

# Corporate Governance Report

The Group recognizes the importance of achieving and monitoring the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders and is committed to doing so. It is also with the objectives in mind that the Group has applied the principles on the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

In the opinion of the directors of the Company (the “Directors”), the Company has met the code provisions set out in the CG Code.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2006.

## BOARD OF DIRECTORS

As of the date of this report, the Board comprises three Executive Directors, being Mr. YE Xuquan, Mr. JIANG Guoqiang and Ms. LIANG Jianqin, seven Non-Executive Directors, being Mr. KOH Poh Tiong, Dr. HAN Cheng Fong, Mr. Sijbe HIEMSTRA, Mr. ZHAO Leili, Mr. LUO Fanyu, Mr. Michael WU and Mrs. HO LAM Lai Ping, Theresa, and three Independent Non-Executive Directors, being Mr. Alan Howard SMITH, Mr. V-nee YEH and Mr. FONG Wo, Felix.

The Board is responsible for the leadership and control of the Company and oversees the Group’s businesses, strategic decisions and performances. The Management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the Management include the preparation of interim and annual reports and announcements for board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

During the financial year ended 31 December 2006, the Board has four scheduled meetings at approximately quarterly intervals. The attendances of the directors at the board meetings are as follows:

<b>Directors</b>	<b>Number of Attendance</b>
YE Xuquan	4/4
JIANG Guoqiang	4/4
LIANG Jianqin (appointed on 19 April 2006)	3/4
KOH Poh Tiong	4/4
HAN Cheng Fong	4/4
Sijbe HIEMSTRA	2/4
ZHAO Leili	3/4
LUO Fanyu	4/4
Michael WU	3/4
HO LAM Lai Ping, Theresa	4/4
Alan Howard SMITH	3/4
V-nee YEH	3/4
Rafael GIL-TIENDA (resigned on 24 January 2007)	2/4
FONG Wo, Felix (appointed on 24 January 2007)	N/A

# Corporate Governance Report *(Cont'd)*

## BOARD OF DIRECTORS *(Cont'd)*

The Company has received written confirmation from each of the Independent Non-executive Directors confirming their independence pursuant to Rule 3.13 of the Listing Rules, and considers them to be independent within the definition of the Listing Rules.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. Such balanced board composition also ensures that strong independence exists across the Board. The biographies of the Directors are set out in pages 14 to 17 to the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

## CHAIRMAN AND MANAGING DIRECTOR

The Chairman is Mr. YE Xuquan and the Managing Director is Mr. JIANG Guoqiang. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Ye as the Chairman has executive responsibilities, provides leadership to the Board and ensures the proper and effective functioning of the Board in the discharge of its responsibilities. Mr. Jiang as the Managing Director is accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations.

## NON-EXECUTIVE DIRECTORS

All Directors, including Non-Executive Directors, appointed to fill a causal vacancy or as an addition to the existing Board, shall hold office only until the first general meeting after his appointment and shall then be eligible for re-election. Moreover, each Non-Executive Directors of the Company will hold office for a specific term expiring on the earlier of either (i) the conclusion of the annual general meeting of the Company in the year of the third anniversary of the appointment or re-election of that director or (ii) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election of that director and in any event, subject to earlier determination in accordance with the Bye-Laws of the Company and/or applicable laws and regulations.

## REMUNERATION OF DIRECTORS

The Company established a remuneration committee (the "Remuneration Committee") in June 2005. The authorities and duties of the Remuneration Committee are as follows:

### Authority

1. The Remuneration Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Remuneration Committee.
2. The Remuneration Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

# Corporate Governance Report *(Cont'd)*

## REMUNERATION OF DIRECTORS *(Cont'd)*

### Duties

1. To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.
2. To have the delegated responsibilities to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. Factors which should be taken into consideration include but are not limited to salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration.
3. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.
4. To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.
5. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.
6. To make recommendations to the Board on the remuneration of non-executive directors.
7. To ensure that no director or any of his associates is involved in deciding his own remuneration.
8. To consult the chairman and/or the managing director about their proposals relating to the remuneration of executive directors and senior management and have access to professional advice if considered necessary.
9. To consider other topics as defined by the Board.

As of the date of this report, the Remuneration Committee comprises one Executive Director, being Mr. YE Xuquan, the three Independent Non-Executive Directors, being Mr. Alan Howard SMITH, Mr. V-nee YEH and Mr. FONG Wo, Felix and one Non-Executive Director, being Mr. KOH Poh Tiong. Mr. YE Xuquan is the Chairman of the Remuneration Committee.

During the financial year ended 31 December 2006, the Remuneration Committee held one meeting to (i) approve the remuneration packages all Executive Directors for the year 2006 and (ii) consider the Compensation Proposal for Independent Non-Executive Directors. The attendance of each member of the Remuneration Committee is set out as follows:

<b>Member</b>	<b>Number of Attendance</b>
YE Xuquan	1/1
KOH Poh Tiong	1/1
Alan Howard SMITH	1/1
V-nee YEH	0/1
Rafael GIL-TIENDA (resigned on 24 January 2007)	1/1
FONG Wo, Felix (appointed on 24 January 2007)	N/A

Details of the amount of Directors' emoluments are set out in note 11 to the financial statements.

# Corporate Governance Report *(Cont'd)*

## NOMINATION OF DIRECTORS

The Board is responsible for the nomination and considering and approving the appointment of directors with a view to appointing to the Board suitable individuals with the relevant expertise and experience to enhance the constitution of a strong and diverse Board and to contribute to the functioning of the Board through their continuous participation.

