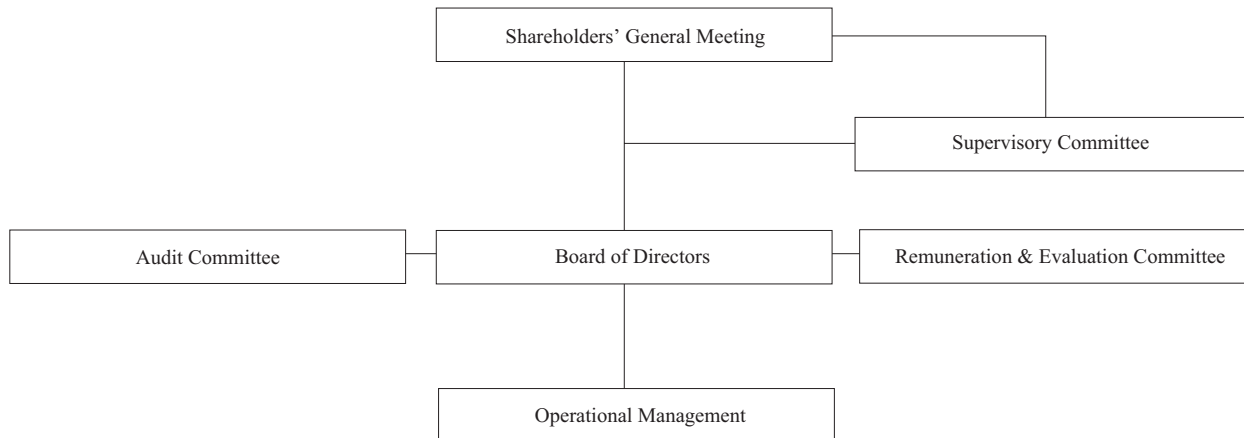


# Corporate Governance Report

## REPORT ON CORPORATE GOVERNANCE PRACTICES

The following diagram sets forth the Company's corporate governance structure:



### (a) Corporate Governance Practices

Good corporate governance practices are essential for a company listed in two regions. The Board acknowledges its responsibility to ensure the formulation of good corporate governance practices and procedures, which shall be prepared strictly in compliance with the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company was committed to comply with such corporate governance practices and procedures to the best of its ability throughout 2006. However, a few deviations occurred when the Company complied with such corporate governance practices and procedures, as a result of the fact that Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong, being executive Directors of the fifth Board of the Company, were subject to enforcement measures adopted by the PRC police department for alleged economic crimes. The Details are set out follows:

1. There were only two independent non-executive directors of the Company during the period from 23 January 2006 to 26 June 2006 due to the resignation of Mr. Chen Pei Cheong from its directorship, which also results in remaining only two members of audit committee of the fifth Board during such period. The Company was unable to comply with provision A.3.2 of the Code during such period. With the election and establishment of the sixth Board, the Company has corrected such deviation.
2. The Company was unable to comply with provision A.5.3 of the Code during the period from 1 January 2006 to 26 June 2006 as Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong were subject to enforcement measures adopted by the PRC police department for alleged economic crimes, and were not able to discharge the directors' duties. With the election and the establishment of the sixth Board, the Company has corrected such deviation.

Save as disclosed in this corporate governance report, to the best knowledge of the Company and as far as information is available, the Company has complied with the Code during the reporting period.

### (b) Securities Transactions by Directors

The Company has adopted all the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its code for securities transaction by Directors. Having made specific enquiries, Mr. Tang Ye Guo, Mr. Yang Yun Duo, Mr. Wang Shi Lei, Ms. Yu Shu Min, Mr. Lin Lan, Mr. Xiao Jian Lin, Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren, directors of the sixth Board of the Company, have confirmed that they have fully complied with the Model Code throughout the year. In addition, Mr. Zhang Ming and Mr. Su Yu Tao, acted as former directors of the sixth Board of the Company have also confirmed that they have fully complied with the Model Code during their terms as the directors of the Company.

