



Corporate Governance Report

The Company is committed to achieving and maintaining statutory and regulatory standards and adhering to good corporate governance in the conduct of its business. The Company has applied and has, save for the deviations and reasons thereof as discussed below, been in material compliance with the principles of the Code provisions under the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31 December 2006.

The Board believes that good corporate governance is essential in enhancing the confidence of the current and potential shareholders, investors and business partners and is consistent with the Board’s pursuit of value creation for the Company’s shareholders. This Corporate Governance Report is prepared in material compliance of the reporting requirements as contained in Appendix 23 of the Listing Rules.

The Directors acknowledge that they are responsible for overseeing the preparation of accounts for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2006, the Directors have, among other things:

- Selected suitable accounting policies and applied them consistently;
- Approved adoption of all Hong Kong Financial Reporting Standards (“HKFRSs”) which are in conformity with the International Financial Reporting Standards (“IFRSs”); and
- Made judgements and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis.

THE BOARD

The management and control of the business of the Company ultimately vests with the Board. The Board sets long term direction and objectives and oversees the management’s plans and strategies for the delivery of results. The Board may delegate its responsibilities or functions to Board Committees and the day-to-day operation to management and ensures appropriate human and financial resources are appropriately applied and that the performance for the achievement of results is evaluated periodically. The Board approves all significant transactions and publication including annual report, interim report, circulars and announcements. In cases where shareholders’ approvals are required, the Board resolves to convene the necessary shareholders meetings to seek shareholders’ approval. Every Director is committed to carry out his duty in good faith, act honestly with due diligence, skill and care and in the best interest of the Company and its shareholders at all times.

As at the date of this Report, the Board comprises eight members (as at 31 December 2006 – ten members), five of which are Executive Directors and three are independent non-executive Directors. Collectively, they bring a broad range of commercial, financial, management and stewardship experiences and varied skills, expertise and qualification for leading and directing the Group’s affairs. The Directors biographical details and other information are set out in the “Report of the directors” section of the Annual Report.



Corporate Governance Report

THE BOARD (continued)

In accordance with the Bye-laws of the Company, the Board members elect among themselves a Director to be the Chairman of the Board. Mr. Kao Ying Lun was the Chairman of the Group since January 2006 but he resigned as the Chairman on 8 December 2006 and was succeeded by Dr. Zhang Lijun. The role of the Chairman is kept separate from that of the Chief Operating Officers of the relevant business units. The Chairman, the Chief Operating Officers and the other Executive Directors each has distinct and separate responsibilities.

All new Directors appointed to fill casual vacancies of the Board are subject to election by the shareholders of the Company at the first general meeting after their appointments. In accordance with the proposed Bye-laws and practice of the Company which conform to the requirements of the Listing Rules, one-third of Board members who have served the longest on the Board are required to retire by rotation each year at the Annual General Meeting. Directors, who retire, if eligible, may sit for re-election at the same Annual General Meeting. Appropriate changes to the Bye-laws of the Company will be made to comply with the requirements of the Listing Rules at the forthcoming Annual General Meeting.

All Board and Committee meetings adhere to a formal agenda set in advance for consideration/resolution. All Directors may arrange to include matters on the agenda for consideration at Board meetings. Board materials are provided in advance of the meetings and detailed minutes are prepared and made available to all Directors. The Directors have access to the advice and services of the Company Secretary and if necessary, have recourse to external professional advice at the Company's expense. During the intervals between Board meetings, individual Directors are being kept informed of major developments of the Group by the Chairman and the Company Secretary.

ATTENDANCE OF DIRECTORS AT BOARD AND COMMITTEE MEETINGS

During the year, the Board has held 18 regular meetings. The attendance of individual Directors at the Board meetings and the Board Committees is set out in the table below.

