



The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2006.

Good corporate governance has always been recognized as vital to the Group's success and to sustain development of the Group. We commit ourselves to a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of its business.

The Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") sets out the principles of good corporate governance ("Principles") and two levels of corporate governance practices:

- (a) code provisions ("Code Provisions") which listed issuers are expected to comply with or to give considered reasons for any deviation; and
- (b) recommended best practices ("Recommended Best Practices") for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company has applied the Principles and the Code Provisions set out in the CG Code and complied with most of the Code Provisions save for the Chairman and the Managing Director are not subject to the retirement by rotation at least once every three years, details of which will be explained below.

The Company has also put in place the Recommended Best Practice as set out in the CG Code by establishing the Nomination Committee.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code, and acknowledges the important role of its Board of Directors (the "Board") in providing effective leadership and direction to Company's business, and ensuring transparency and accountability of Company's operations.





The key corporate governance principles and practices of the Company are summarised as follows:

A. The Board

(I) Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the senior management to discharge its responsibilities.





A. The Board *(continued)*

(2) Composition

The composition of the Board reflects the necessary balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgment.

The Board comprises the following directors:

Executive directors:

Mr Fu Kwan	<i>(Chairman of the Board, Remuneration Committee & Nomination Committee)</i>
Mr Wu Xiang Dong	<i>(Deputy Chairman)</i>
Mr Shu Shi Ping	<i>(Managing Director, Chief Executive Officer & member of Remuneration Committee and Nomination Committee)</i>
Mr Chan Yeuk	
Mr Zhang Jian	

Independent non-executive directors:

Mr Cao Kuangyu	<i>(Member of Audit Committee, Remuneration Committee & Nomination Committee)</i>
Mr E Meng	<i>(Member of Audit Committee, Remuneration Committee & Nomination Committee)</i>
Mr Ting Leung Huel, Stephen	<i>(Chairman of Audit Committee & member of Remuneration Committee and Nomination Committee)</i>

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

There is no relationship (including financial, business, family, or other material/relevant relationship(s)) among the Board members.

During the year ended 31 December 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.





A. The Board *(continued)*

(3) Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the non-executive directors of the Company has been appointed for a term of one year.

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

In addition, the Company's Bye-laws deviates from Code Provision A.4.2 of the CG Code as it provides that one-third of the directors for the time being (save for the Chairman/Managing Director), or if their number is not a multiple of three, then the number nearest to one-third but not greater than one-third, shall retire from office and being eligible, offer themselves for re-election at annual general meetings and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

In the opinion of the Board, the continuity of leadership in the roles of the Chairman and Managing Director is important for the stability and growth of the Company. The Board considers that both the Chairman and Managing Director should not be subject to retirement by rotation.

According to the current corporate governance practices of the Company, all directors of the Company, except for the Chairman and Managing Director, shall submit themselves for re-election once every three years and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

(4) Training for Directors

There was no director newly appointed during the year ended 31 December 2006. In case there is any newly appointed director, he/she will be provided comprehensive, formal and tailored induction so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company will consider to engage external legal and other professional advisers for providing professional briefings and training programmes to directors on an occasional basis.





A. The Board *(continued)*

(5) Board Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2006, 6 Board meetings, 2 Audit Committee meetings and 1 Remuneration Committee meeting were held. The individual attendance record of each director at the meetings of the Board and committees during the year ended 31 December 2006 is set out below:

Name of Directors	Attendance of Meetings		
	Board	Audit Committee	Remuneration Committee
Mr Fu Kwan	5	N/A	1
Mr Wu Xiang Dong	1	N/A	N/A
Mr Shu Shi Ping	5	1	1
Mr Zhang Jian	6	1	N/A
Mr Chan Yeuk	4	N/A	N/A
Mr Ting Leung Huel, Stephen	6	2	1
Mr Cao Kuangyu	5	2	1
Mr E Meng	4	2	1

Practices and Conduct of Meetings

Annual meeting schedules and draft agendas of Board and committee meetings are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.





A. The Board *(continued)*

(5) Board Meetings *(continued)*

The Chief Executive Officer/Managing Director and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

B. Chairman and Chief Executive Officer

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer are held by Mr Fu Kwan and Mr Shu Shi Ping respectively.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

The Board considers that the responsibilities of the Chairman and Chief Executive Officer respectively are clear and distinctive, therefore, written terms thereof are not necessary.





C. Board Committees

The Board has established 3 committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of each Board committees are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

(I) Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessment of the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge and personal integrity of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

As of the date of report, the Nomination Committee comprises of two executive directors namely Mr. Fu Kwan (Chairman) and Mr. Shu Shiping and three independent non-executive directors namely Mr. Ting Leung Huel, Stephen, Mr. Cao Kuangyu and Mr. E Meng.

The Nomination Committee has not held any meeting during the year ended 31 December 2006. Up to the date of the Annual Report, the Nomination Committee reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

In accordance with the Company's Bye-Laws 87, directors shall retire by rotation and, being eligible, offer themselves for re-election at the next forthcoming annual general meeting of the Company. The Nomination Committee recommended the re-appointment of these directors standing for re-election at the said annual general meeting.

The Company's circular dated 25 April 2007 contains detailed information of the directors standing for re-election.





C. Board Committees *(continued)*

(2) Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

As of the date of the report, the Remuneration Committee comprises of two executive directors namely Mr. Fu Kwan (Chairman) and Mr. Shu Shiping and three independent non executive directors namely Mr. Ting Leung Huel Stephen, Mr. Cao Kuangyu and Mr. E Meng.

The Remuneration Committee has held one meeting during the year ended 31 December 2006. Up to the date of the Annual Report, the Remuneration Committee reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management for the year under review.

EMOLUMENT POLICY

The directors are paid fees in line with market practice. The Group adopted the following main principles of determining the directors' remuneration:

- No individual should determine his or her own remuneration
- Remuneration should be broadly aligned with companies with whom the Group competes for human resources
- Remuneration should reflect performance and responsibility with a view to motivating and retaining high performing individuals and promoting the enhancement of the value of the Company to its shareholders

In addition to the basic salaries, a share option scheme is adopted for rewarding good performers as well as retaining talented staff for the continual operation and development of the Group.





C. Board Committees *(continued)*

(3) Audit Committee

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer, internal auditor (if any) or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held 2 meetings during the year ended 31 December 2006 to review the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2006 has been reviewed by the Audit Committee.





D. Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions (the "Own Code").

Specific enquiry has been made to all of the directors and they have confirmed that they have complied with the Own Code and Model Code throughout the year ended 31 December 2006.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who, because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

E. Responsibilities in respect of the Financial Statements and Auditors' Remuneration

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 32 to 99.

The remuneration of the external auditors of the Company in respect of audit services and non-audit services (for provision of taxation services) for the year ended 31 December 2006 is HK\$780,000 and HK\$50,000 respectively.

F. Shareholder Rights and Investor Relations

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.





F. Shareholder Rights and Investor Relations *(continued)*

Results on any voting conducted by poll will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the chairmen of the Board committees or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are normally available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated executive director(s) and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

INTERNAL CONTROL

The Company adopted the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations due to manual controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. Management also takes steps to ensure that information and communication flows are effective and to monitor performance, including performance of internal control procedures. The management assessed the effectiveness of the Company's internal control over financial reporting as of 31 December 2006 based on the criteria set forth by the Macro-Link Group's Internal Control - Integrated Framework.

Based on this assessment, management believes that, as of 31 December 2006, the Company's internal control over financial reporting is effective. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of 31 December 2006 has been reviewed by the audit committee which agreed on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of 31 December 2006.

