

The Company strives to attain a higher standard of corporate governance. The principles of corporate governance adopted by the Group emphasize a quality Board, sound internal control, and transparency and accountability to all stakeholders.

(a) Corporate Governance Practices

The Company put strong emphasis on the superiority, steadiness and rationality of corporate governance. In order to enhance the management level, the Company has set up a committee to review its internal management structure. During the current year, the Company has complied with the requirements with respect to Appendix 15 “The Code on Corporate Governance Practices” to the Listing Rules on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

(b) Directors’ 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 of the Listing Rules, which requires the securities transactions of the Directors of the Company to be conducted in accordance with the Model Code. The Model Code is also applicable to the senior management of the Company. After making specific enquiries, all Directors have confirmed that they have fully complied with the Model Code throughout 2006.

(c) The Board

The Board of the Company is responsible for planning and overseeing the overall development and management of the Group with the objective of enhancing shareholders’ value. The Board, led by the Chairman, is responsible for the approval and monitoring of the overall strategies and policies of the Group, approval of annual budgets and business plans, evaluation of the Company’s performance and oversight of the management. The management is responsible for the day-to-day operations of the Group under the guidance of the General Manager. In 2006, the Board comprised nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. Biographical details of the Directors are set out under the Directors and Senior Management section from pages 14 to 17. The independence of an Independent Non-executive Director may only be established upon confirmation by the Board that such Director does not have any other direct or indirect relationship with the Group. The Chairman of the Company, Mr. Zhang En Rong, is the father of Mr. Zhang Yun San, an executive Director. Aside from this, there is no financial, business and relatives relationship among members of the Board.

Eight meetings were held in 2006 by the Board with all Directors present.

		Number of meetings attended
Zhang En Rong	Chairman and Executive Director	8/8
Zhang Yun San	Deputy Chairman and Executive Director	8/8
Lin Fu Long	Executive Director and General Manager	8/8
Xie Xin Cang	Executive Director and Board Secretary	8/8
Chen Jian Xiong	Non-executive Director	8/8
Wang Ping	Non-executive Director	8/8
Qin Xue Chang	Independent non-executive Director	8/8
Yan Yi Zhuang	Independent non-executive Director	8/8
Loke Hoi Lam	Independent non-executive Director	8/8

(d) Chairman and General Manager

The Chairman provides leadership for the Board. He is responsible for approving and monitoring the overall strategies and policies of the Group, reviewing annual budget and business plan, assessing the performance of the Company and overseeing the duties of the management. The General Manager is responsible for daily operations of the Group. The roles of Chairman and General Manager are separate and are performed by the same individual. During the current year, Mr. Zhang En Rong was the Chairman and Mr. Lin Fu Long was the General Manager.

(e) Non-executive Director

The appointment of non-executive Director, Mr. Chen Jian Xiong, is valid from 7 May 2005 to 7 May 2008. The appointment of non-executive Director, Mr. Wang Ping, is valid from 12 May 2006 to 11 May 2009.

(f) Nomination Committee

The Nomination Committee was established on 18 January 2005 and its members are Mr. Yan Yi Zhuang, Mr. Zhang Yun San, Mr. Qin Xue Chang, and Mr. Loke Hoi Yu (alias Loke Hoi Lam), with Mr. Yan Yi Zhuang as the Chairman of the Nomination Committee.

Summary of Tasks of Nomination Committee

The Nomination Committee submitted to the Board with related solution on the 22nd Session of the First Board on 29 March 2007 and nominate the new Director candidate list to the Board following the process below:

1. Candidate acquisition; any person can recommend Director candidate to Nomination Committee as well as recommend oneself to be Director candidate.
2. Qualification examination; as regards to the persons above, the Nomination Committee should strictly examine the qualifications of Director candidate in accordance with Director choice standard.

3. Written survey; Nomination Committee should examine and verify the aptitude of the Director candidate who conforms to the requirement and provide a written report.
4. Official recommendation; Nomination Committee is in charge of choosing the excellent from the qualified candidates and give official nomination during general meeting

Members of Nomination Committee		Number of meetings attended
Yan Yi Zhuang	Committee Chairman and Independent non-executive Director	1/1
Zhang Yun San	Deputy Chairman and Executive Director	1/1
Qin Xue Chang	Independent non-executive Director	1/1
Loke Hoi Lam	Independent non-executive Director	1/1

The Nomination Committee identifies Directors or manager candidates with appropriate qualification and advises the Board accordingly.

(g) Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee was established on 18 January 2005 and its members are Mr. Loke Yu (alias Loke Hoi Lam), Mr. Zhang Yan San, Mr. Qin Xue Chang, Mr. Yan Yi Zhuang, Mr. Loke Yu (alias Loke Hoi Lam) is the chairman of the Remuneration and Evaluation Committee.

Summary of Tasks of Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee submitted to the Board with remuneration solution on the 22nd Session of the first Board on 29 March 2007 and follow the basic principles below to formulate senior management remuneration:

1. Ensure that the level emolument corresponds with Director's, Supervisor's and Senior management's work experience, ability, obligation and responsibility taken.
2. Ensure that no Director, Supervisor or senior management determines one's own remuneration.
3. Any increase of remuneration should be in line with that of the Company's profit.

