

# Corporate Governance Report

## INTRODUCTION

The Company recognizes the importance of corporate transparency and accountability. The board of directors (the “Board”) of the Company is committed to leading the Company and its subsidiaries (the “Group”) to grow in an efficient manner directed by the Group’s vision and mission and improving corporate operation and procedures to meet corporate governance standards.

In the view of the Board, the Company complied with the principles and code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the accounting year ended 31 December 2006, except for the deviations from code provisions A.4.1 and E.1.2 of the Code which are explained below on page 20 and page 24 respectively.

## SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. Upon specific enquiries of all directors, each of them confirmed that they complied with the required standards set out in the Model Code throughout the year ended 31 December 2006.

The Company has also adopted a code for securities transactions by relevant employees (“RE Code”) based on the Model Code concerning dealings by relevant employees in the securities of the Company. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are subject to compliance with the RE Code. No non-compliance report was received from any such employees during 2006.

## THE BOARD

The Board is responsible for the leadership and control of the Company and overseeing the Group’s business, strategic decisions and performances. The Board has delegated to the management the authority and responsibility to manage the business of the Group. In addition, the Board has also delegated various responsibilities to the Board committees including the audit committee (the “Audit Committee”) and the remuneration committee (the “Remuneration Committee”). Further details of these committees are set out below on pages 21 to 23.

The information on the number of full Board meetings and committee meetings attended by each director during the year under review is set out in the following table. Figures in brackets indicate maximum number of meetings held during the period when the individual was a Board member or Board committee member (as the case may be).

<b>Executive Directors</b>	<b>Board Meetings</b>	<b>Audit Committee Meeting</b>	<b>Remuneration Committee Meeting</b>
Ning Gaoning ( <i>chairman</i> )	2/(4)	N/A	N/A
Liu Fuchun ( <i>vice-chairman</i> ) <sup>Note 1</sup>	2/(4)	N/A	N/A
Qu Zhe ( <i>managing director</i> ) <sup>#</sup>	4/(4)	N/A	1/(1)
Xue Guoping <sup>Note 1</sup>	2/(4)	N/A	N/A
Liu Yongfu <sup>Note 1</sup>	1/(4)	N/A	N/A
Yu Xubo <sup>Note 1</sup>	1/(4)	N/A	N/A
Mak Chi Wing, William <sup>Note 2</sup>	1/(1)	N/A	N/A

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## THE BOARD (Continued)

Independent Non-executive Directors	Board Meetings	Audit Committee Meeting	Remuneration Committee Meeting
Stephen Edward Clark* #	3/(4)	3/(3)	1/(1)
Tan Man Kou*	3/(4)	2/(3)	N/A
Yuen Tin Fan, Francis* #	3/(4)	2/(3)	1/(1)

*Notes:*

1. Resigned on 21 March 2007
  2. Appointed on 6 October 2006
- \* a member of the Audit Committee  
# a member of the Remuneration Committee

The Company adopts the practice of holding regular Board meetings at least four times a year. Notice of each meeting is sent to directors at least fourteen days prior to a regular Board meeting, and directors may request inclusion of matters in the agenda for Board meetings. For ad hoc Board meetings, reasonable notices are given.

Minutes of the Board and Board committees have recorded in sufficient detail the matters considered by the Board and Board committees, decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes of the Board and/or Board committees (as the case may be) are sent to directors for their comment and records respectively. Some Board decisions are made via written resolutions authorized by all directors.

All Board members have access to the advice and services of the company secretary. Minutes books are kept by the company secretary and are open for inspection during office hours on reasonable notice by any director. If necessary, directors also have access to external professional advice at the Company's expense.

## CHAIRMAN AND THE CHIEF EXECUTIVE

The chairman of the Board is Mr. Ning Gaoning, and the chief executive officer (or managing director, in the case of the Company) is Mr. Qu Zhe. The chairman's and the managing director's roles are clearly defined to ensure their independence.

The chairman takes lead in formulating overall strategies and policies of the Company, and ensures effective performance by the Board of its functions, including compliance with good corporate governance practices, and encourages and facilitates active contribution of directors in Board activities and constructive relations between executive and non-executive directors. The chairman also ensures effective communication with shareholders of the Company and receipt by the directors of adequate and complete information. The role of vice-chairman was carried out by Mr. Liu Fuchun who resigned from the Board with effect from 21 March 2007.

The managing director, supported by other Board members and the senior management, is responsible for managing the day-to-day business of the Company. He is accountable to the Board for the implementation of the Company's overall strategies as well as coordination of overall business operations.

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## BOARD COMPOSITION

The Board currently comprises six executive directors, namely, Mr. Ning Gaoning, Mr. Qu Zhe, Mr. Ma Jianping, Mr. Mak Chi Wing, William, Mr. Zhang Zhentao and Ms. Luan Xiuju; one non-executive director, namely, Ms. Wu Wenting and three independent non-executive directors, namely, Messrs. Stephen Edward Clark, Tan Man Kou and Yuen Tin Fan, Francis. Messrs. Liu Fuchun, Xue Guoping, Liu Yongfu and Yu Xubo resigned as executive directors all with effect from 21 March 2007.