# Corporate Governance Report

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## Governance Structure

### (c) The Board of Directors

The fifth Board of the Company comprises 9 directors, namely Mr. Liu Cong Meng, Mr. Li Zhen Hua, Mr. Fang Zhi Guo, Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong as executive Directors and Mr. Xu Xiao Lu, Mr. Li Kung Man and Mr. Chan Pei Cheong, Andy as independent non-executive Directors. Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong, the executive directors of the fifth Board of the Company, were subject to enforcement measures adopted by the PRC police department for alleged economic crimes, and they were unable to discharge their director's duties during the reporting period. Mr. Chen Pei Cheong, Andy ceased to be the independent non-executive director of the Company since 23 January 2006. The terms of office of the remaining directors of the fifth Board have been expired on 26 June 2006.

The sixth Board of the Company was elected and established at the first extraordinary general meeting of the Company in 2006 and comprises 9 directors, in which Mr. Tang Ye Guo, Mr. Yang Yun Duo, Mr. Wang Shi Lei, Ms. Yu Shu Min, Mr. Lin Lan and Mr. Xiao Jian Lin were appointed as executive Directors, and Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren were appointed as independent non-executive Directors. All directors have a term of office commencing from 26 June 2006, except that Mr. Yang Yun Duo and Mr. Wang Shi Lei have terms of office commencing from 4 January 2007, but the terms of all directors shall be expired on 26 June 2009. In addition, Mr. Zhang Ming and Mr. Su Yu Tao, the former directors of the sixth Board of the Company, commenced their terms of office from 26 June 2006 to 13 December 2006, and from 26 June 2006 to 14 December 2006, respectively. Members of the Board have different industry backgrounds, possessing rich experience in fields such as science and technology, corporate management and accounting. The biographies and roles of the aforesaid Directors are set out on pages 16 to 17 of this annual report.

The primary duties of the Board include: convening shareholders' general meetings and reporting its work at shareholders' general meetings, and exercising its decision-making rights according to powers and duties conferred by the shareholders' general meetings in aspects including strategic development plans for the Company, establishment of the management structure, investment and financing plans, financial monitoring, disposal of material assets, material transactions and human resources. The Board is responsible for formulating the Company's overall strategy and annual business and budget plans, and ensures that its production operations are properly planned with approvals, implemented and monitored. In addition, the Board is in charge of the appointment of members of the Operational Management and also the supervision and evaluation of the performance of the Operational Management. The Board may establish, within its structure, special committees such as the audit committee and the remuneration and evaluation committee according to relevant resolutions approved at shareholders' general meetings.

Directors are also responsible for supervising and preparing accounts for each fiscal period to ensure that such accounts truly and fairly reflect the Company's business conditions, results and cash flow performance during the period. The operational management of the Company should provide proper explanations and sufficient information to the Board so as to enable it to make an informed assessment of the financial information and other information submitted to it for approval. In preparing the accounts ended 31 December 2006, the Directors:

- selected and consistently applied the appropriate accounting policies; and
- made prudent and reasonable judgements and estimates and prepared the accounts on an ongoing concern basis.

The operational management of the Company is responsible for implementing decisions made by the Board and making its own decisions on the Company's business operation matters within the scope of delegation by the Board, including: carrying out the Company's production and operation management, organizing and implementing the Company's annual operation and investment plans, preparing the proposal of the Company's internal control structure, formulating the Company's basic management system and setting up the Company's basic regulations. Meanwhile, as requested by the Board, the operational management reports to the Board the conclusion of the Company's major contracts, status of the performance of the contract, use of capital and the Company's profit and loss conditions and ensures that such information is true and complete.

## Corporate Governance Report

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The Directors of the Company are subject to selection or replacement at shareholders' general meetings. Both the Board and the Supervisory Committee have the right to propose to the Shareholders' General Meetings for nomination or replacement of the Directors. In addition, shareholders who individually or jointly hold more than 5% of the total number of the Company's issued shares with voting rights may propose to the Shareholders' General Meeting for replacement of the Directors. Each Director has a term of office of three years. Upon expiry of his term, a Director may be re-elected for a successive term. A Director may also resign prior to the expiry of his current term.

