BOARD OF DIRECTORS

The board of directors (the "Board") is responsible for providing leadership and oversight of the management and operations of the Company. The Board lays down strategies for achieving the business objectives so as to enhance the shareholders' value. The Board regularly reviews and ensures that corporate governance principles are in place and at good standard.

As disclosed in the Composition below, the Board maintains a balance composition of executive and non-executive directors. There is a strong independent element on the Board which can effectively bring independent judgment to the Company. In addition, the Board has a balance of skills and experience appropriate for the Company. Biographical details of the directors are set out on pages 12 to 13.

The Company has entered into a management agreement with China Assets Investment Management Limited ("CAIML") whereby CAIML was appointed to act as investment manager of the Company and agreed to provide management services to the Company.

In order to comply with the rules 3.10 (1) and (2) of the Listing Rules, the Company since 2002 has appointed three independent non-executive directors who have appropriate professional qualifications or accounting or related financial management expertise. The Company has received, from each of the independent non-executive directors, a confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Board considers that the existing independent non-executive directors are independent in accordance with the guidelines set out in rule 3.13 of the Listing Rules.

When deemed necessary, any director upon reasonable request may seek independent professional advice at the Company's expense.

Composition

The Board is composed of nine directors, of whom three are Executive Directors, three are Non-executive Directors and three are Independent Non-executive Directors.

BOARD OF DIRECTORS *(Continued)*

Composition *(Continued)*

The members of the Board during the year ended 31st December 2005 and up to the date of this report is set out as follows:

Executive Directors:

Mr. Lao Yuan Yi, *Chairman*

Mr. Wang Jun Yan

Ms. Lao Yuan Yuan *(appointed on 20th September 2005)*

Non-executive Directors:

Mr. Jiang Wei

Mr. Yeung Wai Kin

Mr. Zhao Yu Qiao

Independent Non-executive Directors:

Mr. Peter Duncan Neil Robertson

Mr. Fan Jia Yan

Mr. Wu Ming Yu

Except that Ms. Lao Yuan Yuan is the daughter of Mr. Lao Yuan Yi, there is no relationship among the directors of the Company.

The Chairman of the Board is Mr. Lao Yuan Yi who provides leadership and supervision for the Board and oversees the overall business and investment strategy. There is no other individual performing the role of chief executive officer. With the assistance of the company secretary, the Chairman ensures that adequate information, which is complete and reliable, can be received by all the directors in a timely manner and the directors are properly briefed on issues arising at board meetings.

Since the appointment of the directors would be brought before the Board for consideration, no Nomination Committee was established. The Board would consider a number of factors about the suitable candidate, such as experience and qualifications related to the scope of business of the Company, prior to making an appointment.

All the Non-executive Directors are appointed for a specific term of two years. If the resolution in relation to the proposed amendment to the Articles is passed at the coming annual general meeting of the Company, all directors including Non-executive Directors shall be appointed for a fresh term of not more than three years renewable, subject to re-election at a general meeting.

BOARD OF DIRECTORS *(Continued)*

Board meetings

The Board has held five board meetings during the year ended 31st December 2005. Notice of at least 14 days has been given for a regular board meeting in which all directors have been given opportunity to attend. For other board meetings, reasonable notices have been given. The directors have been provided in a timely manner with appropriate information in order to enable them to discharge their duties and responsibilities. The regular board meetings have been participated by the directors either in person or through other means of communication.

