

Corporate Governance Report

The board of directors of the Company (the "Board") is pleased to present this Corporate Governance Report for the year ended 31 December 2006.

The Current directors are newly appointed to the Board, with Mr. Ding Jianguo appointed on 31 October 2005 and the remaining directors appointed on 12 April 2006. The current Board believes that certain corporate governance practices of the Company may have not been established throughout the entire financial year. The current Board recognizes the importance of good corporate governance to the Company's healthy growth and will devote considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs in future.

The Company's corporate governance practices will be based on principles and code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

To the best knowledge of and so far as is known to the current members of the Board, the Company has complied with the Code Provisions set out in the CG Code throughout the year ended 31 December 2006, save for the following provisions:

- A.1.1 Regular board meetings should be held at least 4 times a year.
- A.1.3 Notice of at least 14 days should be given of a regular board meeting.
- A.2.1 The role of chairman and chief executive officer should be separate.
- A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election.
- A.4.2 Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.
- A.5.4 The board should establish written guidelines on no less exacting terms than the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules for relevant employees in respect of their dealings in the securities of the Company.
- B.1.4 The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.
- C.3.4 The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

Starting from 22 September 2006, the Board has prepared a time schedule for the regular board meetings to be held at least 4 times a year in compliance with of the Code Provision A.1.1.

Starting from the regular board meeting held on 22 September 2006, a notice will be given by at least 14 days prior to the regular board meetings in compliance of the Code Provision A.1.3.

On 12 April 2006, Mr. Zhou Wenjun has been appointed as the Chairman of the Board and Mr. Ji Kewei has been appointed as the Chief Executive Officer of the Company in compliance with Code Provision A.2.1.



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During the year ended 31 December 2006, certain non-executive directors were not appointed for a specific term but they were subject to the retirement by rotation in accordance with the bye-laws of the Company. Nevertheless, each of the current directors (including executive and non-executive directors) of the Company is engaged on a service contract for a term of not more than 3 years. The appointment may be terminated by not less than 3 months' written notice for executive directors and not less than 1 month's notice for non-executive directors.

The Company's bye-laws deviate from Code Provision A.4.2 as it provides that one-third of the directors for the time being (save for the Chairman or Managing Director), or if their number is not three nor three nor a multiple of three, then the number nearest to one-third, shall retire from office and being eligible, offer themselves for re-election at the annual general meetings and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, and he/she shall be eligible for re-elections.

To conform with Code Provision A.4.2, the Company in practice has complied with and adopted the said Code Provision A.4.2. According to the current corporate governance practices of the Company, all directors of the Company shall recommend themselves for re-election once every three years and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

In accordance with the bye-law 102(B) of the bye-laws of the Company, Mr. Zhou Wenjun, Mr. Ji Kewei, Mr. Dai Jun, Mr. Sun Kejun, Mr. So Hoi Pan, Mr. Yim Hing Wah and Mr. Zhao Wen, who have been appointed as directors of the Company on 12 April 2006, have retired in the 2006 annual general meeting. All of them were re-elected in the annual general meeting of 2006.

On 22 September 2006, the Company has established the written guidelines on no less exacting terms than the Model Code for the relevant employees in respect of their dealings in the securities of the Company for the compliance of Code Provision A.5.4.

On 22 September 2006, the Company has adopted a written terms of reference for the remuneration committee, explaining its role and the authority delegated to it by the board for the compliance of Code Provision B.1.4.

On 22 September 2006, the Company has adopted a written terms of reference for the audit committee, explaining its role and the authority delegated to it by the board for the compliance of Code Provision C.3.4.

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THE BOARD

Composition

The Board currently comprises the following directors:

Executive directors

Mr. Zhou Wenjun (*Chairman*)
 Mr. Ji Kewei (*Deputy Chairman and Chief Executive Officer*)
 Mr. Ding Jiangyong
 Mr. Dai Jun
 Mr. Sun Kejun

Independent non-executive directors:

Mr. So Hoi Pan
 Mr. Yim Hing Wah
 Mr. Zhao Wen

The list of directors (by category) is disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The biography of the current members of the Board is disclosed under "Directors and Senior Management" on page 9.

