

Corporate Governance Report

The Company is committed to a high standard of corporate governance in conducting its business. The board of directors (the “Board”) believes that good corporate governance is essential for enhancing the performance of the Group and safeguarding the interests of shareholders.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

In November 2004, The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) introduced the Code on Corporate Governance Practices (the “Code”) to replace the Code of Best Practice in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and a new Appendix 23 stipulating the rules on the Corporate Governance Report. The Code which provides the code provisions and recommended best practices for corporate governance became effective on 1st January, 2005. The Company has complied throughout the year ended 31st December, 2005 with the Code as set out in Appendix 14 of the Listing Rules, except for the deviation from Code provision A.4.1 in respect of the service term of directors.

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. None of the existing independent non-executive directors of the Company is appointed for specific term and this constitutes a deviation from Code provision A.4.1. However, in accordance with the bye-laws of the Company, at each annual general meeting one-third of the directors for the time being (or, if their number is not a multiply of three, the number nearest to but not less than one-third) shall retire from office by rotation such that each director (including those appointed for a specific term) will be subject to retirement by rotation at least every three years at the annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure the Company’s corporate governance practices are similar to those in the Code.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, the Company was not aware of any non-compliance with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions.

Corporate Governance Report

BOARD OF DIRECTORS

The Board of the Company comprises:

Chairman

Mr. Song Dian Quan

Executive directors

Ms. Luo Ming Hua

Mr. Li Ke Xue

Mr. Xing Kai

Mr. Zhang Li Ming

Mr. Liu Xing Quan

Independent non-executive directors

Mr. Li Zeng Lin

Dr. Jiang Zhao Hua

Mr. Xiao Jian Min

As at the date of this report, the Board comprises 9 directors, of which 6 are executive directors, including the Chairman and the Chief Executive Officer ("CEO") and 3 are independent non-executive directors. There is no financial, business, family or other material/relevant relationship amongst the directors. All the directors have sufficient requisite experience essential for them to discharge their duties efficiently and the biographical details of the directors are set out in the section "Management Profile".

For the year ended 31st December, 2005, the Board fulfilled the minimum requirement of appointing at least three independent non-executive directors as required by the Listing Rules and the recommended best practice under the Code that the number of independent non-executive directors is one-third of the Board. It also met the requirement of having one independent non-executive director with appropriate professional qualification, accounting and related financial management expertise.

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

Corporate Governance Report

The principal functions of the Board include:

- To approve the Group's overall strategies and policies and to monitor and evaluate the performance of management;
- To oversee the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;
- To approve annual budgets, business plans, investment proposals and major funding proposals; and
- To assume responsibility for corporate governance.

A detailed agenda together with sufficient relevant information are circulated with a reasonable notice period before each board meeting to enable the directors to make informed and appropriate decisions on matters to be discussed at the board meetings. The Company Secretary attends all regular board meetings to advise on corporate governance and statutory compliance when necessary. The directors may seek independent professional advice, in appropriate circumstances, at the Company's expenses in discharging their duties and responsibilities as directors. All directors are given an opportunity to include matters of their concern in the agenda of board meetings. The Company Secretary prepares minutes and maintains records for all matters discussed and decisions resolved at all board meetings, which are open for inspection at any reasonable time on reasonable notice by any director.

During the year, six board meetings were held and the details of attendance of the Board are as follows:

Directors	Attendance/Number of meetings
Mr. Song Dian Quan (<i>Chairman</i>)	6/6
Ms. Luo Ming Hua (<i>Chief Executive Officer</i>)	6/6
Mr. Li Ke Xue	6/6
Mr. Xing Kai	6/6
Mr. Zhang Li Ming	6/6
Mr. Liu Xing Quan	6/6
Mr. Li Zeng Lin	6/6
Dr. Jiang Zhao Hua	6/6
Mr. Xiao Jian Min	6/6

Corporate Governance Report

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The role of the Chairman, Mr. Song Dian Quan and the CEO, Ms. Luo Ming Hua are segregated. This segregation ensures a clear distinction between the responsibilities of the Chairman and the CEO which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability. There is no financial, business, family or other material/relevant relationship between the Chairman and the CEO.

The role of the Chairman includes assuming overall responsibility for providing leadership, vision and direction in the development of the business of the Group.

The CEO is responsible for the day-to-day management of the business of the Group, attends to formulation and successful implementation of policies and strategies approved by the Board, and assumes full accountability to the Board for all operations of the Group.

APPOINTMENT OF DIRECTORS

In accordance with the bye-laws of the Company, at each annual general meeting one-third of the directors for the time being (or, if their number is not a multiply of three, the number nearest to but not less than one-third) shall retire from office by rotation such that each director (including those appointed for a specific term) will be subject to retirement by rotation at least every three years at the annual general meeting. The Directors who will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company include Mr. Song Dian Quan, Ms. Luo Ming Hua and Mr. Xing Kai.

AUDIT COMMITTEE

The Company has established an Audit Committee in 2002 with terms of reference pursuant to Rule 3.21 of the Listing Rules and in accordance with "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review and monitor the Company's financial reporting process, internal control systems and completeness of financial reports of the Company. The Audit Committee of the Company comprises three independent non-executive directors, namely Mr. Li Zeng Lin, Dr. Jiang Zhao Hua and Mr. Xiao Jian Min with Mr. Li Zeng Lin as the chairman.

