

Corporate Governance Report

The Group is continuously committed to achieving high standards of corporate governance to ensure transparency and accountability. It believes that corporate governance is crucial to the development of the Group and helps safeguard the interests of the Company's shareholders.

The Company has complied with the code provisions as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the financial year ended 31 December 2006, except for the deviation from Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and that their divisions of responsibility should be clearly established and set out in writing. The Company currently has not complied with Code Provision A.2.1 as the Company considers that through the supervision of its board of directors (the "Board"), a balancing mechanism exists so that the interests of the shareholders are fairly represented. Nevertheless, the Company will be reviewing its situation regularly and will comply with this code at an appropriate time in the future should it consider appropriate and necessary.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules (the "Model Code") as the Company's code of conduct for dealings in securities of the Company by its directors (the "Directors"). The Company has made specific enquiry with all Directors and each of the Directors has confirmed that they have complied with the required standard set out in the Model Code throughout the financial year ended 31 December 2006.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises 10 Directors. Details of the composition of the Board, relationship among members of the Board (if any), term of appointment of the Directors, and biographical information of the Directors are set out in the sections "Report of the Directors" and "Directors and Senior

Management" of this annual report. The Board held 5 meetings during the financial year ended 31 December 2006 (the "Financial Year") with attendance record as follows:

Attendance at Board meeting	Number of meetings attended (5 meetings in total)
<i>Executive Directors:</i>	
Mr. Fok Tung Ling (Chairman & President)	5
Mr. Zhang Yue Jun	5
Mr. Chan Kai Leung, Clement	5
Mr. Wu Jiang Cheng	3
Mr. Yan Ji Ci	5
Mr. Zheng Guo Bao	4
Mr. Yeung Pui Sang, Simon	5
<i>Independent Non-executive Directors:</i>	
Mr. Yao Yan	5
Mr. Lau Siu Ki, Kevin	5
Mr. Liu Cai	3

Full Board meetings are held at least 4 times a year. The Board decides on corporate strategies, approves overall business plans and supervises the Group's financial performance, management and organisation on behalf of the shareholders. Specific tasks that the Board delegates to the Group's management include the preparation of annual and interim financial statements 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.

All the independent non-executive Directors are appointed for a term of one year. The Board evaluates the independence of all independent non-executive Directors on an annual basis and has received written confirmation from each independent non-executive Director regarding his independence. As at the date of this report, the Board is satisfied that all such Directors are in full compliance with the independence guidelines as laid down in the Listing Rules.

The Board acknowledges their responsibilities for the preparation of the financial statements of the Group.

REMUNERATION COMMITTEE

The remuneration committee comprises three independent non-executive Directors, Mr. Yao Yan, Mr. Lau Siu Ki, Kevin and Mr. Liu Cai. Mr. Lau Siu Ki, Kevin is the chairman of the remuneration committee. Its primary duties are to advise the Board on the remuneration policy for all Directors and senior management and to determine, review and monitor the remuneration packages and any compensation arrangements made to the Directors and senior management. The remuneration committee has adopted terms of reference which are in line with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "Corporate Governance Code").

The Group offers competitive remuneration schemes to its employees (including directors) based on industry practices as well as the employees' and the Group's performance. In addition, share options and discretionary bonuses are also granted to eligible staff based on the performance of each such employee as well as the Group. The Group also provides training to employees to improve their skills and develop their respective expertise.

There was no meeting held during the Financial Year but a meeting was held subsequent to 31 December 2006. All committee members attended that meeting, at which the compensation packages of all Directors and senior management were discussed and approved.

NOMINATION OF DIRECTORS

No nomination committee is set up. The Board exercises its duties to the appointment and removal of directors. During the nomination process, the Board usually considers the competency, independency (in case of independent non-executive director) & conflict of interests, capacity making him/herself available to the role as a director.

There was no appointment or removal of director in the Financial Year. Accordingly, the Board did not hold any meeting to address matters relating to nomination of directors during the Financial Year.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, Mr. Yao Yan, Mr. Lau Siu Ki, Kevin and Mr. Liu Cai. Mr. Lau Siu Ki, Kevin is the chairman of the Audit Committee. The Audit Committee has adopted terms of reference which are in line with the Corporate Governance Code. Its primary duties are to review the completeness, accuracy and fairness of the Company's financial statements, the Company's financial reporting system and internal control procedures, the scope and nature of the external audit and matters concerning the engagement of external auditors.

The Group's financial statements for the year ended 31 December 2006 were reviewed by the Audit Committee, who is of the opinion that such statements complied with applicable accounting standards and legal requirements, and that adequate disclosures had been made. During the Financial Year, the Audit Committee also reviewed the interim report and internal control system of the Company.

The Audit Committee held 3 meetings during the Financial Year with attendance record as follows:

Attendance at Audit Committee meeting	Number of meetings attended (3 meetings in total)
Mr. Yao Yan	2
Mr. Lau Siu Ki, Kevin	3
Mr. Liu Cai	2

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CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

The Company always endeavours to improve transparency and accountability to its shareholders in the best possible way. Immediately after reporting its interim or annual results, the Company holds press conferences and investment analyst conferences where the financial performance, business review and prospect of the Group are presented. This also sets an open communications platform for the Group's senior management to address any questions that the investment community and the media may have. Web-cast presentation is then sent to shareholders and investors around the world to ensure information is disseminated on a fair and timely basis. The Company issues press releases and announcements where appropriate to provide updated information about the Group's business development in a timely manner. The Company also updates its website regularly to ensure information about its latest development is disseminated promptly.

During the Financial Year, the Group's senior management held road shows and attended investor conferences regularly. This provided the investment community with an opportunity to understand the business of the Group better. As a result of the investor relations activities undertaken, six securities companies initiated research coverage on the Company during the year.

In October 2006, Mr. Fok, the Group's Chairman and President, was named "Hong Kong CEO of the Year" at the CNBC Asia Business Leader Awards 2006. This award recognises him as an exceptional Hong Kong business leader whose vision and management abilities have helped steer the Company successfully in its home country and in the global marketplace.

INTERNAL CONTROLS

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained. The Board has therefore set up an Internal Audit Department to assist the Board and the Audit Committee to ensure that the Company maintains a sound system of internal controls.

The Head of Internal Audit Department has unrestricted direct access to the Audit Committee and reports directly to the Board and the Audit Committee. During the Financial Year, the Head of Internal Audit Department attended the Audit Committee meetings and highlighted and explained any material issues in relation to the Company's financial statements.

The Company engaged an independent accounting firm to assist the Internal Audit Department to carry out the review of the major business units at Guangzhou operation. Key business processes were covered under the review, and the Internal Audit Department reported the results of the findings and recommendations on the internal control system reviewed. The Audit Committee reviewed the report submitted by Internal Audit Department, and based on the findings and recommendations on internal control review performed and the rectification steps planned or taken by the management on the internal control weaknesses identified, carried out an assessment on the effectiveness of the material internal controls of the Group, including financial, operational and compliance controls and risk management, during the Financial Year. The Audit Committee is satisfied with the rectifications carried out by the management and the continuing efforts of improving the internal control systems within the Group.

AUDITORS' REMUNERATION

The Company's external auditors are Ernst & Young. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditors. The Audit Committee considered and approved the engagement of Ernst & Young as auditors of the Company for the year ended 31 December 2006 and the corresponding audit fees estimation. During the Financial Year, the Group engaged auditors to perform audit service of approximately HK\$2,009,000 and non-audit services (mainly including tax compliance service and interim review service) of approximately HK\$535,000.