

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a high standard of corporate governance practices by emphasizing a quality board of directors, sound internal control, transparency and accountability to all the shareholders of the Company.

The Company has complied with all the code provisions set out in the Code of Corporate Governance Practice (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2006 except for certain deviations from code provisions A.4.2 and E.1.2 with explanation below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code for securities transactions by directors of the Company (the "Code of Conduct") on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Having made specific enquiry with all the directors of the Company (the "Directors" or individually the "Director"), all of them confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding securities transactions by the Directors during the year ended 31 December 2006.

BOARD OF DIRECTORS

Composition

The board of directors (the "Board") of the Company comprises eleven Directors of which three are executive Directors, five are non-executive Directors and three are independent non-executive Directors. The members of the Board as at the date of this annual report are as follows:

Executive Directors

Mr. Xu Huizhong
Mr. Wang Lixin
Mr. Ren Suotang

Non-executive Directors

Mr. Zhou Zhongshu (*Chairman*)
Mr. Shen Ling
Mr. Zhang Shoulian
Mr. Li Linhu
Mr. Zong Qingsheng

Independent Non-executive Directors

Mr. Liu Hongru
Mr. Chan Wai Dune
Mr. Ting Leung Huel, Stephen



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BOARD OF DIRECTORS (cont'd)

Composition (cont'd)

The Board formulates overall strategies and policies of the Group. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal control and the conduct of business in conformity with applicable laws and regulations. The Board members are fully committed to their roles and have always acted in the best interests of the Group and its shareholders at all times. There is no financial, business, family or other material/relevant relationship amongst Directors. The Directors' biographical information is set out on pages 15 to 19 under the section headed "Directors and Senior Management" of this annual report.

Board meetings are held regularly at approximately quarterly intervals and also held on ad hoc basis as required by business needs. Regular Board meetings and ad hoc Board meetings are attended to by a majority of the directors in person or through other electronic means of communication. In addition, special Board meetings are convened from time to time for the Board to discuss issues that require the Board's timely attention. Since the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the executive Directors and senior management attend the meetings. During the year ended 31 December 2006, other than resolutions passed in writing by all the Directors, the Board held a total of twelve regular and ad hoc Board meetings and a total of nine special Board meetings.

The attendance of each member at the Board meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a Board member.

Directors	Notes	Number of regular and ad hoc Board meetings attended	Number of special Board meetings attended
<i>Executive Directors</i>			
Mr. Xu Huizhong		12/(12)	9/(9)
Mr. Wang Lixin	(i)	12/(12)	8/(9)
Mr. Ren Suotang	(ii)	2/(2)	2/(2)
<i>Non-executive Directors</i>			
Mr. Zhou Zhongshu (Chairman)		12/(12)	
Dr. Zhu Guang (Vice Chairman)	(iii)	3/(5)	
Ms. Shen Ling		12/(12)	
Mr. Zhang Shoulian	(iv)	12/(12)	
Mr. Li Linhu		12/(12)	
Mr. Zong Qingsheng		12/(12)	
<i>Independent Non-executive Directors</i>			
Mr. Liu Hongru		11/(12)	
Mr. Chan Wai Dune		12/(12)	
Mr. Ting Leung Huel, Stephen		12/(12)	



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BOARD OF DIRECTORS *(cont'd)*

Composition *(cont'd)*

Notes:

- (i) Due to other business commitment, Mr. Wang Lixin has appointed Mr. Zhang Shoulian, a non-executive Director, to act as his alternate director to attend one of the regular Board meetings held during the year.
- (ii) Appointed as executive Director and vice president of the Company on 18 September 2006.
- (iii) Retired as vice chairman of the Board and non-executive Director at the annual general meeting of the Company held on 15 May 2006.
- (iv) Due to other business commitment, Mr. Zhang Shoulian has appointed Mr. Wang Lixin, an executive Director, to act as his alternate director to attend one of the regular Board meetings held during the year.

Chairman of the Board and Chief Executive Officer

The chairman of the Board is Mr. Zhou Zhongshu and the chief executive officer (or president, in the case of the Company) of the Company is Mr. Xu Huizhong. The roles of the chairman of the Board and the president of the Company are segregated to ensure their respective independence, accountability and responsibility.

The chairman takes the lead in formulating overall strategies and policies of the Group; ensures the effective performance by the Board of its functions, including compliance with good corporate governance practices and encourages and facilitates active contribution of Directors in Board activities. The chairman also ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner.

Under code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting. The chairman of the Board had not attended the Company's annual general meeting held on 15 May 2006 due to other business commitment.

The president, supported by other Board members and senior management, is responsible for managing day-to-day business of the Group. He is also accountable to the Board for the implementation of the Group's overall strategies, and coordination of overall business operations.

Executive Directors

The executive Directors are responsible for running the Group and executing the strategies adopted by the Board. They lead the Group's management team in accordance with the directions set by the Board and are responsible for ensuring that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

Non-executive Directors

The non-executive Directors provide a wide range of expertise and experience and bring independence judgment on issues relating to the Group's strategies, development, performance and risk management through their contribution at Board and committee meetings.



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BOARD OF DIRECTORS *(cont'd)*

Independent Non-executive Directors

The independent non-executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participation provide adequate checks and balances to safeguard the interests of the Group and its shareholders. The Board consists of three independent non-executive Directors and two of them have appropriate professional qualifications or accounting or related financial management expertise. The Board confirms that the Company has received from each of the independent non-executive Directors a confirmation of independence for the year ended 31 December 2006 pursuant to Rule 3.13 of the Listing Rules and considers such directors to be independent.