Formulation of the remuneration

1. Formulation of the remuneration for Executive Directors

Executive Directors' remuneration is formulated by the Remuneration Committee and is consisted of basic salary and incentive. The Company and each executive Director should enter into an "executive Director service agreement".

2. Formulation of the remuneration for non-executive Director and independent non-executive Director

Non-executive Directors and independent non-executive Directors' remuneration advised by Remuneration and Evaluation Committee and reported to the Board for permission. The Company and each non-executive Director or independent non-executive Director should sign "Non-executive Director Service Agreement" or "Independent Non-executive Director Service Agreement", respectively.

Summary of tasks of Remuneration and Evaluation Committee

Members of Remuneration and Evaluation Committee

Members of Remuneration and Evaluation Committee		Number of meetings attended
Loke Hoi Lam	Committee Chairman and Independent non-executive Director	1/1
Zhang Yun San	Deputy Chairman and Executive Director	1/1
Qin Xue Chang	Independent non-executive Director	1/1
Yan Yi Zhuang	Independent non-executive Director	1/1

The Remuneration and Evaluation Committee has determined the remuneration of the Directors according to their expertise, knowledge and commitment to the Company with reference to the Company's profitability and the prevailing market conditions.

3. Formulation of the remuneration for Senior management

Senior management's remuneration is formulated by Remuneration Committee and is consisted of basic salary and incentive.

(h) Audit Committee

The Audit Committee was established on 20 March 2004 and its members are Mr. Qin Xue Chang, Mr. Yan Yi Zhuang and Mr. Loke Hoi Lam, with Mr. Qin Xue Chang as the Chairman of the Committee. Mr. Qin Xue Chang and Mr. Yan Yi Zhuang were assigned to be a member of Audit Committee from 12 May 2006 to 11 May 2009.

Summary of tasks of Audit Committee

The Audit Committee has held five meetings this year to discuss matters relating to the accounting standards and practices adopted by the Group, and internal control and financial reporting matters, etc., including reviewing the audited results for 2006.

The Audit Committee had held meetings with the external auditors of the Company to discuss the quarterly reports, the interim report, the annual financial statements and the internal control system of the Company. The Directors and Chief Financial Officer of the Company also attended the meetings to answer questions in respect of the financial results of the Company.

The management of the Company shall provide all ledgers, analyses and supporting documents as required by the Audit Committee to facilitate their review on the financial statements and control system of the Company to their satisfaction so that they may submit appropriate advice to the Board.

Members of the Audit Committee	Duties	Number of meetings attended
Qin Xue Chang	Committee Chairman and Independent non-executive Director	5/5
Yan Yi Zhuang	Independent non-executive Director	5/5
Loke Hoi Lam	Independent non-executive Director	5/5

(i) Auditors' Remuneration

For 2006, auditing service less payable to the Company's auditors (Ernst Young) amounted to approximately RMB1 million. The Company confirms that Ernst & Young did not provide any non-audit services to the Company during the year.

(j) The Directors confirmed their responsibilities in preparing the Group's financial statements

The Directors have confirmed that the preparation of the Group's financial statement is in compliance with the relative regulations and applicable accounting standards. The Directors also warrant that the Group's financial statement will be distributed in due course.

(k) Internal Control

The Board places great importance on internal control and risk management and is responsible for establishing and maintaining adequate internal control over financial reporting for the Company and assessing the overall effectiveness of those internal controls.

The Company has taken many steps to enhance the internal control of the Company, such as having internal control inspection, setting up a receipt mechanism and strengthening the management of the contracts.

The Company has an Internal Audit Department which plays a major role in monitoring the internal governance of the Company. The major tasks of the Internal Audit Department are reviewing the financial condition and management of the Company and conducting comprehensive audits of the practices, procedures, expenditure and internal controls of all branches and subsidiaries of the Company on a regular basis. During the year of 2006, the Internal Audit Department issued reports to the senior management covering various operational and financial units of the Company and also conducted reviewed of major projects and contracts as well as area of concern identified by the Company's management.

(l) Going Concern

For 2006, there was no uncertainty or conditions of a material nature that would affect the Company's ability as to continue as a going concern.

(m) Investor Relations

The Board Office of the Company is responsible for preparing responses to written and telephone enquiries from shareholders/investors. The Company maintains a hotline (86 536 5100890) and email addresses: dsh@molonggroup.com and pyj@molonggroup.com for such enquiries.

The Company has appointed a company engaged in financial public relations and adopted its advice from time to time. We also seek professional opinions from overseas investors recommended by this Company to ensure good communication with investors.

The Company cordially invites shareholders to express their opinions by filling out the feedback form enclosed with the annual report. Visits to our facilities in the PRC will also be arranged for shareholders. Opinions from our shareholders will be forwarded to senior management and the Directors of the Company.

(n) Sincere Communication

The Company has a policy of open communication and fair disclosure. Disclosure is a key means to enhance our corporate governance standards. The Company provides its shareholders and other stakeholders with the information necessary for them to form their own judgement and to provide feedback. The Company understands that full and frank disclosure does not only increase transparency of the Company, but is also essential for building market confidence.

The Company understands that not all shareholders and stakeholders have ready access to information online. If this is the case, please feel free to send a written request to our Board Office at No. 99 Beihai Road, Shouguang City, Shandong Province, the PRC or email to dsh@molonggroup.com for a copy of the above information.