

CORPORATE GOVERNANCE REPORT

The Board of Directors (“Board”) is pleased to present this Corporate Governance Report in the Company’s Annual Report for the year ended 31 December 2006. In November 2004, The Stock Exchange of Hong Kong Limited (“Stock Exchange”) promulgated the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) which sets out the corporate governance principles (“Principles”) and the code provisions (“Code Provisions”) with which the listed issuers are expected to follow and comply.

The Board is committed to upholding a high standard of corporate governance practices and business ethics with the firm belief that they are essential for maintaining and promoting investors’ confidence and maximising shareholders’ returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

Corporate Governance

In the opinion of the Directors, save as disclosed below, the Company has complied with the Code Provisions set out in the CG Code contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2006.

Code Provision A.2.1

Due to the resignation of Mr. Li Yi as an Executive Director and the Managing Director of the Company with effect from 31 May 2005, Dr. Fu Yuning, the Chairman of the Company, has also been acting as the Managing Director of the Company with effect from 31 May 2005. As explained in the announcement of the Company issued on 11 May 2005, the Board considers that as Dr. Fu has been leading and is most aware of the Company’s strategic policies and development, it is in the best interests of

the Company for Dr. Fu to act as the Managing Director pending the appointment of a new Managing Director to ensure continuity. The Board will in due course appoint a separate individual with appropriate qualifications to act as the Managing Director.

The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

Board of Directors

The Board of the Company comprises:

Executive Directors

Fu Yuning
 Zhao Huxiang
 Li Yinquan
 Hu Zheng
 Meng Xi
 Wang Hong
 Yu Liming
 To Wing Sing

Independent Non-executive Directors

Tsang Kam Lan
 Kut Ying Hay
 Lee Yip Wah Peter
 Li Kwok Heem John

The four Independent Non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of accounting, law, banking and business management. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each Independent Non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

During the year, four full board meetings were held and the attendance of each Director is set out as follows:

Name of director	Number of board meetings attended during the Director's term of office in 2006	Attendance rate
Fu Yuning	4/4	100%
Zhao Huxiang	0/4	0%
Li Yinquan	2/4	50%
Hu Zheng	1/4	25%
Meng Xi	3/4	75%
Wang Hong	3/4	75%
Yu Liming	3/4	75%
To Wing Sing	4/4	100%
Tsang Kam Lan	4/4	100%
Kut Ying Hay	1/4	25%
Lee Yip Wah Peter	4/4	100%
Li Kwok Heem John	4/4	100%

The Board formulates overall strategy of the Group, monitors its financial performance and maintains effective supervision over the management. The Board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

At least 14 days notice of all board meetings is given to all directors and they can include matters for discussion in the agenda if the need arises. The Company Secretary or his assistant assists the Chairman in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying board papers are sent to all directors at least 3 days before the date of every board meeting so that the directors have the time to review the

documents. Minutes of every board meeting are circulated to all directors for their perusal prior to confirmation of the minutes at the following board meeting.

Every board member is entitled to have access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary or his assistant, and has the liberty to seek external professional advice if so required. The Company Secretary or his assistant continuously updates all directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, they confirmed that all of them have complied with the required standard set out in the Model Code during the year.

Chairman and Managing Director

The Chairman of the Board is responsible for the leadership and effective running of the Board and the Managing Director is delegated with the authorities to manage the business of the Group in all aspects effectively. The Chairman and the Managing Director of the Company is Dr. Fu Yuning. The roles of the Chairman and the Managing Director are not segregated so that the job responsibilities are concentrated on the Chairman. The Board of the Company is aware that Dr. Fu's acting as the Chairman and the Managing Director is not consistent with paragraph A.2.1 of the CG Code. However, the Board considers that as Dr. Fu has been leading and is most aware of the Company's strategic policies and development, it is in the best

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interests of the Company for Dr. Fu to act as the Managing Director pending the appointment of a new Managing Director to ensure continuity.

Appointment and Re-election of Directors

According to Article 97 of the Articles of Association of the Company, the Board has the power to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. It has been the policy of the Board to consider candidates for directorship based on the qualification, ability and potential contribution of the individual candidates.

According to Article 91 of the Articles of Association of the Company, at each annual general meeting one-third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

The Company has fixed the term of appointment for Independent Non-executive Directors to a specific term of three years. They are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with Article 91 of the Articles of Association of the Company.

Remuneration Committee

The Remuneration Committee of the Company comprises one Executive Director and four Independent Non-executive Directors.

The Remuneration Committee was formed in January 2005. One meeting was held in 2006. The attendance of each member is set out as follows:

Remuneration Committee

Name of member	Number of meetings attended in 2006	Attendance rate
Fu Yuning (Chairman of the Remuneration Committee)	0*/1	0%
Tsang Kam Lan	1/1	100%
Kut Ying Hay	1/1	100%
Lee Yip Wah Peter	1/1	100%
Li Kwok Heem John	1/1	100%

* meeting attended by Mr. Wang Hong on behalf of Dr. Fu.

During the year, the Remuneration Committee has reviewed the remuneration of the directors and senior management with reference to the nature of their work, complexity of the responsibilities and performance. No director took part in any discussion about his own remuneration.