Nomination of Directors

The Company does not have a nomination committee. The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their qualifications, experience and expertise as well as the requirements under the Listing Rules. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

During the year, one meeting was held by the Board to discuss and recommend the nomination of Mr. Ren Suotang as the executive Director to fill a casual vacancy of the Board. In accordance with the articles of association of the Company, Mr. Ren had retired and was re-elected at the extraordinary general meeting of the Company held on 27 December 2006 and thereafter is subject to retirement by rotation and re-election at the annual general meeting of the Company.

Re-election of Directors

Each of the non-executive Directors has entered into a service agreement with the Company for a term of three years but is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

Under code provision A.4.2 of the CG Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

To comply with the code provision A.4.2, a special resolution was passed to amend the articles of the association of the Company at the Company's annual general meeting held on 15 May 2006 to the effect that (a) all directors appointed to fill a casual vacancy shall retire and be eligible for re-election at the next general meeting, and (b) every director shall be subject to retirement by rotation at least once every three years.



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THE BOARD COMMITTEES

Remuneration Committee

The Company has established a remuneration committee on 11 April 2005. The remuneration committee comprises five members, a majority of whom are independent non-executive directors, and is chaired by Mr. Ting Leung Huel, Stephen. The other members are Mr. Zhou Zhongshu, Mr Liu Hongru, Mr. Xu Huizhong and Mr. Chan Wai Dune.

The remuneration committee is responsible for formulating and making recommendation to the Board on the Group's remuneration policy, the determination of specific remuneration packages of all executive directors and senior management and making recommendations to the Board the remuneration of non-executive Directors. It takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-base remuneration. The terms of reference of the remuneration committee which have been adopted by the Board are posted on the Company's website.

During the year ended 31 December 2006, the remuneration committee held two meetings. The remuneration committee reviewed the remuneration policy of the Company and the remuneration of Directors and senior management and made recommendation to the Board.

The attendance of each member at the remuneration committee meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a member of the remuneration committee.

Members	Number of meetings attended
<i>Executive Director</i>	
Mr. Xu Huizhong	2/(2)
<i>Non-executive Director</i>	
Mr. Zhou Zhongshu	2/(2)
<i>Independent Non-executive Directors</i>	
Mr. Liu Hongru	2/(2)
Mr. Chan Wai Dune	2/(2)
Mr. Ting Leung Huel, Stephen (<i>Chairman</i>)	2/(2)

Audit Committee

The Company has established an audit committee on 2 July 1999. The audit committee comprises three independent non-executive Directors, namely Mr. Liu Hongru, Mr. Chan Wai Dune and Mr. Ting Leung Huel, Stephen and one non-executive Director, Mr. Zong Qingsheng. Mr. Chan Wai Dune is the Chairman of the audit committee.

The audit committee is accountable to the Board and the principle duties of the audit committee include the review and supervision of the financial reporting process and internal control system of the Group. The terms of reference of the audit committee incorporating all the duties set out in code provision C.3.3 of the CG Code are posted on the Company's website.



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THE BOARD COMMITTEES *(cont'd)*

Audit Committee *(cont'd)*

During the year ended 31 December 2006, the audit committee held three meetings. The audit committee reviewed with the senior management and auditors of the Company the accounting policies and practices adopted by the Group and discussed auditing, the internal control system and financial reporting matters. It also reviewed the financial statements of the Company and the Company's annual and interim reports, the management letter from the auditors of the Company, the connected transactions entered into by the Group and the audit scope and fees for the year ended 31 December 2006.

The attendance of each member at the audit committee meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a member of the audit committee.

Members	Number of meetings attended
<i>Non-executive Director</i>	
Mr. Zong Qingsheng	3/(3)
<i>Independent Non-executive Directors</i>	
Mr. Liu Hongru	3/(3)
Mr. Chan Wai Dune (<i>Chairman</i>)	3/(3)
Mr. Ting Leung Huel, Stephen	3/(3)

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements for the year ended 31 December 2006 as disclosed in this annual report. The Directors consider that the financial statements have been prepared in conformity with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality. As at 31 December 2006, the Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's and the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements on a going concern basis.

The statement of the auditors of the Company regarding their responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 41 to 42 of this annual report.



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ACCOUNTABILITY AND AUDIT *(cont'd)*

Internal Controls

The Board is entrusted with overall responsibility for establishing and maintaining the Group's internal control systems and reviewing their effectiveness to safeguard the Group's assets and to protect shareholders' interest. The management throughout the Group maintains and monitors the internal control system on an ongoing basis. During the year, the Group engaged an international independent external professional consultant (the "Consultant"), to perform the internal control review. The review included an assessment based on the approach adopted by the COSO (Committee of Sponsoring Organizations of the Treadway Commission, a globally recognized framework) and a risk assessment review. The Consultant reported his review findings and made his recommendations directly to the audit committee. The audit committee reported the findings to the Board.

Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, Messrs PricewaterhouseCoopers, for the year ended 31 December 2006 is set out as follows:

Services rendered	Fee paid/payable <i>HK\$'000</i>
Audit services	2,382
Non-audit services	
– Services in connection with the issuance of convertible bonds and capital reduction	1,200
– Other services (including taxation services)	357
	3,939

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to develop and maintain continuing relationships and effective communications with its shareholders and investors. In an effort to facilitate and enhance the relationships and communication, the Company has established the following various channels:

1. the annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The Chairman and the Directors are available at the annual general meetings of the Company to address shareholders' queries;
2. Separate resolutions are proposed at the general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in the circulars to the shareholders of the Company to facilitate the enforcement of shareholders' rights;
3. interim and annual results are announced as early as possible, to keep shareholders of the Company informed of the Group's performance and operations; and
4. updated key information of the Group is available on the Company's website to enable the shareholders of the Company and the investors to have timely access to information about the Group.

