



The Company is committed to the establishment of good corporate governance practices and procedures. The principles of corporate governance adopted by the Company emphasise a board of high quality, sound internal control, transparency and accountability to all shareholders.

The Group met the Code Provisions set out in Appendix 14 to the Listing Rules since the Listing except for Code Provisions B.1. 4 and C.3.4. Under Code Provisions B.1.4 and C.3.4 of the CCGP, the Company should make available the terms of reference of its remuneration committee and audit committee on request and by including the information on its website. Since the Company has not yet established its own website, the above requirement with regard to providing such information on a website cannot be met accordingly. However, the terms of reference of the two committees are available on request.

THE BOARD OF DIRECTORS

The Board assumes responsibility for leadership and control of the Group and is collectively responsible for promoting the success of the Company. The principal roles of the Board are:

- to lay down the Group's objectives, strategies, policies and business plan;
- to monitor and control operating and financial performance through the determination of the annual budget in particular the capital expenditure budget; and
- to set appropriate policies to manage risks in pursuit of the Group's strategic objectives.

The Board has delegated the day-to-day responsibility to the executive management under the instruction/supervision of Chief Executive Officer.

Currently, the Board has established an audit committee and a remuneration committee with defined terms of reference.



Proposed board meeting dates for the forthcoming financial year are circulated to the Board of Directors in the preceding year. During the year ended 31 December 2006, the Board held 11 board meetings. The attendance of the Directors at these 11 board meetings are as follows:

Directors' attendance at board meetings	Directors' number of attendance
Mr. Zhou Cheng	11/11
Mr. Zhang Zhaoheng (Appointed on 16 March 2007)	0/0
Mr. Li Ping	11/11
Mr. Cui Xiangdong (Appointed on 16 March 2007)	0/0
Mr. Lu Guo (Resigned on 16 March 2007)	11/11
Mr. Zhao John Huan	10/11
Mr. Liu Jinduo	10/11
Mr. Raymond Koon-Kwong Auyeung (Resigned on 29 May 2006)	3/3
Mr. Eddie Chai (Appointed on 3 July 2006)	7/7
Mr. Guo Wen (Appointed on 16 March 2007)	0/0
Mr. Wong Wai Ming (Resigned on 29 May 2006)	2/3
Mr. Song Jun	10/11
Mr. Zhang Baiheng	11/11
Mr. Sik Siu Kwan (Appointed on 29 May 2006)	7/8

Board minutes are kept by the company secretary of the Company, and are sent to the Directors for records and are open for inspection by the Directors.

Chairman and Chief Executive Officer (“CEO”)

In the Board, the Chairman and the CEO are separate persons and their roles are segregated in order to preserve independency and to have a balanced judgement of views. The Board has appointed a Chairman, Mr. Zhao John Huan, who provides leadership to the Board so that the Board works effectively and discharges its responsibilities, and that all major issues are discussed by the Board in a timely manner. The CEO, Mr. Zhou Cheng, who is an executive Director, has executive responsibilities over the business directions and operational decisions of the management and performance of the Group.

The Board also comprises independent non-executive Directors who bring strong independent judgement, knowledge and expertise to the Board. As noted below, the majority of the audit committee members are independent non-executive Directors. This structure is to ensure a sufficient balance of power and authority in place within the Group.

Board Composition

The Board comprises of four executive Directors, namely Mr. Zhou Cheng, Mr. Zhang Zhaoheng, Mr. Li Ping and Mr. Cui Xiangdong; four non-executive Directors, namely Mr. Zhao John Huan, Mr. Liu Jinduo, Mr. Eddie Chai and Mr. Guo Wen, and three independent non-executive Directors, namely Mr. Sik Siu Kwan, Mr. Song Jun and Mr. Zhang Baiheng. Mr. Zhao John Huan is the Chairman of the Board.



The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board composition is formed to ensure strong independence exists across the Board. The biographies of the Directors are set out on pages 22 to 24 to the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications.

The Company has received annual confirmation of independence from the three independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the independent non-executive Directors are independent within the definition of the Listing Rules.

Appointments, Re-election and Removal

Pursuant to the Bye-Law 102(A), the Company may from time to time in general meeting by ordinary resolution elect and pursuant to the Bye-law 102(B), the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Such Directors shall hold office until the next general meeting of the Company and shall then be eligible for re-election at the meeting.

Pursuant to the Bye-Law 99, at each annual general meeting, one-third of the Directors shall retire from office by rotation.

Pursuant to the Bye-Law 104, the Company may by ordinary resolution remove any Director before the expiration of his period of office notwithstanding anything in the Bye-Laws or in any agreement between the Company and such Director and may elect another person in his stead.

Mr. Eddie Chai was appointed on 3 July 2006.

Mr. Sik Siu Kwan was appointed on 29 May 2006.

Mr. Zhang Zhaoheng, Mr. Cui Xiandong and Mr. Guo Wen were appointed on 16 March 2007.

Mr. Raymond Koon-Kwong Auyeung and Mr. Wong Wai Ming resigned on 29 May 2006. Mr. Lu Guo resigned on 16 March 2007.

All non-executive Directors have contracts with the Company for a specified period of three years subject to retirement and rotation at the general meeting of the Company in accordance with the Company's Bye-Laws and the CCGP.

Responsibilities of Directors

Every newly appointed Director is ensured to have a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements, and the business and governance policies of the Group. The Directors are continually updated with legal and regulatory developments, business and market changes, and the strategic development of the Group to facilitate the discharge of their responsibilities.