During the financial year ended 31 December 2006, the nomination and appointment of Ms. LIANG Jianqin as the Executive Director was considered and approved by the Board at a meeting held on 19 April 2006. The attendance of the Directors at the said Board meeting is as follows:

<b>Directors</b>	<b>Number of Attendance</b>
YE Xuquan	1/1
JIANG Guoqiang	1/1
KOH Poh Tiong	1/1
HAN Cheng Fong	1/1
Sijbe HIEMSTRA	1/1
ZHAO Leili	0/1
LUO Fanyu	1/1
Michael WU	1/1
HO LAM Lai Ping, Theresa	1/1
Alan Howard SMITH	1/1
V-nee YEH	1/1
Rafael GIL-TIENDA (resigned on 24 January 2007)	0/1

## AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's auditors, Ernst & Young, is set out as follows:

<b>Services rendered</b>	<b>Fee paid/ payable HK\$'000</b>
Audit of Final Results	1,722
Review of Interim Results	300
Taxation compliance services	24
Agreed-upon procedures in respect of continuing connected transactions	80
	<u>2,126</u>

# Corporate Governance Report *(Cont'd)*

## AUDIT COMMITTEE

The Audit Committee of the Company was established in September 1998. The authorities and duties of the Audit Committee are as follows:

### Authority

1. The Audit Committee is authorised by the Board to investigate activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the Audit Committee.
2. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

### Duties

1. To be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor.
2. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.
3. To develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
4. To monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting.

# Corporate Governance Report *(Cont'd)*

## AUDIT COMMITTEE *(Cont'd)*

### Duties *(Cont'd)*

5. In regard to (4) above:
  - (i) members of the Audit Committee must liaise with the Company's board of directors, senior management and the person appointed as the Company's qualified accountant and the Audit Committee must meet, at least once a year, with the Company's auditors; and
  - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors.
6. To review the Company's financial controls, internal controls and risk management systems.
7. To discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system.
8. To consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response.
9. Where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function.
10. To review the group's financial and accounting policies and practices.
11. To review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of controls and management's response.
12. To ensure that the Board will provide a timely response to the issues raised in the external auditors management letter.
13. To report to the Board on the matters set out in the terms of reference of the Audit Committee.
14. To consider other topics, as defined by the Board.

As of the date of this report, the Audit Committee comprises the three Independent Non-Executive Directors, being Mr. V-nee YEH as the chairman, Mr. Alan Howard SMITH and Mr. FONG Wo, Felix as members.

# Corporate Governance Report *(Cont'd)*

## AUDIT COMMITTEE *(Cont'd)*

During the financial year ended 31 December 2006, the Audit Committee held two meetings. It reviewed the 2005 annual results and the 2006 interim results of the Company and its subsidiaries before their submission to the Board and monitored the integrity of such financial statements. The Audit Committee oversees matters concerning the external auditors including making recommendations to the Board regarding the appointment of the external auditors, reviewing the scope of their audit and approving their fees. In addition to its two meetings as aforesaid, the Audit Committee has also a private meeting with the external auditors at least once every year without the presence of the management to discuss any area of concern. The Audit Committee further ensures management has put in place an effective system of internal control. It maintains an overview of the Group's risk assessment, control and management processes. In addition, it reviews the internal audit schedules of the Group, considers the Group's internal audit reports and monitors the effectiveness of the internal audit function. The attendance of each member of the Audit Committee is set out as follows:

<b>Member</b>	<b>Number of Attendance</b>
V-nee YEH	2/2
Alan Howard SMITH	1/2
Rafael GIL-TIENDA (resigned on 24 January 2007)	2/2
FONG Wo, Felix (appointed on 24 January 2007)	N/A

## ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2006, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that financial year. In preparing the financial statements for the year ended 31 December 2006, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and ensured the preparation of the financial statements on the going concern basis.

The Group endeavours to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The annual and interim results of the Company are announced in a timely manner within the limit of 4 months and 3 months respectively after the end of the relevant periods in accordance with the Listing Rules.

# Corporate Governance Report *(Cont'd)*

## INTERNAL CONTROL

The Board is responsible for the Group's system of internal controls and its effectiveness. Such a system is designed to prudently manage the Group's risks within an acceptable risk profile. The Board has delegated to executive management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. However, such system aims at limiting the risks of the Company to an acceptable level but not at eliminating all the risks. Hence, such system can only provide reasonable assurance that there will not be any error in financial information and record, and there will not be any financial loss or fraud.

The management under the supervision of the Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the systems of internal controls when there are changes to business environment or regulatory guidelines.

The management assists the Board with the implementation of all relevant policies and procedures on risk and control by identifying and assessing the risk faced and designing, operating and monitoring suitable internal controls to mitigate and control these risks. The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

A distinct organization structure is maintained with defined lines of authorities and proper segregation of duties, which is designed to safeguard assets from inappropriate use, maintain proper accounts and ensure compliance with regulations.

In addition to the duties of the Audit Committee as mentioned above, the Audit Committee, inter alia, reviews the financial controls, internal control and risk management systems of the Group and any significant internal control issues identified by the Internal Audit Department, external auditors and management. It also conducts review of the internal audit functions with particular emphasis on the scope and quality of the internal audits and independence of the Internal Audit Department.

The Internal Audit Department monitors compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. It plays an important role in the Group's internal control framework, and provides objective assurance to the Board that a sound internal control system is maintained and operated in compliance with the established processes and standards by performing periodic checking. The Internal Audit Department plans its internal audit schedules annually with audit resources being focused on higher risk areas.

The Board is satisfied that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and accounts is reasonable and effective.