

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board (“**Board**”) of directors (each a “**Director**”) of the Company is committed to maintaining high standards of corporate governance and endeavours in following the code provisions (“**Code Provisions**”) of the “Code on Corporate Governance Practices” (“**Code**”) as set out in Appendix 14 to the Rules (“**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

The Board has set up the remuneration committee of the Board (“**Remuneration Committee**”) with written terms of reference prepared in accordance with the Code Provisions and has adopted a new set of terms of reference of the audit committee of the Board (“**Audit Committee**”) which were prepared in accordance with the Code Provisions. The Board has also set up an internal audit team to monitor the effectiveness of the internal control of the Group. Throughout the year, the Company has complied with the Code Provisions, save for the deviations from Code Provisions A.1.1 and A.4.1.

According to Code Provision A.1.1, the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. During the year ended 30 June 2006, the Board held three regular meetings. During the Year, the Directors discussed and considered the business development and performance of the Group on informal occasions in addition to regular Board meetings. Beginning from the year ending 30 June 2007, the Board will hold at least four regular meetings in each financial year in line with Code Provision A.1.1.

According to Code Provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election. Starting from 1 January 2006, each of the independent non-executive Directors is appointed for a fixed term of directorship of one year or two years and is 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 articles of association (“**Articles**”).

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors and senior management of the Group on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (“**Model Code**”). Having made specific enquiry of all Directors and senior management of the Group, all Directors and senior management of the Group have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding securities transactions by Directors and senior management throughout the year ended 30 June 2006.

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BOARD OF DIRECTORS

The Board is currently composed of five executive Directors comprising Mr. Zhang Peter Y. as the chairman, Mr. Xu Peng as the joint vice chairman, Mr. Deng Jie as the joint vice chairmen and the chief executive officer, Mr. Long Xian Feng and Mr. Wu Xian Peng; two non-executive Directors comprising Mr. Wee Ee Lim (Mr. Chng Hwee Hong as alternate) and Mr. Tarn Sien Hao; and three independent non-executive Directors comprising Professor Kung Hsiang Fu, Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew. The biographical details of the Directors are set out on pages 14 to 17 of the annual report of the Company. All Directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the Articles. Each non-executive Director is appointed for a term of one year and each independent non-executive Director is appointed for a term of one year or two years.

The Board meets regularly to review and determine the corporate strategies and overall strategic policies. Each of the members of the Board has full access to relevant information at the meetings. During the year, the Board has convened three regular meetings and conducted the following activities:

- (1) approved the interim and final results, interim and annual report, and matters to be considered at annual general meeting;
- (2) reviewed and approved corporate strategies of the Group for the financial year ending 30 June 2007; and
- (3) reviewed the performance and financial position of the Group.

Apart from the regular board meetings, the Board met on other occasions when a Board-level decision on a particular matter was required.

Details of the Directors' attendance records at the regular Board meetings during the year are as follows:

Attendance

Executive Directors

Mr. Zhang Peter Y. (<i>Chairman</i>)	3/3
Mr. Xu Peng (<i>Joint Vice Chairman</i>)	2/3
Mr. Deng Jie (<i>Joint Vice Chairman and Chief Executive Officer</i>)	3/3
Mr. Long Xian Feng	3/3
Mr. Wu Xian Peng	3/3

Non-executive Directors

Mr. Wee Ee Lim (<i>Mr. Chng Hwee Hong as his alternate</i>) (<i>Note</i>)	3/3
Mr. Han Ah Kuan (<i>Mr. Ong Sian Hin as his alternate</i>) (<i>Note</i>)	2/2
Mr. Tarn Sien Hao (<i>Note</i>)	1/1

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Note:

On 8 May 2006, the following changes in the non-executive Directors took place:

- 1) Mr. Chng Hwee Hong was appointed by Mr. Wee Ee Lim as his alternate in replacement of Mr. Tarn Sien Hao.
- 2) Mr. Han Ah Kuan resigned as a non-executive Director.
- 3) Mr. Tarn Sien Hao was appointed a non-executive Director.

By reason of the above changes, Mr. Han Ah Kuan and Mr. Tarn Sien Hao did not participate in all regular meetings during the year.

Independent non-executive Directors

Professor Kung Hsiang Fu	3/3
Professor Tso Wung Wai	3/3
Mr. Hon Yiu Ming, Matthew	3/3

The executive Directors and senior management of the Company, as delegated by the Board, are responsible for implementing the determined strategies and policies and the day-to-day management of the Group's business.

The roles of the chairman of the Company and the chief executive officer of the Group are segregated and are not exercised by the same individual. During the year and up to the date of this report, Mr. Zhang Peter Y. has been acting as the chairman of the Company and Mr. Deng Jie as the chief executive officer of the Group.

The Company has received from each of the independent non-executive Directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company thus considers all the independent non-executive Directors to be independent.