The independent non-executive Directors take an active role in board meetings, contribute to the development of strategies and policies and make sound judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standard of conduct. They will take lead where potential conflicts of interests arise. They are also members of various board committees and scrutinise the overall performance of the Group in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.



Directors' Securities Transactions

The Company has adopted a set of code of conduct rules (the "Code of Conduct") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 to the Listing Rules, and that having made specific enquiry of all the Directors, the Company confirms that all the Directors have complied with the required standard set out in the Code of Conduct and the Model Code.

Supply of and Access to Information

In respect of regular board meetings, an agenda and the accompanying board papers of each meeting are sent to the Directors approximately one month before the intended date of meeting. Board papers are circulated to the Directors to ensure they have adequate information before the meeting for the ad hoc matters.

The management has the obligation to supply the Board and its committees with adequate information in a timely manner, to enable them to make informed decisions. Where any Director requires more information than is volunteered by the management, each Director has separate and independent access to the Company's senior management to make further enquires if necessary.

All Directors are entitled to have unlimited access to the board papers and relevant materials. Such information is prepared to enable the Board to make an informed decision on matters placed before it.

BOARD COMMITTEE

The board committees of the Company are the audit committee and Remuneration Committee.

Audit Committee

The Company has set up an audit committee to establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

The audit committee currently comprises two independent non-executive Directors of the Company, namely Mr. Sik Siu Kwan and Mr. Song Jun, and one non-executive Director, namely Mr. Zhao John Huan. The chairman of the audit committee is Mr. Sik Siu Kwan. The members of the audit committee possess a wealth of management experience in the accounting profession and commercial sectors.

During the year ended 31 December 2006, two audit committee meetings have been held.



Directors' attendance at audit committee meeting

Directors	Number of attendance
Mr. Sik Siu Kwan (Chairman of the audit committee) (Appointed on 29 May 2006)	1/1
Mr. Wong Wai Ming (Resigned on 29 May 2006)	1/1
Mr. Song Jun	2/2
Mr. Zhao John Huan	2/2

Full minutes of audit committee meetings are kept by the company secretary. Draft and final versions of minutes of the audit committee meetings are sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

During the year ended 31 December 2006, the audit committee has met the external auditors to discuss and review areas of concerns and internal control without the presence of the management. The audit committee reviewed the interim and annual reports before submission to the Board. The committee focused not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

Remuneration Committee

The Company has set up a remuneration committee to ensure that there are formal and transparent procedures for setting policies on the remuneration of the Directors and senior management. The committee is comprised of one non-executive Director, namely Mr. Zhao John Huan, and two independent non-executive Directors, namely Mr. Song Jun and Mr. Sik Siu Kwan. The chairman of the remuneration committee is Mr. Zhao John Huan.

During the year ended 31 December 2006, four remuneration committee meetings have been held.

Directors' attendance at remuneration committee meeting

Directors	Number of attendance
Mr. Zhao John Huan (Chairman of remuneration committee)	4/4
Mr. Song Jun	3/3
Mr. Wong Wai Ming (Resigned on 29 May 2006)	0/0
Mr. Sik Siu Kwan (Appointed on 29 May 2006)	2/2

The terms of reference of the remuneration committee are consistent with the terms as set out in the relevant section of the CCGP, and the terms of reference of the remuneration committee are available on request. No Director is involved in deciding his own remuneration.

In order to attract, retain and motivate Directors and senior management serving for the Group, the Company maintained in a competitive level of remuneration according to the relevant market situation, and it also corresponds with the Directors' and the senior management's performance.



Delegation by the Board

The day-to-day management of the Company is delegated to the management, with division heads responsible for different aspects of the business.

Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

ACCOUNTABILITY AND AUDIT

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for each financial year which gives a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the Group's profit and cash flows for the year then ended. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, therefore, the Board continues to adopt the going concern approach in preparing the financial statements.

The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcement and other financial disclosures required under the relevant legal and regulatory requirements.

The Company engaged KPMG, as external auditors of the Group. The auditors' reporting responsibilities are set out in the Report of the Auditors.

INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective internal control system of the Group. The Group endeavors to set up an internal control system with a well defined management structure with limits of authority, which is designed for the achievement of business objectives, to safeguard assets against unauthorized use or disposition, to ensure proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations. The Board has conducted a review on the effectiveness of the Group's internal control system during 2006 with a view to improve its internal control system.

AUDITORS' REMUNERATION

The Company engaged the auditors to review and audit the financial statements of the Company included in the interim and annual reports, respectively, for RMB3.08 million (which is payable by the Company). Save as disclosed above, the Company did not engage KPMG for any other non-audit services during the year ended 31 December 2006.



COMMUNICATIONS WITH SHAREHOLDERS

In every general meeting, in respect of each substantially separate issue, a separate resolution would be proposed by the Chairman of that meeting.

The Chairman of the Board will attend at the annual general meeting to be available to answer questions at the meeting.

VOTING BY POLL

The Company informs the shareholders (in its circulars convening a general meeting) the procedures for voting by poll and the rights of shareholders to demand a poll to ensure compliance with the requirements on the poll voting procedures.

In accordance to Bye-Law 70 of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- i) by the chairman of the meeting; or
- ii) by at least three shareholders present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- iii) by any shareholder or shareholders present in person or by duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting; or
- iv) by any shareholder or shareholders present in person or by duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The Company will count all proxy votes, and except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company will ensure that votes cast are properly counted and recorded.

The chairman of a meeting will at the commencement of the meeting ensure that an explanation is provided of:

- (i) the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and
- (ii) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.