During the year ended 31 December 2006, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise. Mr. Yim Hing Wah, an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Chartered Association of Certified Accountants, possesses the appropriate professional qualification required under Rule 3.10(2) of the Listing Rules.

The current independent non-executive directors of the Company are newly appointed to the Board on 12 April 2006 and they have given their confirmation on their independence pursuant to the requirements of the Listing Rules upon their appointment. The Company has also received written annual confirmation from the three independent non-executive directors, who have resigned on 12 April 2006, of their independence pursuant to the requirements of the Listing Rules before their resignation. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

Board Meetings

Code Provision A.1.1 stipulates that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.

Code Provision A.1.3 stipulates that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend.



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During the year ended 31 December 2006, 24 Board Meetings have been held. Details of the attendance of the directors are as follows:

| | Number of Board Meetings attended/ Number of Board Meeting held | | |
|---|--|--------------------|---------------------------|
| | Board | Audit Committee | Remuneration Committee |
| Executive directors | | | |
| Mr. JIANG Guoan (resigned on 12/4/2006) | 10/24 | N/A | N/A |
| Mr. CHENG Chuange (resigned on 12/4/2006) | 10/24 | N/A | N/A |
| Mr. DING Jiangyong | 18/24 | N/A | N/A |
| Ms. ZHAO Ping (resigned on 12/4/2006) | 11/24 | N/A | N/A |
| Mr. GONG Zeng Li (resigned on 12/4/2006) | 4/24 | N/A | N/A |
| Mr. ZHOU Wenjun | 12/24 | N/A | N/A |
| Mr. JI Kewei | 13/24 | N/A | N/A |
| Mr. DAI Jun | 11/24 | N/A | N/A |
| Mr. SUN Kejun | 10/24 | N/A | N/A |
| Non-executive directors | | | |
| Mr. CHEN Bin (resigned on 12/4/2006) | 4/24 | 0/3 | 1/2 |
| Mr. QIN Li (resigned on 12/4/2006) | 4/24 | 0/3 | 1/2 |
| Ms. LEE Chunxiu (resigned on 12/4/2006) | 5/24 | 0/3 | 1/2 |
| Mr. SO Hoi Pan | 9/24 | 3/3 | 1/2 |
| Mr. YIM Hing Wah | 9/24 | 3/3 | 1/2 |
| Mr. ZHAO Wen | 9/24 | 2/3 | 1/2 |

Responsibilities

The management and control of the business of the Company are vested in its Board. It is the duty of the Board to establish policies, strategies and plans, and to provide leadership in the attainment of the objective of creating value to shareholders.

The current Board has delegated a schedule of responsibilities to the senior management of the Company. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the production and operating plans and budgets, and supervising and monitoring the control systems.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

Appointment and Succession Planning of Directors

The Board will review its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

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Induction for Directors

Each newly appointed director will receive comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has proper understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

BOARD COMMITTEES

The Board has established 2 committees, namely, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference.

All members of each Board committees are independent non-executive directors and the list of the members of each Board committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee met twice during the year ended 31 December 2006 and reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management for the year under review.

Audit Committee

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor (if any) or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held three meetings during the year ended 31 December 2006 to review the financial results and report of the Company.



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MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Having made specific enquires with all the Directors of the Company, the directors confirmed for the year ended 31 December, 2006 have complied with the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company.

The scope limitation on the audit of the financial statements for the year ended 31 December 2006 together with the qualified opinion of the auditors are set out in the "Independent Auditor's Report" on page 25.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 24.

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services for the year ended 31 December 2006 amounted to HK\$530,000.

There was no non-audit service rendered to the Company by its external auditors during the year under review.

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INTERNAL CONTROL

Pursuant to the Code Provision 2.1, the board of directors should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment and the Company's assets.

The Board has engaged an external consultancy firm to assist in reviewing the internal control system and report the contents and result of such review to the audit committee and the Board of directors. The Board believes that the Group is responsible to improve the internal control system continuously.

On behalf of the Board

Zhou Wenjun
Chairman

20 April 2007

