



Corporate Governance Report

CORPORATE GOVERNANCE PRINCIPLES

To become a company which enjoys the continuously growing trust of its shareholders and all other stakeholders by maximizing its corporate value, the Company is working to improve its management efficiency, advocate corporate ethics and ensure sound management on a Group-wide basis.

To further improve the transparency of the management to shareholders and investors, the Company will disclose information in a fair and timely manner and actively engage in investor relations activities by holding meetings in the PRC and Hong Kong to explain its business results and operations.

The Company will endeavor to comply with the laws and regulations of the place of operation of the Company and the requirements and guidelines of the Stock Exchange of Hong Kong Limited and local regulatory bodies.

Compliance with the Code on Corporate Governance Practices (the “Code”)

In the opinion of the directors, the Company had during the year ended 31 December complied with all the applicable code provisions of the Code as set out in Appendix 14 to the Listing Rules.

Compliance with the Model Code for Securities Transactions by Directors of the Company

The Company has adopted the Model Code as the code of conduct regarding directors’ securities transactions. Specific enquiry has been made to all directors, who have confirmed that they had complied with the required standard set out in the Model Code for the year ended 31 December 2006.

The Board will continue to review and foster its own Code of Corporate Governance Practices from time to time. The Company will seek to improve its management and raise its control level to enhance the Company’s competitiveness and operating efficiency, to ensure its sustainable development and to generate greater returns for the shareholders.

CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for the management of the Company with acting in the interest of the Company and its shareholders as its principle and is accountable to the shareholders for the assets and resources entrusted to them by the shareholders. The key responsibilities of the Board include the formulation of the Company’s long-term development strategies and operating direction, setting of the management targets and supervising members of the management in implementing matters resolved by the Board and performing their duties. Under the Board, there are currently 3 board committees, namely Audit Committee, Executive Committee and Remuneration Committee. All these committees perform their distinct roles in accordance with their respective terms of reference.

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BOARD OF DIRECTORS

The Board currently comprises 12 directors, including 7 executive directors, 2 non-executive directors and 3 independent non-executive directors. Each director has a duty to act in good faith in the best interests of the Company. The directors are aware of their collective and individual responsibilities to the shareholders.

Pursuant to Rules 3.10 (1) and (2) of the Listing Rules, Dr. Qian Shizheng, one of the independent non-executive directors, has specialized in related financial management expertise.

A written confirmation was received from each of the independent non-executive directors, Professor Yang Hongqi, Dr. Qian Shizheng and Mr. Lo Peter, confirming their independence pursuant to Rule 3.13 of the Listing Rules.

All members of the Board are of relevant professional background with plenty of experience who can have a positive and motivational effect in raising the development and management level of the Company. In addition, the Company also separates the duties of the chairman of the Board and the chief executive officer. The two positions are held by different directors with the aim of reinforcing the independence of the Board and the management. The chairman of the Board is mainly responsible for the leadership and effective running of the Board, and making key strategic decisions for the Company. The chief executive officer is mainly responsible for the daily operation and management of the Group's business, and implementation of the approved strategies in achieving the overall Company's objectives.

Included in the composition of the Board are two family members: the chairman of the Board, Mr. Li San Yim and his wife Ms. Ngai Ngan Ying, one of the non-executive directors of the Company are subject to retirement by rotation and offer themselves for re-election in the same manner as the executive directors. The Company will review the composition of the Board regularly to ensure the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group's business.

For detailed information on the members of the directors and senior management, please refer to the section headed "Profiles of Directors and Senior Management" from pages 13 to 18 of this annual report.

For the year ended 31 December 2006, the Board held 4 meetings. Notice of at least 14 days is given for a regular Board meeting to give all directors an opportunity to attend. The following table shows the attendance records of individual directors at the meetings of the Board and the attendance records of individual members at the meetings of the respective Board Committees held for the year ended 31 December 2006:

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Number of meetings attended/Number of Meetings held for the year ended 31 December 2006

