

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The board of directors of the Company (the “Board”) is committed to maintaining a high standard of corporate governance. The Board believes that a high standard of corporate governance will provide a framework of the Company and its subsidiaries (collectively the “Group”) to formulate the business strategies and policies, and manage the associated risks through effective internal control procedures. The Board also believes that good corporate governance practices are increasingly important for maintaining and promoting shareholder value and investor confidence.

The Company has adopted most of the major code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). In the opinion of the Board, the Company has complied with the applicable code provisions in the CG Code throughout the year ended 31 December 2006, except for certain deviations that are discussed later in this report.

Board of Directors

Responsibilities

The Board is responsible for formulating overall strategies and policies of the Group. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal controls and the conduct of business in conformity with applicable laws and regulations. The Board undertakes responsibility for decision making in major Company matters. The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and senior management.

The Company wishes to highlight the importance of its Board in ensuring effective leadership and control of the Company and transparency and accountability of all operations. The Board members are fully committed to their roles and have always acted, individually and collectively, in the best interests of the Company and its shareholders at all times.

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Composition

The Board comprises seven directors (“Director(s)”) of which four are executive Directors and three are independent non-executive Directors. The members of Directors and Board Committees are as follows:

	Board	Audit Committee	Remuneration Committee
<i>Executive Directors</i>			
Mr. Yeung Chung Lung (<i>Chairman</i>)	✓		✓
Mr. Yang Le (<i>Chief Executive Officer</i>)	✓		
Mr. Ni Chao Peng	✓		
Mr. Yip Tze Wai, Albert	✓		
<i>Independent Non-executive Directors</i>			
Mr. Tsui Chun Chung, Arthur	✓	✓	✓
Mr. Lu Ze Jian	✓	✓	
Mr. Leung Chiu Shing	✓	✓	✓

Except (1) Mr. Yang Le is the son of Mr. Yeung Chung Lung and (2) Mr. Yeung Chung Lung is the father-in-law of Mr. Ni Chao Peng and to the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship amongst Directors. Biographical details of the Directors are set out on pages 16 to 17 under the section headed “Biographical Information of Directors and Senior Management” of this annual report.

During the year ended 31 December 2006 (the “Year”), the Board held nineteen regular/special Board meetings. The attendance of each member at the Board meetings is set out below:

Name	Number of meetings attended/Total
<i>Executive Directors</i>	
Mr. Yeung Chung Lung	19/19
Mr. Yang Le	19/19
Mr. Ni Chao Peng	19/19
Mr. Yip Tze Wai, Albert	19/19
<i>Independent Non-executive Directors</i>	
Mr. Tsui Chun Chung, Arthur	19/19
Mr. Lu Ze Jian	19/19
Mr. Leung Chiu Shing	19/19

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Chairman and Chief Executive Officer

The roles of the Chairman of the Board and the Chief Executive Officer of the Company are segregated to ensure their respective independence, accountability and responsibility.

Mr. Yeung Chung Lung, being the Chairman of the Group since its establishment in 1995, takes the lead in formulating overall strategies and policies of the Group; ensures the 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. He also ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner with the assistance of the company secretary.

Mr. Yang Le, the Group's Chief Executive Officer, supported by other Board members and senior management, is responsible for managing day-to-day business of the Group. He is also accountable to the Board for the implementation of the Group's overall strategies and coordination of overall business operations.

Executive Directors

The executive Directors are responsible for running the Group and executing the strategies adopted by the Board. They lead the Group's management team in accordance with the directions set by the Board and are responsible for ensuring that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

Independent Non-executive Directors

The independent non-executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participations provide adequate checks and balances to safeguard the interests of the Group and its shareholders. The Board consists of three independent non-executive Directors and one of them have appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of the independent non-executive Directors a confirmation of independence for the Year pursuant to Rule 3.13 of the Listing Rules. On this basis, the Company considers all such Directors to be independent.

Service term of Independent Non-executive Directors

In compliance with code provision A.4.1 of the CG Code, each independent non-executive Director should be appointed for a specific term and subject to re-election. All independent non-executive Directors are not appointed for a specific term but subject to retirement by rotation in accordance with the Bye-laws of the Company.

Appointments, Re-election and Removal of Directors

The Board as a whole is responsible for the procedure agreeing to the appointment of its own members and for nominating them for election by the shareholders on first appointment and thereafter at regular interval of rotation. Pursuant to the Company's Bye-laws, the Directors are subject to retirement by rotation at least once every three years and new Directors are required to submit themselves for re-election at the first general meeting of the Company following their appointment. The Company has not established any nomination committee and is not currently considering establishing the same owing to the small size of the Board. The Chairman of the Board is mainly responsible for identifying appropriate candidates to fill the casual vacancy whenever it arises or to add additional member as and when required. The Chairman will propose the qualified candidate(s) to the Board for consideration. The Board will approve the appointment based on the suitability and qualification of the candidate.

Audit Committee

The Company has established an audit committee on 17 January 2002. The audit committee currently comprises three independent non-executive Directors. The functions of the audit committee are:-

- to make recommendations to the Board concerning the appointment, reappointment, retention, evaluation and termination of compensation and overseeing the work of the Company's independent auditor;
- to approve all non-audit services to be provided by the Company's independent auditor;
- to approve the remuneration and terms of engagement of the Company's independent auditor;
- to review the relationships between the Company and the independent auditor;
- to approve the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding one year;
- to review the Company's annual and interim financial statements, accounting policies and practices, the effectiveness of the Company's disclosure controls and procedures and developments in financial reporting practices and requirements;
- to review the Company's risk assessment and management policies; and
- to review the adequacy and effectiveness of the Company's legal and regulatory compliance procedures.