The Board members have no financial, business, family or other material or relevant relationships with each other. The composition of the Board has met the standard of recommended best practice under the Code for the Board to have at least one-third of its members comprising independent non-executive directors. The biographies of the directors are set out on pages 25 to 27 of the annual report under Directors and Senior Management Profile, which demonstrates a diversity of skills, expertise, experience and qualifications among the directors.

The Company has received annual confirmations of independence from the three independent non-executive directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the independent non-executive directors are independent within the definition of the Listing Rules.

## APPOINTMENT, RE-ELECTION AND REMOVAL

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Currently, none of the existing independent non-executive directors of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1. To comply with the Code, a special resolution was passed at the annual general meeting of the Company held on 25 May 2006 ("2006 AGM") to amend the Company's Bye-laws, to eliminate the limitation to the number of the directors who should retire by rotation at each annual general meeting so that every director (including those appointed for specific terms) shall be subject to retirement by rotation at least every three years. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices with respect to the service terms of independent non-executive directors are no less exacting than those in the Code.

In connection with the minor amendments to the Listing Rules which came in effect on 1 March 2006, a special resolution was passed at the 2006 AGM to amend the Company's Bye-laws, to the effect that a director may be removed by an ordinary resolution in general meeting instead of a special resolution.

Pursuant to the Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointments. Mr. Mak Chi Wing, William who was appointed as an executive director of the Company on 6 October 2006 retired on the special general meeting held on 21 November 2006 and was re-elected as director of the Company by the shareholders at the meeting.

Pursuant to Bye-law 111(A) of the Company's Bye-laws, Mr. Qu Zhe having been in office for three years since his last re-election, shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting to be held on 22 May 2007 ("2007 AGM").

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## **APPOINTMENT, RE-ELECTION AND REMOVAL (Continued)**

Pursuant to Bye-law 94 of the Company's Bye-laws, any director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting. In this regard, executive directors, namely Mr. Ma Jianping, Ms. Luan Xiuju, Mr. Zhang Zhentao and non-executive director, namely Ms. Wu Wenting, who were appointed on 21 March 2007, shall retire and, being eligible, offer themselves for re-election at the 2007 AGM.

The Company does not have a nomination committee. The Board as a whole is responsible for the procedure of nominating appropriate persons and appointing its members, either to fill a casual vacancy or as an addition to the Board.

The circular contains for the 2007 AGM detailed information on re-election of directors including biographies of all directors standing for re-election to ensure that shareholders make informed decisions.

## **RESPONSIBILITIES OF DIRECTORS**

The Company ensures that every newly appointed director has a proper understanding of the operations and business of the Group and that he or she is fully aware of his/her responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company. The Company sponsors directors to attend professional development seminars where necessary.

The independent non-executive directors take an active role in Board meetings, contribute to the development of strategies and policies and make independent judgement on issues relating to material transactions. They will take lead where potential conflicts of interest arise. They are also members of various Board committees.

## **REMUNERATION COMMITTEE**

The Remuneration Committee was established on 6 April 2005 with specific written terms of reference in accordance with the requirements of the Code. The terms of reference of the Remuneration Committee is available on request.

The Remuneration Committee is currently composed of two independent non-executive directors, namely, Mr. Stephen Edward Clark and Mr. Yuen Tin Fan, Francis and one executive director, namely, Mr. Qu Zhe. Mr. Yuen acts as chairman of the Remuneration Committee.

The role of the Remuneration Committee is to review and make recommendations to the Board on the Company's policy and structure for remuneration of directors and senior management.

The Remuneration Committee may consult with the chairman and managing director of the Company regarding proposals for the remuneration of other executive directors. Where necessary, the Remuneration Committee may have access to external professional services at the Company's expenses.

The committee members met once in 2006 to review the remuneration policy, the remuneration packages of all executive directors and senior management for the year ended 31 December 2005.

The Remuneration Committee held a meeting on 16 April 2007. During the meeting, the Remuneration Committee reviewed the remuneration policy and appraisal system of the Company, reviewed and approved the remuneration paid to their executive directors and senior management for the year 2006 and reviewed remuneration packages for the executive directors and senior management for the year 2007. All members of the Remuneration Committee attended that meeting.

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## AUDIT COMMITTEE

The Company has established an audit committee with specific written terms of reference which set out its authority and duties. The terms of reference of the Audit Committee is available on request.

The Audit Committee is composed of three independent non-executive directors, namely, Mr. Stephen Edward Clark, Mr. Yuen Tin Fan, Francis and Mr. Tan Man Kou. They have extensive experience in financial matters. Mr. Tan, who is a certified public accountant but not employed by or otherwise affiliated with the former or existing auditors of the Company, act as chairman of the Audit Committee,

Under the terms of reference, the Audit Committee assists the Board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control, risk management and external audit functions. The Audit Committee is further authorised by the Board to investigate any activity within its terms of reference, and is tasked with recommending to the Board appropriate actions emanating from such investigations. The Audit Committee has unrestricted access to personnel, records, external auditors and senior management, as may be appropriate in the discharge of its functions.