The Company has formulated relevant rules in compliance with the Listing Rules and related regulations to remind the Directors that they shall perform their obligations, including making disclosures to regulatory authorities on a timely basis about their interests, potential conflicts of interests and changes in their personal information details, etc. Each Director also undertakes that he has sufficient energy and time to handle the Company's affairs.

In 2006, the fifth Board of the Company convened 3 meetings and the sixth Board of the Company convened 12 meetings to discuss the Company's operating results, overall strategies, investment schemes as well as operating and financial performance. The Directors took part in the meetings in person or by correspondence or proxy, and the attendance is detailed in the following table:

<b>The attendance of the fifth Board</b>					
	<b>Number of Meetings for the Year</b>	<b>Number of Attendance in Person</b>	<b>Number of Attendance by Correspondence</b>	<b>Number of Attendance by proxy</b>	<b>Attendance Rate for the Year</b>
<i>Executive Directors</i>					
Liu Cong Meng	3	3	0	0	100%
Li Zhen Hua	3	3	0	0	100%
Fang Zhi Guo	3	3	0	0	100%
Gu Chu Jun	3	0	0	0	0%
Yan You Song	3	0	0	0	0%
Zhang Hong	3	0	0	0	0%
<i>Independent</i>					
<i>Non-executive Director</i>					
Xu Xiao Lu	3	3	0	0	100%
Li Kung Man	3	3	0	0	100%
Chan Pei Cheong	0	0	0	0	N/A

## Corporate Governance Report

### The attendance of the sixth Board

	Number of Meetings for the Year	Number of Attendance in Person	Number of Attendance by Correspondence	Number of Attendance by proxy	Attendance Rate for the Year
<i>Executive Directors</i>					
Tang Ye Guo	12	12	0	0	100%
Yu Shu Min	12	8	2	0	83.33%
Lin Lan	12	9	2	0	91.67%
Xiao Jian Lin	12	12	0	0	100%
Zhang Ming (former director)	12	12	0	0	100%
Su Yu Tao (former director)	12	12	0	0	100%
<i>Independent</i>					
<i>Non-executive Director</i>					
Zhang Sheng Ping	12	12	0	0	100%
Lu Qing	12	11	1	0	100%
Cheung Yui Kai, Warren	12	10	2	0	100%

As at the date of this annual report, the Directors of the sixth Board of the Company confirmed that the following significant uncertainty will affect the operation and development of the Company:

- As at the date of this report, the Group has taken legal actions against Guangdong Greencool and its related companies (the "Greencool Companies") for damaging the interests of the Group, and has claimed compensation for the losses. However, as the Group is not completely aware of the assets and liabilities situation of the Greencool Companies, there are risks that such claims, even if awarded, may be unable to enforce. Therefore, the outcome of such claims may have a material impact on the assets of the Company.

#### (d) Chairman and President

The Chairman and president of the Company are appointed by the Board. The persons appointed as the Chairman and president of the Company during the period herein are as follows:

	12 August 2005 to 26 June 2006	26 June 2006 to the date of this Report
Chairman	Liu Cong Meng (Acting)	Tang Ye Guo
	16 September 2005 to 26 June 2006	26 June 2006 to 13 November 2006
		13 November 2006 to the date of this Report
President	Tang Ye Guo	Su Yu Tao Wang Shi Lei

The Chairman is responsible for presiding and convening general meetings and Board meetings, ensuring proper function of the Board and that the Board will review and discuss all the significant issues in a timely and effective manner, reviewing the results of implementation of the Board's resolutions as well as performing duties of the legal representative of the Company. The president is in charge of and responsible for the production, operation and management of the Company, organising resources for implementing the Board's resolutions, the Company's annual operation and investment plans and making decisions on other issues within the authorities granted to him by the Board.

## Corporate Governance Report

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### (e) Independent Non-Executive Directors

The sixth Board of the Company consists of three independent non-executive Directors, which account for one-third of the total number of Directors. The independent non-executive Directors of the fifth Board of the Company are in compliance with Rules 3.10 (1), (2) and 3.13 of the Listing Rules and are assumed by persons who are independent of any Directors, Supervisors, chief executives and substantial shareholders (as defined in the Listing Rules) or such individuals or corporate bodies without any connection thereto (the “independent third party”). The Company has received confirmation of independence from each of the independent non-executive Directors. The terms of office of all independent non-executive directors are from 26 June 2006 to 26 June 2009.