The current terms of the reference of the audit committee incorporating all the duties set out in code provision C.3.3 of the CG Code were approved by the Board.

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During the Year, the audit committee held four meetings with full attendance, details of which are set out below:–

Members	Number of meetings attended/Total
<i>Independent Non-executive Directors</i>	
Mr. Tsui Chun Chung, Arthur (<i>Chairman</i>)	4/4
Mr. Lu Ze Jian	4/4
Mr. Leung Chiu Shing	4/4

Under code provision C.3.4 of the CG Code, the terms of reference of audit committee are required to be made available on request and included on the issuer's website. At present, the terms of reference of the audit committee would be available on request and have not yet posted to the website.

Remuneration Committee

The Company has established a remuneration committee on 21 April 2005. The remuneration committee comprises three members, a majority of whom are independent non-executive Directors.

The remuneration committee is responsible for:–

- to recommend to the Board on the Company's policies and structure for the remuneration of the Directors and senior management of the Group;
- to determine the remuneration packages of all executive Directors and senior management;
- to review and approve performance-based remuneration; and
- to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of office or appointment.

During the Year, the remuneration committee held three meetings with full attendance, details of which are set out below:–

Members	Number of meetings attended/Total
<i>Executive Director</i>	
Mr. Yeung Chung Lung	3/3
<i>Independent Non-executive Directors</i>	
Mr. Tsui Chun Chung, Arthur (<i>Chairman</i>)	3/3
Mr. Leung Chiu Shing	3/3

Under code provision B.1.4 of the CG Code, the terms of reference of remuneration committee are required to be made available on request and included on the issuer's website. At present, the terms of reference of the remuneration committee have not yet posted to the website.

Supply of and Access to Information

To allow the Directors to make an informed decision and properly discharge their duties and responsibilities, the Company Secretary ensures that relevant Board papers are sent to all the Directors in a timely manner. All Board papers and minutes are also made available for inspection by the Board and its Committees. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

Directors' Securities Transaction

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

Having made specific enquiry of the Directors, all Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the Year.

Accountability and Audit

Financial Reporting

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements of the Group for the Year. 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 management with an appropriate consideration to materiality. The Directors, having made appropriate enquiries, are 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.

The statement of the auditors of the Company regarding their responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 37 to 38 of this annual report.

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Internal Controls

The Group's system of internal control includes a defined management structure with limits of authority, and is designed to help the Group achieve its business objectives, safeguard its assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable assurance against material misstatement or loss, and to manage risks of failure in the Group's operational systems and in the achievement of the Group's business objectives. The Group does not have internal audit department. The Audit Committee has selected and outsourced to an independent audit firm to conduct special audits of areas of concern identified and selected by the Audit Committee annually. The internal control assessment report is addressed to the Audit Committee directly and the members of the Audit Committee have free and direct access to the independent audit firm without reference to the Chairman or management.

The Group has a well-defined and distinct organizational structure that segregates the duties of the management. Through monthly inter-departmental management meetings, the Group is able to identify, evaluate and manage the risks faced (including liquidity risk, credit risk, operation risk and foreign exchange risk) .

The Group has certain key internal controls include the followings:

- Budgeting control and forecast in order to meet the Group's future needs;
- Board authority for treasury management;
- Compliance policies to ensure compliance with appropriate accounting standards, requirements from the rules governing the listing of securities on the Stock Exchange of Hong Kong Limited and other company law requirements; and
- Maintain effective management reporting framework in order to obtain key financial and operation information to manage the business.

The operational, financial and compliance related documentation and significant information are reported to the audit committee and the board to ensure the effectiveness of the internal control system. The audit committee will analyse the issue and report the findings to the Board.

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Proper authorization, documentation and review over the revenue inflow (including customer order management and execution, customer credit control management, handling of accounts receivable, cash receipt and maintenance of customer records) and the expenditure outflow (including selection of supplier, contract management, procurement and payment procedures) of the Group are in place to ensure the effectiveness of financial reporting.

The Group has also a variety of contingencies plan to tackle unforeseen operational difficulties.

Annual Assessment

The Board through the independent audit firm, reviewed the effectiveness of the Group's system of internal control over financial, operational and compliance issue. The review did not identify any significant weakness that may indicate the control system of the company to be out of place or ineffective in providing reasonable assurance against material misstatement or loss. Neither did the review identified any reason to believe that the control system of the Group is ineffective in ensuring maintenance of proper accounting records, provision of reliable financial information or compliance with relevant legislation and regulations.

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. During the Year under review, the Board considered that the Company's internal control system is adequate and effective and the Company has complied with the code provisions on the internal controls of the CG Code.

Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, CCIF CPA Limited, for the Year is set out as follows:

Services rendered	Fee paid/payable Approximately RMB
Audit services (2005: approximately RMB578,000)	529,000
Non-audit services	Nil
Taxation services	Nil
Other services	Nil
Total:	<u>529,000</u>

Communication with Shareholders

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

To promote effective communication, the Company has established, including but not limited to, the following various channels:

1. annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The Chairman and the Directors are available at annual general meetings to address shareholders' queries;
2. separate resolutions are proposed at general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in circulars to the shareholders of the Company to facilitate the enforcement of shareholders' rights; and
3. interim and annual results are announced as early as possible so that shareholders of the Company are kept informed of the Group's performance and operations.