NOMINATION OF DIRECTORS

The Board has not set up a nomination committee. The nomination of new Directors has been delegated to the Directors (other than the independent non-executive Directors). They review regularly the need to appoint additional Directors with appropriate professional knowledge and industry experience. The Board will then consider the appointment of the candidates nominated by them as Directors. During the year, Mr. Tarn Sien Hao was nominated and appointed as a non-executive Director.

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During the Year, one Board meeting was held at which, among others, the appointment of Mr. Tarn Sien Hao as a non-executive Director was approved and the resignation of Mr. Han Ah Kuan was accepted. Details of the Directors' attendance records at such Board meeting are as follows:

Attendance

Executive Directors

Mr. Zhang Peter Y.	1/1
Mr. Xu Peng	1/1
Mr. Deng Jie	1/1
Mr. Long Xian Feng	1/1
Mr. Wu Xian Peng	1/1

Non-executive Directors

Mr. Wee Ee Lim	1/1
Mr. Han Ah Kuan	1/1
Mr. Tarn Sien Hao (<i>Note</i>)	N/A

Note:

Mr. Tarn Sien Hao was not yet a Director at the time such Board meeting was held and therefore did not participate in such meeting.

Independent non-executive Directors

Professor Kung Hsiang Fu	1/1
Professor Tso Wung Wai	1/1
Mr. Hon Yiu Ming, Matthew	1/1

REMUNERATION COMMITTEE

The Remuneration Committee is currently composed of five members, comprising three independent non-executive Directors, namely Professor Kung Hsiang Fu (Chairman), Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew; one executive Director, Mr. Deng Jie and one non-executive Director, Mr. Wee Ee Lim (Mr. Chng Hwee Hong as alternate). It was established by the Board and its duties are clearly defined in its terms of reference which have been prepared and adopted according to the Code Provisions.

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The Remuneration Committee meets annually to review the remuneration policies and packages for Directors and senior management of the Company. No Director takes part in any discussions about his own remuneration. During the year, it has convened one meeting with full attendance by its members (except Mr. Tarn Sien Hao, who was appointed a non-executive Director subsequent to the meeting) and conducted the following activities:

- (1) reviewed the remuneration packages for senior management of the Company; and
- (2) reviewed the terms of the service contracts of all the executive Directors by reference to their performance.

Generally, the employees of the Group (including the Directors) are remunerated based on their experience, qualifications, the Group's performance as well as market conditions.

AUDITORS' REMUNERATION

During the year, Ernst & Young, as the external auditors of the Company, have provided audit services to the Group in respect of 2005/2006 financial statements of the Group at the fee of HK\$1,800,000 (2005: HK\$1,934,000).

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Professor Kung Hsiang Fu (Chairman), Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew and one non-executive Director, Mr. Tarn Sien Hao. The original terms of reference of the Audit Committee were prepared and adopted with reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants. Pursuant to a resolution passed by Board at its meeting held on 21 March 2005, a new set of terms of reference of the Audit Committee which were prepared in accordance with and with reference to the Code Provisions were adopted in replacement of the original terms of reference and the new terms of reference came into effect on 21 March 2005.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the annual and interim reports of the Company prior to their approval by the Board, the effectiveness of the external and internal audit and of internal controls and risk evaluation.

During the year, the Audit Committee has convened two meetings and conducted the following activities:

- (1) reviewed interim and annual results of the Company;
- (2) reviewed the internal controls and financial matters of the Group in pursuance of the terms of reference;
- (3) reviewed the audit plans and findings of the external auditors of the Company; and
- (4) made recommendation to the Board on the re-appointment of the external auditors.

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Details of attendance of each member of the Audit Committee during the year are as follows:

	Attendance
Independent non-executive Directors	
Professor Kung Hsiang Fu (<i>Chairman</i>)	2/2
Professor Tso Wung Wai	2/2
Mr. Hon Yiu Ming, Matthew	2/2
Non-executive Directors	
Mr. Han Ah Kuan (<i>Mr. Ong Sian Hin as his alternate</i>) (<i>Note</i>)	2/2
Mr. Tarn Sien Hao (<i>Note</i>)	N/A

Note:

On 8 May 2006, the following changes in the non-executive Directors took place:

- 1) Mr. Han Ah Kuan resigned as a non-executive Director.
- 2) Mr. Tarn Sien Hao was appointed a non-executive Director.

By reason of the above changes, Mr. Tarn Sien Hao did not participate in any meeting of the Audit Committee during the year.

There was no disagreement between the Board and the Audit Committee on the selection and re-appointment of the external auditors.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

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. In preparing the financial statements for the year ended 30 June 2006, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The responsibilities of the external auditors are set out in the Auditors' Report to the shareholders of the Company on page 36 of the annual report of the Company.

INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective system of internal control. During the year, the Board has reviewed the effectiveness of the internal control system of the Group through the Audit Committee and the internal audit team of the Company. There was no significant incidence of failure in connection with the financial, operational and compliance control during the year.

18 October 2006