

Corporate Governance Report

The Board of Directors (“the Board”) is pleased to present this Corporate Governance Report in the Group’s annual report for the year ended 31 December 2006.

The Group considers that good corporate governance is vital to the healthy and sustainable development of the Group. To ensure a high standard of corporate governance, the Group shall strive to enhance the standard of corporate governance continuously, strictly comply with the code provisions (“Code Provisions”) as set out in the Code on Corporate Governance Practices (“Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”) and actively apply the principles of the Code.

The Code sets out the principles of good corporate governance (“Principles”) and two levels of corporate governance practices:

- (a) Code Provisions which listed issuers are expected to comply with or to give considered reasons for any deviation; and
- (b) recommended best practices for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company has complied with all the Code Provisions throughout the accounting period for the year ended 31 December 2006 except for the following deviation:

- With respect to Code Provision A.4.1, the independent non-executive Directors do not have a specific term of appointment. Pursuant to the Company’s articles of association (the “Articles”), at each annual general meeting one-third of the Directors for the time being (or, if their number is not three or 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 shall be subject to retirement by rotation at least once every three years. Accordingly, all Directors shall be subject to retirement by rotation and re-election at annual general meetings under the Articles and the Board considers it not necessary to appoint the independent non-executive Directors for a specific term as the Articles enable all the Directors (including the independent non-executive Directors) to retire at least once every three years.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the Code, and acknowledges the important role of its Board in providing effective leadership and direction to the Company’s business, and ensuring transparency and accountability of the Company’s operations.

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The key corporate governance principles and practices of the Company are summarized as follows:

THE BOARD

Responsibilities

The Board provides leadership, approves policies, strategies and plans, and oversees their implementation to ensure the healthy growth of the Company, in the interests of the Company's shareholders ("Shareholders").

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensure the Board's procedures and all applicable rules and regulations are followed. In general, each director is able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the General Manager/Chief Executive Officer and senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the above mentioned officers. The Board has the full support of the General Manager/Chief Executive Officer and the senior management to discharge its responsibilities.

Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board currently comprises fourteen members, consisting of ten executive directors and four independent non-executive directors.

The Board of the Company comprises the following directors:

Executive Directors:

Zhang Xuewu (*Chairman*)

Xiong Weiping (*Vice Chairman, General Manager*)

Zheng Heshui (*Vice Chairman*)

Lo Sui On (*Vice Chairman*)

Zheng Hongqing

Jiang Yan

Mao Jianjun

Zhang Fengchun

Ng Chi Man, Michael (*Deputy General Manager*)

Liu Li (*Deputy General Manager*)

Independent Non-Executive Directors:

Yeh Meou Tsen, Geoffrey (*member of Audit Committee and Remuneration Committee*)

Yeh V Nee (*Alternate director to Yeh Meou Tsen, Geoffrey*)

Fong Yun Wah

Wong Man Kong, Peter (*Chairman of Audit Committee and Remuneration Committee*)

Sze, Robert Tsai To (*member of Audit Committee and Remuneration Committee*)

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under “Biographies of Directors and Senior Management” on pages 8 to 11.

During the year ended 31 December 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

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The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflicts of interest and serving on Board committees, all independent non-executive Directors make positive contributions to the orderly management and effective operation of the Company.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of Directors.

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

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

To enable the Company's Articles of Association (the "Articles") to be in line with Code Provisions A.4.1 and A.4.2, a special resolution was proposed and passed at the annual general meeting of the Company held on 12 May 2006 to amend the Articles so that all directors would be subject to retirement by rotation once every three years.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviews its own structure, size and composition regularly to ensure it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Mr. Xiong Weiping, Ms. Jiang Yan and Mr. Mao Jianjun were appointed as executive directors of the Company on 17 July 2006. Their appointments were approved by the Executive Board meeting held on 17 July 2006. All executive Directors except Messrs. Ng Chi Man, Michael and Liu Li attended the meeting. In accordance with Article 92 of the Articles, they will retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 101 of the Articles, Messrs. Zheng Heshui, Lo Sui On, Zheng Hongqing, Wong Man Kong, Peter and Dr. Fong Yun Wah will retire as Directors by rotation at the forthcoming annual general meeting. Messrs. Zheng Heshui, Lo Sui On, Wong Man Kong, Peter and Dr. Fong Yun Wah, being eligible, offer themselves for re-election at the forthcoming annual general meeting. The Company understands that Mr. Zheng Hongqing will resign as a Director of the Company before the forthcoming annual general meeting and the Company will make a separate announcement after his resignation takes effect in accordance with Rule 13.51(2) of the Listing Rules.