	Number of Times Meetings Attended/Meetings Held		
	Regular Board	Audit Committee	Nomination/Remuneration Committee
Executive Directors			
Fun Chi Kin ⁽¹⁾	2/2	n/a	1/1
Guo Duen How, Tom	18/18	n/a	3/3
Ho Yuk Ming, Hugo ⁽¹⁾	2/2	n/a	1/1
Kao Ying Lun	18/18	n/a	3/3
Li Mingke ⁽²⁾	n/a	n/a	n/a
Lu Xing ⁽⁵⁾	2/2	n/a	n/a
Wang Chun ⁽⁴⁾	6/6	n/a	1/1
Wu Fred Fong	18/18	n/a	3/3
Yu Jianmeng ⁽³⁾	14/14	n/a	2/2
Zhang Lijun ⁽⁴⁾	6/6	n/a	1/1
Zhang Zhiyuan, Nathan ⁽¹⁾	1/2	n/a	n/a
Zhao Songyi ⁽²⁾	n/a	n/a	n/a



ATTENDANCE OF DIRECTORS AT BOARD AND COMMITTEE MEETINGS (continued)

	Number of Times Meetings Attended/Meetings Held		
	Regular Board	Audit Committee	Nomination/ Remuneration Committee
Independent Non-executive Directors			
Choy Tak Ho	15/18	2/2	3/3
Loke Yu alias Loke Hoi Lam	16/18	2/2	3/3
Loo Chung Keung, Steve ⁽¹⁾	1/2	n/a	0/1
Tsui Chun Chung, Arthur	17/18	2/2	3/3

Notes:

- (1) resigned on 21 February 2006.
- (2) resigned on 12 January 2006.
- (3) appointed on 21 February 2006.
- (4) appointed on 17 July 2006.
- (5) appointed on 1 December 2006.
- (6) Due to the resignation of certain directors during the year, the Board resolved to carry out the functions of the nomination and remuneration committees at the full Board level until proper segregation and delegations of the Directors to the Board committees shall have been agreed or established.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company believes that the Independent Non-executive Directors as a group comprises a good mix of professional and business executives who have significant exposure to the business and accounting environment of Hong Kong and the PRC. The Board believes that such a group is ideally qualified to provide independent advice and guidance to the Board, to serve on the Board committees and to act as independent stewards of the Company for the interests of its shareholders.

The Board evaluates the independence of all Independent Non-executive Directors on an annual basis and established the practice of requesting written confirmation from each Independent Non-executive Director regarding his independence. Throughout the year in review and 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. However, the Independent Non-executive Directors are not appointed for a specific terms as their appointments are automatically renewed on an annual basis after the first anniversary. Nevertheless, the Independent Non-executive Directors are subject to the three-year rotation rules for retirement and re-election by the shareholders as required by the Company's Bye-laws.



Corporate Governance Report

BOARD COMMITTEES

The Board has established the Audit Committee since 1999 but has yet to delegate the nomination and remuneration functions to a committee of the Board. Such delegation was disrupted due to the significant change in emphasis to the line of business of the Group and numerous directorship changes during the year. At date of this report, a number of vacancies of the Board is still unfilled.

AUDIT COMMITTEE

The Audit Committee was set up in 1999 and currently comprises the three Independent Non-executive Directors. The Audit Committee provides the Board with advice and recommendations on accounting, reporting and internal control matters and acts as a formal liaison channel for review, communication and problem resolution between the Company and its auditors. The Committee members collectively hold the relevant commercial, industry, financial and auditing experience necessary for the Committee to function effectively and independently.

For the composition and biographical details of the members of the Audit Committee, please refer to the "Directors' Report" section of the Annual Report.

The Audit Committee's primary functions include:

- to recommend to the Board on the appointment, terms of engagement of the external auditor;
- to review and monitor the appropriateness of accounting policy, accounting practices, financial reporting and disclosure and the application of judgement and estimates related thereto;
- to review the company's annual and interim reports and any opinion expressed by the external auditor;
- to review any related party transactions and connected party transactions for compliance with the requirements of Listing Rules and for reasonableness and fairness to the Company and its shareholders;
- to review with the external auditor issues raised in the external auditor's management letter, queries or similar communications; and
- to monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.

The Audit Committee has met two times in 2006 and members of the Committee also actively participated at the full Board or any Independent Board Committees formed from time to time for the purpose of advising the independent shareholders of the Company of transaction(s) which require their input or contributing their independent views in areas of business, financial, management and operating practices.