The individual attendance of each director at the five board meetings for the year ended 31st December 2005 is set out as follows:

Name of Director	Attendance
Mr. Lao Yuan Yi	5/5
Mr. Wang Jun Yan	4/5
Ms. Lao Yuan Yuan (<i>appointed on 20th September 2005</i>)	2/5
Mr. Jiang Wei	1/5
Mr. Yeung Wai Kin	5/5
Mr. Zhao Yu Qiao	0/5
Mr. Peter Duncan Neil Robertson	4/5
Mr. Fan Jia Yan	5/5
Mr. Wu Ming Yu	3/5

REMUNERATION COMMITTEE

A Remuneration Committee with specific written terms of reference was established in June 2005. The terms of reference are formulated based on the specific duties setting out in the code provisions of the CG Code. The Remuneration Committee is a committee of the Board. Its primary function is to assist the Board in establishing coherent remuneration policy which:

- (i) enable the Company to attract, retain and motivate directors and senior management who create value for shareholders;
- (ii) fairly and responsibly reward directors and senior management having regard to the performance of the Company, the performance of the directors and senior management and the general remuneration environment; and
- (iii) comply with the provisions of the Listing Rules and other relevant legal requirements.

REMUNERATION COMMITTEE (Continued)

The Remuneration Committee is granted the authority to review the overall remuneration policy and other remuneration related matters of the Company within its terms of reference and all employees are directed to cooperate as requested by members of the Remuneration Committee. The Remuneration Committee is provided with sufficient resources to discharge its duties. The Remuneration Committee is authorised by the Board to obtain outside legal or other independent professional advice if considered necessary.

The Remuneration Committee is composed of three members of whom one Executive Director, Mr. Lao Yuan Yi and two Independent Non-executive Directors, Mr. Peter Duncan Neil Robertson and Mr. Fan Jia Yan. The Remuneration Committee is chaired by Mr. Lao Yuan Yi.

The Remuneration Committee has held one meeting to discuss the remuneration related matters during the year ended 31st December 2005. The individual attendance of each member at the committee meeting for the year ended 31st December 2005 is set out as follows:

Name of Director	Attendance
Mr. Lao Yuan Yi	1/1
Mr. Peter Duncan Neil Robertson	1/1
Mr. Fan Jia Yan	1/1

AUDIT COMMITTEE

The Company has set up an Audit Committee with written terms of reference since December 1998. The Audit Committee is a committee of the Board. Its primary function is to assist the Board in fulfilling its oversight responsibilities by reviewing the financial information which will be provided to the shareholders and others, the systems of internal controls which management and the Board have established, and the external audit process.

Full minutes of the audit committee meetings are kept by a duly appointed secretary of the meeting. Draft and final versions of the minutes of the audit committee meetings are sent to members of the committee for comment and records within a reasonable time after the meeting.

The Audit Committee is composed of four members of whom three Independent Non-executive Directors, Mr. Peter Duncan Neil Robertson, Mr. Fan Jia Yan and Mr. Wu Ming Yu and one Non-Executive Director, Mr. Yeung Wai Kin. Mr. Robertson and Mr. Fan are co-chairmen of the Audit Committee. Pursuant to rule 3.21 of the Listing Rules, the majority of the audit committee members are independent non-executive directors and the committee is chaired by the independent non-executive directors. The Audit Committee comprises a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications.

AUDIT COMMITTEE (Continued)

The Audit Committee has held three meetings during the year ended 31st December 2005. The individual attendance of each member at the committee meetings for the year ended 31st December 2005 is set out as follows:

Name of Director	Attendance
Mr. Peter Duncan Neil Robertson	3/3
Mr. Fan Jia Yan	3/3
Mr. Wu Ming Yu	3/3
Mr. Yeung Wai Kin	3/3

AUDITORS' REMUNERATION

The following is a schedule setting out the remuneration in respect of the audit and non-audit services provided by the external auditors, PricewaterhouseCoopers to the Company and the Group during the year ended 31st December 2005:

Annual audit fee	US\$109,418.27
Non-audit fee	73,963.65
	US\$183,381.92

DIRECTORS' RESPONSIBILITY FOR PREPARING THE ACCOUNTS

The directors acknowledge their responsibilities for preparing the accounts of the Company and the Group. The directors, confirm that, to the best of their knowledge and having made all reasonable inquiries, 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.

The statement of the external auditors of the Company and the Group, PricewaterhouseCoopers, in connection with their reporting responsibilities on the accounts of the Company and the Group is set in the Auditors' Report on page 28.