

# Corporate Governance Report

The Board of Directors believes that good corporate governance is an essential element in enhancing the confidence of current and potential shareholders, investors, employees, business partners and the community as a whole. To this end, we strive to promote and uphold the highest standard of corporate governance.

The Hong Kong Stock Exchange has promulgated a new Code on Corporate Governance Practices (the “Code”) which came into effect in January 2005. The Company has put in place corporate governance practices to comply with all the provisions and most of the recommended best practices of the Code in 2005.

## Board of Directors

Accountable to the Shareholders, the Board of Directors is collectively responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies.

## The Directors

As of the date of this report, the Board comprises six Directors. There are two Executive Directors including President, one Non-Executive Director and three Independent Non-Executive Directors. Detailed biographies outlining each individual Director’s range of specialist experience and suitability of the successful long-term running of the Group are set out on pages 14 to 18 of this annual report.

The Group believes that its Non-executive and Independent Directors composition are well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and development of the Group. All Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group for the Year under review.

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of his independence as required under the Listing Rules. The Company considers all Independent Non-Executive Directors to be independent.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and officers with the extent of this insurance being reviewed each year.

The Board met six times this year to discuss the Group’s overall strategy, operation and financial performance. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties. All Board meetings adhere to a formal agenda in which a schedule of matter is specifically addressed to the Board for its decision. Specific topics discussed at these Board meetings include overall strategy; major acquisitions and disposals; annual budgets; interim and annual results; recommendations on Directors’ appointment(s) or reappointment(s); matters relating to share capital; approval of major capital project; dividend policies; and other significant operational and financial matters.

The Directors decide on corporate strategies, approve overall business plans and supervise the Group’s financial performance, management and organization on behalf of the shareholders. Specific tasks that the Board delegates to the Group’s management included the preparation of annual and interim accounts for the Board’s approval before public reporting; implementation of strategies approved by the Board; the monitoring of operating budgets; the implementation of internal control procedures; and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

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In accordance with the Group's Articles of Association and related Board resolutions, each Board member and each member of the Supervisory Committee is appointed for a term of 3 years and is subject to re-election at the end of the period.

### Board Meetings

To ensure the highest attendance of Directors, written notices are sent to all Directors 14 days before a board meeting. The meeting agenda is set in consultation with members of the Board. The Board held six meetings in 2006. The attendance of individual Director at the Board meetings is set out below:

Member of the Board	Number of Board meetings attended	Attendance rate
<b>Executive Directors</b>		
WANG Chuan-fu	6	100%
XIA Zuo-quan	6	100%
<b>Non-Executive Director</b>		
LU Xiang-yang	6	100%
<b>Independent Non-Executive Directors</b>		
LI Guo-xun	6	100%
KANG Dian	6	100%
LIN You-ren	6	100%

In furtherance of good corporate governance, the Board has set up a number of committees, including:

- the Audit Committee;
- the Remuneration Committee; and
- the Nomination Committee

Each Committee reports regularly to the Board of Directors, addressing major issues and findings with valuable recommendations for the decision making of the Board of Directors. The particulars of these Committees are set out hereunder.

### Audit Committee

One of the primary duties of the Audit Committee is to review the financial reporting process of the Group. The Audit Committee consists of three independent non-executive Directors, namely Professor Li-Guo-xun, Mr. Kang Dian and Mr. Lin You-ren, and a non-executive Director, Mr. Lu Xiang-yang. Meetings were convened by the Company's Audit Committee and the Company's auditors to review the accounting policies and practices adopted by the Group and to discuss auditing, internal control, risk management and financial reporting matters (including the financial statements for the year ended 31st December 2005 and the six months ended 30th June 2006) before recommending them to the Board for approval.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and have been revised in 2006 to comply with the Corporate Governance Code.

The Audit Committee held two meetings in 2006 to review the internal and external audit findings, the accounting principles and practices adopted by the Group, and Listing Rules and statutory compliance, and to discuss auditing, internal controls, risk management and financial reporting matters including the interim and annual accounts, before recommending them to the Board for approval. The external auditors and the finance department of the Company also attended these meetings. The individual attendance of its members of the meetings is set out as follows:

<b>Member of the Audit Committee</b>	<b>Number of Committee meetings attended</b>	<b>Attendance rate</b>
LI Guo-xun	2	100%
KANG Dian	2	100%
LU Xiang-yang	2	100%
Lin You-ren	2	100%

### **Remuneration Committee**

Pursuant to code provision B.1.1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Code"), the Board of Directors established a Remuneration Committee on 27th June 2005. The primary role of the Remuneration Committee is to regularly review human resource management policies, make recommendations on the compensation and benefit plans of Directors and senior executives, as well as setting performance goals for senior executives of the Group. The Remuneration Committee comprises Mr. Wang Chuan-fu, Mr. Xia Zuo-quan, Mr. Kang Dian, Professor Li Guo-xun and Mr. Lin You-ren.