The Company has adopted a share option scheme on 20 December 2001, which serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Details of the share option scheme are set out on pages 36 to 46 of the Report of Directors. The emolument payable to directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' remuneration are set out in note 10 to the financial statements.

The major roles and functions of the Company's Remuneration Committee are as follows:

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 the policy on such remuneration;
2. to have the delegated responsibilities to determine the specific remunerations 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 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 for independent 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 have access to professional advice if considered necessary; and
9. to consider other topics as defined by the Board.

Accountability and Audit

The directors are responsible for overseeing the preparation of accounts of 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 financial statements for the year ended 31 December 2006, the directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on the going concern basis.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements is set out in the Report of the Auditors on page 55.

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Audit Committee

The Audit Committee of the Company comprises all four Independent Non-executive Directors of the Company.

The Audit Committee will meet at least twice a year. Five meetings were held during the year. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2006	Attendance rate
Tsang Kam Lan (Chairman of the Audit Committee)	4/5	80%
Kut Ying Hay	4/5	80%
Lee Yip Wah Peter	5/5	100%
Li Kwok Heem John	5/5	100%

During the meetings held in 2006, the Audit Committee had performed the following work:

- (i) reviewed the financial reports for the year ended 31 December 2005 and for the six months ended 30 June 2006;
- (ii) reviewed the effectiveness of internal control system;
- (iii) reviewed the external auditors' statutory audit plan and engagement letter;
- (iv) reviewed the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2005;
- (v) reviewed and recommended for approval by the Board the 2006 audit scope and fees; and
- (vi) reviewed the connected transactions entered into by the Group during the year.

The major roles and functions of the Audit Committee are as follows:

1. to be primarily responsible for making recommendation 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 standard. The audit committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences and ensure co-ordination where more than one audit firm is involved;
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 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 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 qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
5. In regard to (4) above:-
 - (i) members of the committee must liaise with the Board, senior management and the person appointed as the Company's qualified accountant and the committee must meet, at least once a year, with the Company's auditors; and
 - (ii) the 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 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. to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);
10. 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;
11. to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
12. where an internal audit function exists to review the internal audit programme, 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;
13. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

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14. to report to the Board on the matters set out in provision of terms of reference of the committee;
15. to review the group's financial and accounting policies and practices; and
16. to consider other topics, as defined by the Board.

Auditors' Remuneration

During the year under review, the remuneration paid to the Company's auditors, Messrs PricewaterhouseCoopers, is set out as follows:

Services rendered	Fees paid/payable HK\$ million
Audit services	7.3
Non-audit services	4.7
Total	12.0

Internal Control

It is the responsibility of the Board to ensure that the Group maintains sound and effective internal controls to safeguard the shareholders' investment and the Group assets.

The internal control system of the Group comprises a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities of each business and operational unit are clearly defined to ensure effective check and balances.

The key procedures that the Board established to provide effective internal controls are as follows:

- A distinct organisation structure exists with defined lines of authority and control responsibilities;
- A comprehensive management accounting system is in place to prepare financial and operational performance indicators to the management and the relevant financial information for reporting and disclosure purpose; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication;
- A centralised management system in respect of external investment, company termination and equity transfer, investment assessment committee is set up, to be responsible for the Group's investment exposure analysis together with the investment management department, and to monitor the level of investment exposures faced by the Group;
- Systems and procedures are also in place to identify, measure, manage and control risks including reputation, legal, strategic, credit, guaranty, market and operational risks. Exposure to these risks is monitored by Risk Management Committee, together with Corporate Finance Department, Asset and Liability Management Committee and Operational and Other Risks Management Committee. In addition, procedures are designed to ensure compliance with applicable laws, rules and regulations;

- Policies and procedures are designed for safeguarding assets against unauthorised use or disposition. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud;
- A Policy on Handling and Dissemination of Price-Sensitive Information is established, setting out the guiding principles, procedures and internal controls for the handling and dissemination of price-sensitive information in a timely manner in such a way that it does not place any person in a privileged dealing position and allows time for the market to price the shares of the Company to reflect the latest available information; and
- Audit Committee reviews reports (including management letter) submitted by external auditors to the Group's management in connection with the annual audit and internal audit reports submitted by the person in-charge of the Group's internal audit department.

The Board, through the Audit Committee, assesses the effectiveness of the Group's internal control system which covers all material controls, including financial, operational and compliance controls as well as risk management functions, on an annual basis. Pursuant to a risk-based approach, the Group's internal audit department conducts independent reviews of risks associated with and controls over various operations and activities. Significant findings on internal controls are reported regularly to the Audit Committee twice each year.

Communications with Shareholders and Investors

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board as well as Chairmen of the Audit and Remuneration Committees (or their duly appointed delegates) together with the external auditors are present to answer shareholders' questions. An annual general meeting circular is distributed to all shareholders at least 21 days before the annual general meeting. It sets out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the annual general meeting and (except where a poll is demanded) reveals how many proxies for and against have been filed in respect of each resolution. The results of the poll, if any, are published in the newspapers and on the Company's website.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner, which were well before the time limits as laid down in the Listing Rules.

The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors.

The 2007 annual general meeting of the Company will be held at the Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 9:30 a.m. on Friday, 25 May 2007.