### (f) Remuneration and Evaluation Committee

The Company has established the Remuneration and Evaluation Committee of the sixth Board, the members of which consist of Mr. Tang Ye Guo and Ms. Yu Shu Min, being executive directors, and Mr. Zhang Sheng Ping, Mr. Lu Qing, and Mr. Cheung Yui Kai, Warren, being independent non-executive directors. Mr. Zhang Sheng Ping acts as the chairman of the Committee.

The main functions performed by the Remuneration and Evaluation Committee are set out below:

- (1) studying the standard for assessment of Directors and senior management of the Company, conducting the assessment and putting forward suggestions; studying and examining the remuneration policy and plan for the Directors and senior management of the Company;
- (2) carrying out the responsibility delegated from the Board, i.e. to determine the specific remuneration packages of all executive Directors and senior management of the Company, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations of the remuneration of independent non-executive Directors to the Board;

- (3) the Remuneration and Evaluation Committee should consider factors such as:

the salaries paid by comparable companies, the time commitment and responsibilities of the Directors, the employment conditions elsewhere in the Group and the desirability of performance-based remuneration;

reviewing and approving performance-based remuneration by reference to corporate goals and objectives passed by the Board from time to time;

reviewing and approving the compensation payable to executive Directors and senior management of the Company 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

reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with the relevant contractual terms.

The Remuneration and Evaluation Committee shall have access to professional advice if considered necessary.

The Directors and senior management of the Company cannot decide on their own remuneration.

The aim of remuneration policies adopted by the Remuneration and Evaluation Committee is to attract and retain Directors and senior management who faithfully and diligently discharge their duties and are loyal to their responsibilities and, accordingly, is extremely important to the Company.

The Remuneration and Evaluation Committee of the sixth Board of the Company held four meetings during the Reporting Period. All members of the Remuneration and Evaluation Committee attended the meeting in person, and the remuneration policy for the new senior management of the Company was determined at the meeting.

Details of the remuneration of the Directors and the senior management of the Company for the year ended 31 December 2006 are set out on page 15 of this annual report.

## Corporate Governance Report

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### (g) Director Nomination

The Company has not yet established a nomination committee.

The Board and the Supervisory Committee of the Company are both entitled to make proposals to the general meeting of the Company for the nomination of a candidate to be a Director or for the replacement of a Director.

Any shareholders holding or jointly holding 5% or more of the shares with voting rights issued by the Company to the public are entitled to propose to the general meeting for replacing a Director. When such shareholders want to nominate a director as a candidate, the maximum number of candidates that the shareholder can nominate will be determined by the ratio of one candidate for every 5% of such shares for (the balance, if less than 5%, it shall be ignored).

### (h) Auditors' Remuneration

In 2006, the Company appointed Shenzhen Dahua Tiancheng Certified Public Accountants and BDO McCabe Lo Limited as the Company's domestic and foreign auditors, respectively. Their remuneration was determined by the Board as authorised in the general meeting. The Company agreed to pay a total of approximately RMB4.8 million (The exchange rate of Hong Kong dollars against RMB is 1:1), for the remuneration of its domestic and foreign auditors for the provision of review and audit services on the financial statements for the six months ended 30 June 2006 and year ended 31 December 2006.

### (i) Audit Committee

The Board holds ultimate responsibility for the Company's internal control system. To achieve the best corporate governance practice, the Company has set up an Audit Committee to review the efficiency of the relevant systems.