The Board recommended the re-appointment of the directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular dated on 30 April 2007 contains detailed information of the directors standing for re-election.

Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

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Board Meetings

Number of Meetings and Directors' Attendance

During the year ended 31 December 2006, the Board met four times. On 28 March 2006, the Board met to review the annual results, the report from the first Audit Committee meeting, retirement and re-election of directors and connected transactions. On 27 July 2006, the Board met to review the interim results, connected transactions and to discuss strengthening of policy control and management of investment projects and subsidiaries. On 5 September 2006, the Board met to review the results for the first nine months, the report from the second Audit Committee meeting, and to arrange for review of the internal control systems of the Company. On 8 December 2006, the Board met to review the progress report on review of the internal control system of the Company, the report from the Remuneration Committee, investment projects and connected transactions. The attendance rate at each meeting was 85%, 85%, 93% and 64% respectively.

The individual attendance record of each Director at the meetings of the Board, Audit Committee and Remuneration Committee during the year ended 31 December 2006 is set out below:

Name of Directors	Attendance/Number of Meetings		Remuneration
	Board	Audit Committee	Committee
Zhang Xuewu	4/4	Not applicable	Not applicable
Xiong Weiping	3/4	Not applicable	Not applicable
Zheng Heshui	4/4	Not applicable	Not applicable
Lo Sui On	3/4	Not applicable	Not applicable
Zheng Hongqing	3/4	Not applicable	Not applicable
Jiang Yan	2/4	Not applicable	Not applicable
Mao Jianjun	2/4	Not applicable	Not applicable
Zhang Fengchun	4/4	Not applicable	Not applicable
Ng Chi Man, Michael	4/4	Not applicable	Not applicable
Liu Li	2/4	Not applicable	Not applicable
Yeh Meou Tsen, Geoffrey	2/4	Not applicable	Not applicable
Yeh V Nee*	Not applicable	3/3	1/1
Fong Yun Wah	4/4	Not applicable	Not applicable
Wong Man Kong, Peter	3/4	3/3	1/1
Sze Robert Tsai To	4/4	3/3	1/1
Che Shujian**	1/4	Not applicable	Not applicable
Shen Zhuying***	1/4	Not applicable	Not applicable

* Mr. Yeh V Nee is an alternate director to Dr. Yeh Meou Tsen, Geoffrey.

** Mr Che Shujian resigned from the offices of Chairman and Executive Director of the Company with effect from 17 July 2006. During the period from 1 January 2006 to 17 July 2006, one meeting of the Board was held.

*** Mr Shen Zhuying resigned from the offices of Vice Chairman, Executive Director and General Manager of the Company with effect from 7 April 2006. During the period from 1 January 2006 to 7 April 2006, one meeting of the Board was held.

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Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors as soon as practicable before each Board meeting or committee meeting to allow the directors to read the paper and information, to keep them abreast of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The company secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Articles also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND GENERAL MANAGER/CHIEF EXECUTIVE OFFICER

The Company supports the division of responsibility between the Chairman of the Board and the General Manager/Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and General Manager/Chief Executive Officer are held by Mr. Zhang Xuewu and Mr. Xiong Weiping respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of senior management, the Chairman is also responsible for ensuring the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The General Manager/Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. He is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

BOARD COMMITTEES

The Board has established two committees, namely, the Audit Committee and Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the website of <http://www.irasia.com/listco/hk/ctii> and are available to Shareholders upon request.