Name of directors	Board	Audit Committee	Executive Committee	Remuneration Committee
Executive Directors				
Mr. Li San Yim (Chairman)	4/4	N/A	2/2	N/A
Mr. Qiu Debo (Chief Executive Officer)	4/4	N/A	2/2	N/A
Mr. Luo Jianru	4/4	N/A	2/2	N/A
Ms. Feng Wanru (Note 1)	2/4	N/A	1/2	N/A
Dr. Mou Yan Qun (Note 2)	2/4	N/A	1/2	N/A
Mr. Chen Chao	4/4	N/A	2/2	N/A
Mr. Zhu Yongsheng (Note 3)	4/4	N/A	2/2	N/A
Mr. Lin Zhong Ming (Note 2)	2/4	N/A	1/2	N/A
Dr. Zhang Hong	4/4	N/A	2/2	N/A
Non-Executive Directors				
Ms. Ngai Ngan Ying	4/4	N/A	N/A	1/1
Mr. Zhu Mantian Myron (Note 4)	4/4	2/2	N/A	N/A
Ms Fang Deqin (Note 4)	N/A	1/2	N/A	N/A
Independent Non-Executive Directors				
Professor. Yang Hongqi	4/4	N/A	N/A	N/A
Dr. Qian Shizheng	4/4	2/2	N/A	1/1
Mr. Lo Peter	4/4	2/2	N/A	1/1

(Note 1) Ms Feng Wanru has resigned in October 2006

(Note 2) Dr. Mou Yan Qun and Mr. Lin Zhong Ming was appointed in October 2006 to fill casual vacancy

(Note 3) Mr. Zhu Yongsheng has resigned on 16 March 2007 due to personal reasons

(Note 4) Mr. Zhu Mantian Myron has resigned on 16 March 2007 due to personal reasons and Ms Fang Deqin has appointed on that day

N/A Not Applicable

BOARD COMMITTEES

As part of good corporate governance practice, the Board has delegated certain authorities to a number of committees. These committees include representation from non-executive and independent non-executive directors whose objective views are important in the execution of the controls expected in a listed company.

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EXECUTIVE COMMITTEE

The executive committee is responsible for recommending general policy and advising direction for the Company to the Board and as such, it interacts with the audit and remuneration committees in respect of their policy submissions. Since, the Company does not have a separate nomination committee, the nomination and appointment of new directors is a function of the executive committee. The executive committee reviews on a regular basis the need to appoint directors with specific business acumen in appropriate sectors that would further enhance the present skill set, or add expertise in a developing business sector and assess the independence of the Company's independent non-executive directors.

The Committee currently consists of seven executive directors, namely Mr. Li San Yim, Mr. Qiu Debo, Mr. Luo Jianru, Dr. Mou Yan Qun, Mr. Chen Chao, Mr. Lin Zhong Ming and Dr. Mr. Zhang Hong. Mr. Qiu Debo is elected as the chairman.

AUDIT COMMITTEE

The audit committee currently comprises 1 non-executive director, namely Ms. Fang Deqin, and 2 independent non-executive directors, namely Dr. Qian Shizheng and Mr. Lo Peter. Dr. Qian Shizheng was elected as chairman.

The primary duties and responsibilities of the audit committee is to assist the Board in fulfilling its oversight responsibilities of the Company's compliance with legal and regulatory requirements with respect to financial matters and those required by the

Listing Rules of the Stock Exchange of Hong Kong Limited and other regulatory bodies.

The functions of audit committee include but not limited to the following:

- Serve as an independent party to monitor the integrity of the Company's financial statements, reporting process and internal control mechanism;
- Review and assess audit efforts of the Company's independent auditors; directly appointing, retaining, compensating, evaluating and terminating the Company's independent auditors;
- Review the qualifications, independence and performance of the independent auditor and
- Provide an intermediary of open communication among the Company's independent auditors, financial and senior management and board of directors.

The audit committee has reviewed the Company's interim and final results for the year of 2006.



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AUDITOR'S REMUNERATION

For the year ended 31 December 2006, Messrs. Deloitte Touche Tohmatsu, the external auditors of the Group received approximately RMB2.2 million (2005: approximately RMB 1.7 million) for audit and review services.

REMUNERATION COMMITTEE

The remuneration committee currently consists of 1 non-executive director, namely Ms. Ngai Ngan Ying, and 2 independent non-executive directors, namely Dr. Qian Shizheng and Mr. Lo Peter. The primary duties and responsibilities of the remuneration committee is to advise the Board on the remuneration policy, review and determine the remuneration of all executive directors and senior management with reference to the Company's objectives from time to time.

In addition, the remuneration committee needs to review other human resources issues, including group-wide remuneration policies and the development of human resources.

No director plays a part in any discussions about his own remuneration for the year ended 31 December 2006.

INTERNAL CONTROLS

It is the Board's responsibility for developing and maintaining an effective internal control system of the Company to protect shareholders' interest and to safeguard the Group's property and assets by reviewing major control procedures for financial, compliance and enterprise risk management. However, such a system was designed to manage various risks of the Group within certain acceptable risk level, rather than the complete elimination of the risk of failure to achieve the business objectives of the Group. Therefore it can provide reasonable but not absolute assurance against material misstatement of the management as well as financial information and records, or financial fraud or losses.