The Audit Committee mainly performs the following duties under the delegation by the Board:

- 1 making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and dealing with any matter regarding the resignation or dismissal of such auditors;
- 2 reviewing and monitoring the external auditors' performance, taking responsibilities of the communication between the internal and external auditors of the Company;
- 3 developing and implementing policies on the engagement of auditors to supply non-audit services, and making recommendations to the Board on the related issues;
- 4 reviewing the financial information and other relevant information of the Company;
- 5 reviewing the financial reporting system, the internal control procedures and the related issues;
- 6 reviewing the effectiveness of the internal control procedures of the Company; and
- 7 reporting the uncertainties if there exists material uncertainties relating to events or conditions that may adversely affect the Company's ability to continue as a going concern.

The members of the sixth Audit Committee of the Company include independent non-executive directors Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren and Mr. Lu Qing is the chairman of the Committee.

In 2006, the Audit Committee of the sixth Board of the Company held two meetings. All members of the Audit Committee attended both meetings in person. All discussions and resolutions passed at the meetings were recorded in accordance with relevant rules and filed after being reviewed and signed by all members of the Audit Committee.

## Corporate Governance Report

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In 2006, the Audit Committee of the sixth Board of the Company accomplished the following tasks:

- 1 reviewing the annual and interim financial reports, together with the advices provided by the auditors and the responses of the senior management of the Company;
- 2 making recommendations on the Company's internal control and the Company's control over its subsidiaries;
- 3 reviewing the accounting policies adopted by the Group and the matters concerning accounting practice;
- 4 reviewing the connected transactions of the Company and ensuring that the connected transactions are in compliance with the principles of fairness, impartiality and transparency with sufficient protection of the minority shareholders; and
- 5 making recommendations on significant events of the Company and reminding senior management of the Company of the relevant risks.

### **Internal Control and Internal Audit**

The Company has established the internal control system for reviewing the Company's financial, operating and supervisory control procedures to protect shareholders' interests and the Company's assets. The Audit Committee is responsible for reviewing the effectiveness of the internal control systems.

The Company has established the internal audit department for implementing the internal control functions to inspect, monitor and assess the disclosure of financial information, operations and internal control activities of the Company and its subsidiaries on a regular basis and as needed, based on the potential risks and the importance of internal control systems for different businesses operations. In particular, the internal audit department of the Company will audit the financial income and expenses of the Company and its subsidiaries; review the financial control, sales and procurement operations and advertisements and give out advice; audit the core business of the Company's subsidiaries which have larger business volume, including inventory, accounts receivables, current accounts and expenses; and in addition audit and supervise the tendering activities of the Company and its subsidiaries. The internal audit department will make proposals to the operational management according to the audit findings.

The sixth Board of the Company reviewed the effectiveness of the internal control system of the Company during the Reporting Period, and during the review, the Board observed that the system has an ideal improvement as compared to last year. However, certain soft spots still exist. As such, the Company is currently establishing an appropriate internal control system based on the actual situations, and is preparing a comprehensive summary and explanation as to the goal, the details, the modes and the duties of the internal control system

### **(j) General Meeting**

As the highest authority of the Company, the general meeting exercises its rights under the laws to make decisions on significant events of the Company. The Company establishes and maintains different communication channels with its shareholders through the publication of annual reports, interim reports and press releases. In 2006, the Company convened an Annual General Meeting ("AGM") and an Extraordinary General Meeting ("EGM"). The shareholding held by shareholders who attended the AGM and the EGM represented 9.13% and 35.71%, respectively, of all the issued shares of the Company.

### **(k) Supervisory Committee**

The Supervisory Committee was established in accordance with the PRC laws. It independently performs its supervisory duties under the laws to protect the legal interests of shareholders, the Company and its staff. It also investigates the Company's finances as required by the articles of association of the Company, and supervises misconducts of the Directors and members of senior management of the Company who disobey laws or administrative regulations in performing their duties. The sixth Supervisory Committee of the Company is composed of two shareholders' representatives, namely Mr. Guo Qing Cun and Mr. Zhou Zhao Li and one staff representative of the Company, Mr. Liu Zhan Cheng, with Mr. Guo Qing Cun acting as the chairman of the committee. Details of the above-mentioned supervisors' biographies are set out on pages 17 to 18 of this annual report.

Details relating to the work performed by and the meetings convened by the Supervisory Committee of the Company in 2006 are set out in pages 41 to 42 of this Annual Report.