All the members of each Board committees are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of directors and senior management.

The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The human resources department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee consults the Chairman and/or the General Manager/Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

One Remuneration Committee meeting was held on 8 December 2006 to review major remuneration policies such as remuneration standard, performance evaluation and bonuses of directors and senior management. In addition, the procedures for determining remuneration and remuneration standards of executive Directors and senior management were reviewed and discussed in the meeting and recommendations were made to the Board.

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Audit Committee

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To monitor integrity of the interim and annual financial reports as well as to review significant financial reporting judgements before submission to the Board and to report the same to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held three meetings during the year ended 31 December 2006 to consider independent opinions of external auditors on the Company and to review the financial results and reports, financial reporting and compliance procedures, the report of the internal audit department on the Company's internal control and risk management review and the processes and the re-appointment of the external auditors.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Audit Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2006 have been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

Since 11 April 2004, the Company has adopted its own code of conduct regarding directors' securities transactions (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the requirements of the Code of Conduct and the Model Code throughout the year ended 31 December 2006.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Written Guidelines by employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 51 to 52.

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Save as disclosed in note 7 to the financial statements for fees payable to the Company's external auditors for audit services provided for the year ended 31 December 2006, other significant non-audit service assignments for the year include:

	HK\$
1. Review of interim results	880,000
2. Financial review on potential investment	1,150,000
	2,030,000

INTERNAL CONTROLS

The Company has maintained a structure with defined lines of responsibility and appropriate delegation of responsibility and authority to senior management. The Board is responsible for the establishment and effective operation of the internal control system. However, such system aims at limiting the risks of the Company to an acceptable level but not at eliminating all risks. Hence, such system can only provide reasonable assurance that there will not be any error in financial information and record, and there will not be any financial loss or fraud.

The Board has established operational procedures to identify, assess and manage major risks faced by the Company. Such procedures shall be updated from time to time to reflect the changes in circumstances and rules and regulation, and shall be used as a guideline for updating the internal control system in a timely manner. The Board considers that as at the date of this annual report, the internal control system is adequate and effective in safeguarding the assets of the Group and protecting the interests of Shareholders, customers and employees of the Group.

The management is responsible for implementing the procedures established by the Board to identify, assess and manage major risks faced by the Company. This procedure includes the design, operation and supervision of suitable internal control to mitigate and control risks. Major procedures established for reviewing the suitability and compliance of internal control are as follows:

- The Board is responsible for the supervision of all business activities of the Group and the implementation of strategic plans and policy. The management is responsible for the effective daily operation of the Group and for ensuring the Group operates in accordance with the target, strategy and budget of the Group.

- The Audit Committee periodically reviews the controlled items of internal audit department, external auditors, regulatory bodies and management, and assesses the suitability and effectiveness of risk management and the internal control system. The Audit Committee also reviews the function of internal audit and pays particular attention to the independence of the internal audit department, the audit quality and the audit scope.
- The internal audit department also formulates the annual internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and makes recommendations to address the identified risks, and reports to the Audit Committee on any key findings and progress of the internal audit process. The Audit Committee, in turn, reports to the Board on any material issues and makes recommendations to the Board.

In strict compliance with the requirements of Code Provision C.2.1, the Group has conducted a comprehensive review of the internal control system under the guidance of the Board and the senior management in 2006. The review assessed the prevailing internal control and risk management practices of the Group and covered various aspects including financial control, operational control, compliance control and risk management.

The Company will continue where possible to improve its internal control system and strengthen its risk management capability.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of Shareholders and the procedures for demanding a poll on resolutions at Shareholders' meetings are contained in the Articles. Details of such rights to demand a poll and the poll procedures are included in all circulars to Shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the Shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide a forum for communication between the Shareholders and the Board. The Chairman of the Board as well as chairmen of the Audit Committee and Remuneration Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the Shareholders' meetings.

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The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

Currently, investors can access the Company's information through the websites of the Stock Exchange and <http://www.irasia.com/listco/hk/ctii>.