The Company continually reviews and enhances its business and operational activities to identify areas of significant business risks and take necessary measures to control and mitigate these risks.

Internal Audit

The Company enhances the independence of internal audit department since the first half of year 2006 for the purpose of reviewing, in a more effective manner, the companywide systems of internal control. The department was monitored and held responsible to the Board and as well as to the audit committee. The internal audit department carries out inspection, monitoring and evaluation of the Company's financial information disclosures, operations and internal control procedures on a regular or in ad hoc basis, with a view to ensuring transparency in information disclosures, operational efficiencies and effectiveness of the corporate control regime.

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Independent evaluations and recommendations is the core element in the department, the internal audit staff are authorized to access any information relating to the Company and to make enquiries to staff concerned. Besides that, internal audit department would assist external auditors during an external audit by providing pertinent financial information in a timely manner.

Strengthening Systems of Internal Controls

Effective from 1 January 2006, the Company has fully adopted a comprehensive budget management and a level-based performance appraisal management, so as to monitor the operations of the Company according to the budget and adjust operating objectives and management initiatives in a timely manner.

For a more scientific and effective human resources management, the Company has, from 1 January 2006, carried out in-depth analysis on each position for a clear and reasonable definition of job missions, duties, skills requirements and key performance targets.

Key internal controls of the Company include

- * Establishment of policies, rules, procedures and approval limits for key financial and personnel matters, and the rules to the delegation of authorities;
- * Internal documentation of key processes and procedures;
- * Maintenance of proper accounting records;
- * Safeguarding the Company's assets;
- * Ensuring reliability of financial information;
- * Ensuring compliance with appropriate legislation and regulations; and
- * Having qualified and experienced persons take charge of important functions.

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INVESTOR RELATIONS

Information Disclosures and Investor Relations Management

The Company strives to ensure that all shareholders and investors are able to fully exercise their rights on an equal basis. The Company regards effective communication as the core of investor relations, and believes that a high transparent organization and promptly dissemination of information to our investors are important ingredients to the success of a company. A designated team including an executive director from senior management, the company secretary and delegates from the Company's financial management department was set up in 2005 managing information disclosures and investor relations to ensure that information disclosures are open, fair and impartial. It helps investors improve their understanding of, and identification with, the Company through full disclosure of information to them, and seeks to strengthen communication and interaction with them through various means to enhance the Company's transparency.

During the year of 2006, the Company maintained its good relationship with the international capital markets through the announcement of annual results, global or international investors' forums, non-deal roadshows and company visits. The major investor relations events took place in the year of 2006 include:

Date	Major Events
March 2006	Announcement of 2005 annual results and press conference
April 2006	Participated in the China Investment Conference 2006 held by JP Morgan in Beijing
May 2006	Participated in the China Investment Forum 2006 held by CLSA in Shanghai Participated in the Small Cap Corporate Day held by BNP Paribas Peregrine in Hong Kong Reverse roadshow with around 30 investors and analysts visited the Company
June 2006	Participated in the third annual China Investment Forum at the Metropolitan Club in New York City held by Merrill Lynch Participated in the China Access Day held by CLSA in Hong Kong
September 2006	Announcement of 2006 interim results and press conference
October 2006	Participated in the "China Economic Development Forum" held by BNP Paribas Peregrine in Chongqing

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Other Stakeholders' interests

While dedicated to maximizing shareholders' value, the Company is also committed to its customers, in terms of provision of quality products and services, and to the staff, by making available opportunities to them for career development. The Company had a strong commitment to shareholders, investors, staff, customers, suppliers and the community at large and always acting in good faith and with integrity. The Company believed that the sustainable development of a company cannot be achieved in isolation from a healthy environment. The Company pledges to contribute to the community while pursuing profit growth, by managing the business within the

bounds of relevant laws and environmental regulations, improving standard of corporate governance and enhancing corporate transparency and actively participating in social charities and contribute to the local social development.

CORPORATE SOCIAL RESPONSIBILITY

The Group also dedicates itself to contributing to the society and serving the community in the midst of its rapid development. Taking into consideration the actual situation in the place where it operates, the subsidiaries of the Group take part in local social services. Our involvement in community service helps to build a good image of the Company and contribute to the local social development.

For the year of 2006, the Group has donated approximately RMB724,000 in education subsidies; compensations for misfortune and charity donations.

In the future, we will continue to support and participate in diversified social and community activities. To promote the relationship between the Company and investors and to enhance the transparency of the operation of the enterprise, the Company will communicate information regarding the Company's business development through various channels when appropriate.