The Remuneration Committee has revised its terms of reference in 2006 to comply with the Corporate Governance Code.

### **Remuneration Policy for Directors**

The primary goal of the Group's remuneration policy for Executive Directors is to enable the Company to retain and motivate Executive Directors by linking their compensation with their individual performance as measured against the corporate objectives and the Group's operating results and taking into accounts of the comparable market conditions. The principal elements of the remuneration package of Executive Directors include basic salary, discretionary bonus and share options.

Recommendation on the remuneration of Non-Executive Directors which includes mainly the Director's fee is a matter for the Board as a whole. The Company reimburses reasonable expenses incurred by these Directors in the course of their duties as Directors.

Directors do not participate in decisions on their own remuneration.

The emoluments paid to each Director of the Company for the year ended 31st December 2006 are set out in note 9 to the financial statements.

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### Nomination Committee

Pursuant to the relevant provision of the Code, the Group established the Nomination Committee. The Nomination Committee comprises Mr. Wang Chuan-fu, Mr. Lu Xiang-yang, Mr. Kang Dian, Professor Li Guo-xun and Mr. Lin You-ren, with Mr. Wang Chuan-fu as the Chairman. The Nomination Committee will perform such duties as set out in the Code, including making recommendations to the Board on selection of individuals nominated for directorship.

### External Auditors

For the year ended 31st December 2006, the total remuneration paid and payable to the external auditors were RMB3,074,000 for audit services. The audit fee was approved by the Audit Committee.

During the year ended 31st December 2006, the Company appointed Ernst & Young as auditors of the Company to fill the casual vacancy following the resignation of PricewaterhouseCoopers as auditors of the Company. The change of auditors has obtained approval of the shareholders at the special general meeting on 30th January 2007 as announced by the Company on 30th January 2007.

### Internal Control

#### Internal Control System

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness through the Audit Committee. The Company's system of internal control plays a key role in the management of risks that are significant to the fulfillment of its business objectives. Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records and for the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed for compliance of applicable laws, rules and regulations.

During the Year under review, the Company engaged external professional adviser and initiated a project to review and establish internal control manuals for its financial, operational and compliance controls and risk management functions with a view to further enhance the effectiveness of the Group's internal control system.

#### Internal Audit

The Group has an Internal Audit Department which plays an important role in the Group's internal control framework. The tasks of the Department include regular review and audit of the practices, procedures and internal control systems on those areas of the Group's activities with the greatest perceived risks. Apart from conducting special reviews of areas of concern identified by management or the Audit Committee, the Department also conducts routine examinations and reviews on the soundness and effectiveness of general business management, thus achieving effective control and driving improvement in the overall business activities of the Company to the greatest extent possible.

The Internal Audit Department is under the supervision of the Chief Financial Officer and has direct access to the Audit Committee.

With the development of the Company, the Internal Audit Department has established various internal audit standard documents such as “Regulations on Internal Audit of the Company” and “Internal Control Standard of the Company”, creating and strictly implementing a standardized auditing practice flow from risk evaluation → determination of the scope of auditing → approval of the auditing plan → announcement of audit → sufficient communication with the department to be audited prior to auditing → on-site auditing → communication and confirmation of auditing results → auditing issue improvement and feedback.

The annual work plan of internal audit is reviewed and endorsed by the Audit Committee and a summary of major audit findings is reported regularly to the Audit Committee. During the reporting year, the Internal Audit Department reviewed the key operations of the Group, identified areas of concern and held constructive communications with the Audit Committee.

### **Directors' Securities Transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules as the Company's code of conduct regarding securities transactions by its Directors. All Directors complied with their obligations under the Model Code regarding their securities transactions during the Year.

Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with the Model Code. No incident of non-compliance was noted by the Company in 2006.

### **Shareholders' Rights**

Under the Company's Articles of Association, any one or more Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

To safeguard shareholders' rights, the Company adopts the policy of voting by poll for all resolutions put forward at any shareholders' meetings.

Shareholders may send their enquiries requiring the Board's attention to the Company Secretary at the Company's principal place of business in Hong Kong. Other general enquiries can be directed to the Company through our Investor Relations Consultant, whose contact information is disclosed in “Corporate Information” of this annual report.

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### Investor Relations

The Company believes that effective communication with the investment community is essential for enhancing investors' knowledge and understanding of the Company's business performance and strategies. To achieve this, the Company pursues a proactive policy of promoting investor relations and communications. The main purpose of the Company's investor relations policy, therefore, is to enable investors to have access, on a fair and timely basis, to information that is reasonably required for making the best investment decisions.

The Company apprices its shareholders' meetings as an important channel for having face-to-face dialogue with Shareholders. At the last annual general meeting held in May 2006, all Executive Directors and most of the Non-Executive Directors and Independent Non-Executive Directors were there to answer and explain to Shareholders issues relating to the Group's business strategies and financial results.