AUDIT COMMITTEE (continued)

Audit and Related Fees

During the year under review, the fees paid to the Group's external auditor Horwath CPA Hong Kong Ltd were as follows:

Audit	\$858,000
Non-audit services	\$74,800

Internal Control

The Board is entrusted with the overall responsibility for establishing and maintaining effective internal control systems for the Group. The management of the Group is delegated with the responsibility from time to time to implement and maintain the Board's policies on risk management and control. Detailed procedures are developed by management for major business units. At least annually, the significant internal control system is reviewed with the Company's auditor.

The Group's internal control systems are designed to provide cost effective and reasonable protection that safeguards the Group's assets and maintains the integrity of the accounting and reporting systems. The Group emphasises the appointment of qualified, experienced and capable individuals to carry out critical control functions and has put in place a system for effective segregation of key duties and responsibilities. The Board and the Audit Committee periodically evaluate major controls and risks and where considered necessary, retains external professional services to evaluate or seek improvements to the internal control systems. The Audit Committee provides independent advice to the Board and assists in the review of the internal control issues and to liaise with external auditor and consultants as appropriate.

NOMINATION AND REMUNERATION COMMITTEES

Terms of reference for the Nomination Committee and the Remuneration Committee have been established. However, due to substantial changes to the members of the Board during 2006, the functions of the Nomination Committee and the Remuneration Committee were not separately established. Such functions were retained at the full Board. The Board considers that with substantial changes to the directorship of the Board in 2006, any new appointment to the Board should first be entitled to have full and direct input on the proposed future direction and business objectives of the Group. Any nomination/remuneration decisions and human resources needs should integrate fully with this future direction and objectives of the Group.

The full Board has met three times during the year on matters relating to nomination and remuneration. Although the nomination and remuneration functions were not decided by committees in which independent non-executive Directors having the majority, the decisions nonetheless were made with active inputs from all Directors, including all of the Independent Non-executive Directors. In both of the relevant meetings of the Board, unanimous decision was achieved for the nomination and remuneration resolutions.

In making decisions on nomination/remuneration of Directors, the Board adopts certain criteria to assist in its evaluation which included the candidate's academic/professional/business background, his past responsibility, exposure to the business environment in which the Group operates and intend to be engaged in and his experience including directorship or senior management level involvements with other entities, and his contribution or achievement to the Group. Remuneration is set and gauged against these criteria.



Corporate Governance Report

NOMINATION AND REMUNERATION COMMITTEES (continued)

The Company follows the practice that all the Directors would be subject to retirement by rotation and would be subject to re-election of the members of the Company according to its proposed Bye-laws amendments. For any Director appointed by the Board to fill casual vacancies of the Board, the Company also follows the practice of seeking shareholders' re-election and approval at the next general meeting of the members of the Company.

CODE OF CONDUCT

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") based primarily on the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The terms of the Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all the relevant persons as defined in the Code, including the Directors of the Company, any employee of the Company, or a Director or employee of a subsidiary or holding company of the Company who, because of such office or employment or involvement, are likely to come into contact or be in possession of unpublished price sensitive information in relation to the Company or its securities. Specific enquiry has been made of all the Directors of the company who have confirmed their compliance with the required standards set out in the Code of Conduct during the year under review and up to the date of this Report.

DIRECTORS' INTERESTS

Full details of individual Director's interests in the shares, share options and interest in securities of the Company are set out on page 12 of the "Directors' Report" and in note 33 to the financial statements.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

Directors' and the auditor's respective responsibilities to the shareholders in respect of the financial statements are included on page 28 of the "Independent Auditor's Report".

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company attaches great priority to open and effective communications with its Shareholders and potential investors on the development of the Company either through annual report, interim report, circulars and announcements. In addition, key executives of the Company participated conferences and forums with the objective of promoting investor and stakeholder interests in the Group's businesses. The Directors regard all meetings with its shareholders to be very important as it affords an opportunity for direct communication with the shareholders. When appropriate, presentations would be made at general meetings for the purposes of keeping shareholders informed of corporate developments.