

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board of Directors of the Company (the “Board”) is committed to high standards of corporate governance for the purpose of providing a framework and solid foundation for its business operation and development. The Company considers that effective corporate governance makes an important contribution to corporate success and to enhancement of shareholders value.

The Company has complied with the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year 2006, except for the following:

- The Code Provision A.4.1 requires that non-executive directors should be appointed for a specific term and subject to re-election. None of the existing non-executive Directors (including independent non-executive Directors) of the Company is appointed for a specific term. However, as all of them are subject to the retirement provisions of the Bye-laws of the Company, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code.
- The Code Provision A.4.2 requires that every director should be subject to retirement by rotation at least once every three years. The Bye-laws of the Company provided that the chairman of the Board and the Managing Director of the Company should not be subject to retirement by rotation. Amendments were subsequently made to the Bye-laws of the Company to comply with the Code Provision A.4.2 by way of a special resolution passed by shareholders at the Annual General Meeting of the Company held on 26 May 2006.

THE BOARD

The Board comprises three executive Directors, namely Ms. Xing Xiao Jing (Chairman), Mr. Ma Ji and Mr. Kong Siu Tim and three independent non-executive Directors (“INEDs”) required under Rule 3.10(1) of the Listing Rules, namely Mr. Ni Zhenwei, Mr. Yip Ching Shan and Mr. Wong Kwok Chuen Peter. Mr. Yip Ching Shan has appropriate qualifications and accounting related financial expertise required under Rule 3.10(2) of the Listing Rules. There is no financial, business, family or other material/relevant relationship between the Directors. All the three INEDs are independent under these independence criteria, and with their wide range of skills and experience to the Group, they are capable to effectively exercise independent judgment on issues of strategy, performance, risk and people through their contribution at Board and committee meetings.

The Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interests of the Company and that the current board size is adequate for its present operations. Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

The biographical details of the Directors are listed in the section of “Directors and Senior Management Profiles” in this annual report and that the INEDs are expressly identified in all of the Company’s publication such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed.

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The Board conducts meeting on a regular basis and on ad hoc basis to meet its business needs. The attendance of individual Directors at board meetings and at two other board committees (the Audit Committee and the Remuneration Committee) during the year is set out as below.

Meetings Attended/Held during term of office in 2006

	Full Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings
Number of meetings held during the year	14	4	1
Executive Directors			
Xing Xiao Jing (<i>Chairman</i>)	13/14		
Ma Ji	7/14		0/1
Kong Siu Tim	14/14		
INEDs			
Ni Zhenwei	3/14	4/4	1/1
Yip Ching Shan	4/14	4/4	1/1
Wong Kwok Chuen Peter ¹	3/12	4/4	
Yu En Guang ²	0/1	0/0	

Notes:

1. Mr. Wong Kwok Chuen Peter was appointed as INED and a member of Audit Committee on 4 April 2006.
2. Mr. Yu En Guang resigned as INED and a member of Audit Committee on 4 April 2006.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and Chief Executive Officer are segregated and performed by two separate individuals, Ms. Xing Xiao Jing and Mr. Ma Ji respectively, to ensure a balance of power and authority. The Chairman of the Company provides leadership to the Board and ensures that the Board discharges its responsibilities effectively. Her primary roles and duties include to formulate corporate strategies and plans in conjunction with the Board and to ensure that Directors receive complete, accurate and timely information and are properly briefed on issues arising at Board meetings. The Chief Executive Officer is responsible for the effective management and operation of the Company and his primary roles and duties include to monitor and control the operational and financial performance within the Group and to implement the Company's strategy and policies for achieving its objectives.

APPOINTMENTS, RE-ELECTION AND REMOVAL

Pursuant to a special resolution passed at the Company's Annual General Meeting held on 26 May 2006, the Company's Bye-laws were amended to provide that each Director is required to retire by rotation at least once every three years and that one-third (or the number nearest to but not less than one-third) of the Directors shall retire by rotation every year at the Company's annual general meeting. Retiring Directors shall be eligible for re-election at the annual general meeting of the

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Company. In considering the nomination of a new director, the Board will take into account the qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics of the candidates that, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board. The Board considers that the existing human resource policy in recruitment of new senior staff is also applicable to nomination of a new director. As the Board is responsible for selection and approval of candidates for appointment as directors to the Board, the Company has not established a nomination committee for the time being.

In 2006, Mr. Wong Kwok Chuen Peter was appointed as INED of the Company. The appointment was approved by the Board at a meeting held on 4 April 2006. All of the Directors attended the meeting.

RESPONSIBILITIES OF DIRECTORS

Apart from the fiduciary duty and statutory responsibility towards the Company and the Group, the Board is responsible for the management of the business and affairs of the Group with the objective of enhancing the Company and shareholders' value. Key responsibilities include formulation of the Group's overall strategies, setting of corporate and management targets, monitoring of operational and financial matters, approval of major capital expenditures, material acquisitions and disposal of assets, corporate or financial restructuring, material borrowings and any issuing, or buying back, of equity securities. Responsibility for delivering Company's objectives and running the business on a day-to-day basis is delegated to divisional management who have been given clear guidelines and directions as to their authority.

The Company has adopted the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealing by all directors in the securities of the company.