Corporate Governance Report

The Audit Committee held two meetings in 2005, which were attended by all members. The Audit Committee has reviewed the accounting principles and methods adopted by the Group and discussed, inter alia, matters relating to internal control and financial statements of the Company (i.e. 2004 annual and 2005 interim results) prepared in accordance with the applicable accounting standards and has made relevant recommendations. The Audit Committee also monitored the Company's progress in implementing the Code as required under the Listing Rules.

Details of attendance of the members at meetings of the Audit Committee held in 2005 are as follows:

Committee members	Attendance/Number of meetings
Mr. Li Zeng Lin (<i>Chairman</i>)	2/2
Dr. Jiang Zhao Hua	2/2
Mr. Xiao Jian Min	2/2

The annual results of the Group for the year ended 31st December, 2005 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee in June 2005 in accordance with the requirements of the Code as contained in Appendix 14 of the Listing Rules with written terms of reference. The Remuneration Committee comprises two independent non-executive directors, namely Dr. Jiang Zhao Hua and Mr. Li Zeng Lin and one executive director, namely Mr. Zhang Li Ming. Dr. Jiang Zhao Hua is the chairman of the Remuneration Committee.

The principal functions of the Remuneration Committee include:

- To make recommendation to the Board of the Company's policies and structure for the remuneration of the directors and senior management of the Group;
- To determine the remuneration packages of all executive directors and senior management of the Group;
- To make recommendation to the Board of the remuneration of independent non-executive directors;
- To review and approve the performance-based remuneration of all executive directors and senior management of the Group; and
- To ensure that no director is involved in deciding his own remuneration.

Corporate Governance Report

The Remuneration Committee of the Company has convened one meeting in 2005, in which duties of the Remuneration Committee were identified, the appraisal system of the Company was reviewed, and all matters regarding the determination of remuneration of the directors and senior management were discussed. In addition, the Remuneration Committee has also considered and reviewed the terms of service contracts of the executive directors which expired on 30th September, 2005. The Company has entered into new service contracts with the executive directors with a term of three years commencing from 1st October, 2005.

The Remuneration Committee of the Company convened one meeting in 2005. Details of attendance of the members at the meeting of Remuneration Committee held in 2005 are as follows:

Committee members	Attendance/Number of meetings
Dr. Jiang Zhao Hua (<i>Chairman</i>)	1/1
Mr. Li Zeng Lin	1/1
Mr. Zhang Li Ming	1/1

DIRECTORS' REMUNERATION

The principal elements of executive remuneration package include basic salary, discretionary bonus and share options. The emoluments of executive directors are based on the skill, knowledge and involvement in the Company's affairs of each director and are determined by reference to the performance and profitability of the Company, as well as remuneration benchmark in the industry and the prevailing market conditions.

The Company has adopted a share option scheme in 2004. Details of the scheme are set out in note 35 to the financial statements.

NOMINATION COMMITTEE

The Company has established a Nomination Committee in November 2005 in accordance with the requirements of the Code as contained in Appendix 14 of the Listing Rules with written terms of reference. The Nomination Committee comprises two independent non-executive directors, namely Mr. Xiao Jin Min and Mr. Li Zeng Lin and one executive director, namely Mr. Song Dian Quan. Mr. Xiao Jin Min is the chairman of the Nomination Committee.

Corporate Governance Report

The principal functions of the Nomination Committee include:

- To review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- 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;
- To assess the independence of independent non-executive directors; and
- 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 CEO.

The Nomination Committee of the Company has convened one meeting in 2005. The Nomination Committee considered and resolved that all the existing directors shall be recommended to be retained by the Company. Further, in accordance with the Company's bye-laws, Mr. Song Dian Quan, Ms. Luo Ming Hua and Mr. Xing Kai will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Details of attendance of the members at the meeting of Nomination Committee held in 2005 are as follows:

Committee members	Attendance/Number of meetings
Mr. Xiao Jian Min (<i>Chairman</i>)	1/1
Mr. Li Zeng Lin	1/1
Mr. Song Dian Quan	1/1

There was no nomination of directors during the year.

AUDITORS' REMUNERATION

The performance and remuneration of the external auditors, Messrs. Deloitte Touche Tohmatsu ("Deloitte Touche Tohmatsu"), have been reviewed by the Audit Committee. Auditors' remuneration payable to Deloitte Touche Tohmatsu, by the Company amounted to approximately HK\$1,170,000. Non-audit service charges included those for reviewing the interim financial report amounted to approximately HK\$250,000.

The Board will propose a resolution at the forthcoming annual general meeting for the re-appointment of Deloitte Touche Tohmatsu as the auditors of the Company.

Corporate Governance Report

RESPONSIBILITY OF PREPARATION OF THE ACCOUNTS

The Directors acknowledged their responsibilities for the preparation of the financial statements of the Group, and ensured that the financial statements are prepared in accordance with the requirements of laws and regulations and applicable accounting standards. The Directors also ensured the timely publication of the Group's financial statements.

INTERNAL CONTROLS

The Board has overall responsibility for the establishment, maintenance and review of the Group's internal control system. The Board has reviewed and is satisfied with the effectiveness of the Group's internal control system, which has covered major and material controls in areas of financial, operations, compliance and risk management functions.

INVESTOR RELATIONS

The Company places strong emphasis on its communications with investors, and considers that maintaining an on-going and open communications with investors can promote investors' understanding and confidence in the Company. The Company disclosed all necessary information to the shareholders in compliance with the Listing Rules and met with media, securities analysts, fund managers and investors on a regular basis to respond to their enquiries so as to provide them with a clearer picture of the Company's achievements in business, management and other aspects. The general meeting of the Company is also an effective communication channel between the Board and shareholders. The Company will meet with its shareholders and respond to their enquiries in the general meetings.