The Audit Committee has held three meetings in 2006 with full minutes kept by the company secretary. The following is a summary of the work performed by the Audit Committee during the year:

1. Met with the external auditors to discuss the general scope of their audit work;
2. Reviewed external auditor's management letter and management's response;
3. Reviewed its terms of reference;
4. Reviewed and approved the appointment of external auditors for providing non-audit services to the Group;
5. Discussed with the management on the effectiveness of the Company's system of internal control and risk management systems;
6. Reviewed and recommended to the Board for approval of the audit fee proposal for the Group for the year 2006;
7. Reviewed and approved the appointment of a senior internal audit manager;
8. Recommended to the Board proposal to the shareholders to re-appoint Ernst & Young as the Company's external auditors for the year 2006;
9. Reviewed the audited accounts and final results announcement for the year 2005;
10. Reviewed the Interim Report and the interim results announcement for the six months ended 30 June 2006.

The Audit Committee held three meetings during the period from January to April 2007 to review the resources of the internal audit function of the Company and the internal audit plan for the year 2007. It also reviewed the results of internal audit conducted in the first quarter of the year 2007. The Audit Committee was advised that corrective action plans have been agreed upon with management.

All issues raised by the Audit Committee during the meetings have been brought to the attention of the management for them to follow up and address.

The Audit Committee was satisfied with the audit and non-audit service fees, process and effectiveness, independence and objectivity of the Company's auditors Ernst & Young. The Board agrees with the Audit Committee's proposal for the re-appointment of Ernst & Young as the Company's auditors for the year 2007. The recommendation will be put forward for the approval of shareholders at the 2007 AGM.

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## AUDIT COMMITTEE (Continued)

During the year under review, the remuneration paid or to be payable to Ernst & Young is set out as follows:

<b>Services rendered</b>	<b>Fee paid/payable</b> HK\$'000
Audit Services	5,050
Non-audit services:	
Conducting interim review, due diligence on certain connected transactions	
services relating to the Company's reorganization	
performance of agreed-upon procedures on proforma information	
performance of agreed-upon procedures on internal audit review	10,050
	<u>15,100</u>

## ACCOUNTABILITY AND INTERNAL CONTROL

### Financial reporting

The directors acknowledge their responsibilities for preparing all information and representations contained in the financial statements of the Company for the year under review. The directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and the management with an appropriate consideration to materiality. As at 31 December 2006, the directors, having made appropriate enquiries, were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis.

During the year under review, the Company announced its annual and interim results within the periods of four months and three months respectively as required under Rules 13.49(1) and (6) of the Listing Rules.

A statement by the external auditor about its reporting responsibilities is included in its report on pages 41 to 42 of this annual report.

### Internal Control

During the year under review, the Company reviewed and established a structure for reviewing the effectiveness of its internal control systems. The Company formally put in place an internal audit function by employing a senior internal audit manager, who reports directly to the Audit Committee and managing director,

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes various communication channels with shareholders and investors. Shareholders will receive printed copies of the Company's interim and annual reports and circulars as required by the Listing Rules. Annual general meetings provide a forum for shareholders to make comments and raise concerns and exchange views with the directors. Regular press conferences and briefings with analysts from investment sectors are set up from time to time to update them with performance of the Group. The Company's share registrars and transfer office serves the shareholders regarding registration matters.

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## **INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS (Continued)**

As required by code provision E.1.2. of the Code, the chairman of the Board should attend annual general meetings and arrange for the chairmen of the audit and remuneration committees or in the absence of the chairmen of such committees other members of the committees or appointed delegates to be present at annual general meeting. The chairman of the Board was unable to attend the 2006 AGM as he had another engagement. The directors present at the meeting elected Mr. Qu Zhe, the managing director of the Company, to chair the meeting in accordance with Bye-law 73 of the Company's Bye-laws.

It is the Company's practice to include details of the procedures for voting by poll and the rights of shareholders to demand a poll in the circulars to shareholders dispatched together with the annual reports. The circulars also include relevant details of proposed resolutions, including the biography of each candidate standing for election and re-election.

During the year under review, for good corporate governance practice, the chairman of the general meetings demanded voting by poll on all resolutions proposed at such meetings. Progressive Registration Limited, the branch share registrar of the Company, was engaged as scrutineer to ensure the votes were properly counted.

Based on the information that is publicly available to the Company and to the directors' best knowledge, the Company maintained the prescribed amount of public float throughout the year 2006 and up to the date of the annual report as required by the Listing Rules.

## **SOCIAL RESPONSIBILITY**

The Company recognizes that it has a responsibility for matters of general concern to society. During the year, the Company applied guidelines on environment and energy practices in its business activities and operations.