All the Directors have confirmed that they have complied with the required standard regarding directors' securities dealings set out in the Model Code during the year.

SUPPLY OF AND ACCESS TO INFORMATION

The Company updates the Directors from time to time with development in the laws and regulations relevant to their role as director of the Company. Directors are also encouraged to update their skills, knowledge and familiarity with the Group through initial induction, ongoing participation at Board and committee meetings.

The Company's senior management regularly supplies the Board and its committees with adequate information in a timely manner to enable them to make informed decisions. All Directors have access to Board papers and related materials that will assist them for decision making. Any Director, wishing to do so in the furtherance of his or her duties, may take independent professional advice through the Company's expense.

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AUDIT COMMITTEE

The Audit Committee assists the Board in discharging its responsibilities for corporate governance, financial reporting and corporate control. The Committee comprises three INEDs, namely Mr. Ni Zhenwei, Mr. Yip Ching Shan and Mr. Wong Kwok Chuen Peter, and is chaired by Mr. Yip Ching Shan. None of the Audit Committee members are members of the former or existing auditors of the Company. The Committee meets at least twice a year. The primary duties of the Audit Committee are to review the completeness, accuracy and fairness of the Company's financial statements, evaluating the Company's auditing scope and procedures as well as its internal control systems and to review the interim and final financial statements before their submission to the Board and the annual general meeting for approval. The Audit Committee is provided with sufficient resources, including independent access to and advice from external auditors. The terms of reference which describes the authorities and duties of the Audit Committee has been adopted with reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and in accordance with Appendix 14 of the Listing Rules. The terms of reference of the Audit Committee is made available to the public on request and by including the information on the Company's website to ensure full compliance with the code provision C.3.4 of the Code.

REMUNERATION COMMITTEE

The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. The Board has established a Remuneration Committee which comprises three members with a majority of whom are INEDs, namely Mr. Ni Zhenwei, Mr. Yip Ching Shan and Mr. Ma Ji. The committee is chaired by an INED, Mr. Yip Ching Shan. The Remuneration Committee meets at least once a year. With reference to business needs and company development, individual performance and contribution, changes in relevant markets and general economic situation, the Remuneration Committee reviews and recommends to the Board on the Company's policy and structure for remuneration of the Directors and senior management. During the review process, no individual director is involved in decisions relating to his or her own remuneration. The terms of reference of the Remuneration Committee is made available to the public on request and by including the information on the Company's website to ensure full compliance with the code provision B.1.4 of the Code.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is accountable for proper stewardship of the Company's affairs, and is responsible for ensuring that the Group keeps fair and accurate accounting records which disclose its financial position. The Directors also acknowledge their responsibility to prepare the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. This responsibility extends to both interim and the annual reports.

Internal Controls

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's system of internal controls to ensure that shareholders' investments and the Group's assets are safeguarded.

In order to improve the level of corporate governance and safeguard shareholders' investment and the Group's assets, in 2006, under the guidance of the Code, the Group has appointed an independent professional firm to perform a comprehensive review for the internal control system systematically with an aim to establish an effective and comprehensive internal control system within the Group.

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The Group and its principal subsidiaries are trying to establish a variety of more effective and stringent regulations and management system for corporate internal controls. As such, subject to the requirements of the Group, all principal subsidiaries of the Group will complete the preparation of corporate internal control system in respect of control environment and control procedure with reference to their respective operational and managerial characteristics.

The internal control system of the Group covers all material control requirements, including financial controls, operational controls, compliance controls and risk management functions. The Board of the Company has comprehensively reviewed the Group's internal control systems and risk management in year 2006 with execution in good condition and no significant control failures or weaknesses were noted. The board considered that these systems of internal controls were effective and sufficient to guarantee the Group in achieving its operation and governance objectives.

The Group will constantly improve and strengthen its corporate control with reference to changes in the operating environment in order to enhance its corporate governance and safeguard the interests of its shareholders. The Board will continue to carry out regular review on the internal control system. The assessment shall cover all material controls, including financial, operational, compliance controls and risk management functions. The management will regularly present particular report to the Audit Committee and report to the Board in a timely manner. All these aim at ensuring the efficient utilization of and adding value to the Group's assets, reducing corporate management risk and providing a better protection to shareholders' interests.

External Auditors

CCIF CPA Limited has been re-appointed as the Company's external auditor by shareholders at the 2006 Annual General Meeting until the conclusion of the next annual general meeting.

During the year, the fees paid or payable to the external auditors of the Company, CCIF CPA Limited were approximately RMB600,000 for statutory audit services rendered (including disbursement fees) to the Group respectively.

Auditors' Reporting Responsibilities

The reporting responsibilities of CCIF CPA Limited, the Auditors, are stated in the Auditors' Report on page 26 of the Annual Report.

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communication with shareholders as well as investors. Information in relation to the Group is disseminated to shareholders and investors in a timely manner through a number of formal channels, include interim and annual reports, announcements and circulars. Annual general meetings and special general meetings also provide a useful forum for shareholders to share views with the Board. Members of the Board (including member(s) of the Audit and Remuneration Committees) attend shareholders' meetings and make themselves available to answer shareholders' questions.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in circulars for shareholders' meetings sent to shareholders.