



Corporate Governance Report

INTRODUCTION

Maintaining high standards of business ethics and corporate governance practices has always been one of the Company's goals. This report describes its corporate governance practices, explains the applications of the principles of the Code on Corporate Governance (the "Code") as set out in Appendix 14 of the Listing Rules and deviations, if any.

CORPORATE GOVERNANCE PRACTICES

Save as disclosed in this report, the Company has complied with the provisions of the Code. The Company believes that by achieving high standard of corporate governance, the corporate value and accountability of the Company can be enhanced and the shareholders' interests can be maximised. The Directors acknowledge their responsibility for preparing the Company's accounts. The board of Directors has continued to monitor and review the Company's progress in respect of corporate governance practices to ensure compliance. Meetings were held throughout the year and where appropriate, circulars and other guidance notes were issued to directors and senior management of the Company to ensure awareness to issues regarding corporate governance practices.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exactly than the required standard in the Model Code as set out in Appendix 10 of the Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard in the Model Code and its code of conduct regarding Directors' securities transactions.

THE BOARD OF DIRECTORS

The Board of Directors (the "Board") comprises eight Directors, of whom four are executive Directors, one is non-executive Director and three are independent non-executive Directors. The names of the directors and their respective biographies are set out on pages 13 to 14 of this annual report.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Listing Rules 3.13 and the Company still considers all its independent non-executive Directors to be independent.

The Company has set out the respective functions and responsibilities reserved to the board of directors and those delegated to management. The Board delegates day-to-day operations of the Group to executive directors and senior management while reserving certain key matters for its approval. The Board is responsible for the approval and monitoring of the Company's overall strategies and policies; approval of business plans; evaluating the performance of the Company and oversight of management. Decisions of the Board are communicated to the management through executive Directors who have attended at Board meetings.

In the financial year ended 31 December 2006, 3 Board meetings were held and the following is an attendance record of the meetings by each Director:

Executive Directors	Attendance
Ms. Wang Feixue (<i>Chairman</i>)	3/3
Mr. Jin Jianlin	3/3
Mr. Yuan Juan	3/3
Ms. Hu Rong	3/3
Non-executive Director	
Mr. Zhang Suyang	2/3
Independent Non-executive Directors	
Mr. Hung Randy King Kuen	3/3
Mr. Chen Xiaohong	3/3
Mr. He Xingui	3/3

The Code provision A1.1 stipulated that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. However, during the financial year ended 31 December 2006, only 3 full Board meetings were held. Though Board meetings were not held quarterly in the financial year ended 31 December 2006, the executive Directors actively reported the performance and operations of the Company to the non-executive Director and the independent non-executive Directors through conference call and E-mail. The non-executive Director and the independent non-executive Directors were also proactive in providing their advices and opinions to the executive Directors. Such arrangement was considered sufficient to the Group's operation. In order to comply with the Code provision, the Board has scheduled 4 regular meetings for the financial year ended 31 December 2007.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Ms. Wang Feixue is the Chairman of the Company and is mainly responsible for the management of the Board. Mr. Jin Jianlin is the Chief Executive Officer of the Company and is responsible for the day-to-day management of the business.

NON-EXECUTIVE DIRECTOR

The non-executive Director, Mr. Zhang Suyang, was appointed for an initial term of not more than two years and will be renewable automatically for successive term of two years until terminated by not less than one month's notice in writing served by either party or the other.



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REMUNERATION COMMITTEE

The remuneration committee was established in 2005. The Chairman of the committee is Mr. Hung Randy King Kuen, (an independent non-executive Director) and other members include Mr. Yuan Juan (an executive Director) and Mr. He Xingui (an independent non-executive Director).

The remuneration committee is responsible for formulating and recommending the Board in relation to the remuneration policy, determining the remunerations of executive Directors and members of the senior management of the Company, and reviewing and making recommendations on the Company's share option scheme and other compensation-related issues. The remuneration committee consults with the Chairman and/or the Chief Executive Officer on its proposals and recommendations.

The remuneration committee is provided with resources enabling it to discharge its duties such as the access to professional advice if and when necessary. In 2006, the remuneration committee convened one meeting. Members and their attendance are as follows:

Member Name	Attendance	Attendance Rate
Mr. Hung Randy King Kuen	1	100%
Mr. Yuan Juan	1	100%
Mr. He Xingui	1	100%

NOMINATION OF DIRECTORS

The Board is empowered under the Company's Articles of Association to appoint any person as a director either to fill a casual vacancy on or, subject to authorization by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regards to the balance of skills and experience appropriate to the Group's business.

There was no nomination of directors during the year.

AUDIT COMMITTEE

The audit committee members comprise of Mr. Hung Randy King Kuen, Mr. Chen Xiaohong and Mr. He Xingui. All of the members of the audit committee are independent non-executive Directors. Mr. Hung Randy King Kuen, who has appropriate professional qualifications or accounting or related financial management expertise, is the chairman of the audit committee. No member of this committee is a member of the former or external auditors of the Company.

The primary responsibilities of the audit committee include overseeing the relationship with the Company's external auditors, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted a term of reference of the audit committee on which complies with the provisions of the Code.

Individual attendance of each audit committee member during the year is as follows:

Members	Attendance
Mr. Hung Randy King Kuen	2/2
Mr. Chen Xiaohong	2/2
Mr. He Xingui	2/2

The report on the work performed by the audit committee can be found on page 28 of this annual report.

AUDITORS' REMUNERATION

Annually since 2004, Deloitte Touche Tohmatsu has been appointed as the Group's external auditors by shareholders. During the year, the fees charged to the accounts of the Company and its subsidiaries for Deloitte Touche Tohmatsu's statutory audit services amounted to HKD980,000 (2005: HKD700,000).

INTERNAL CONTROLS

The Board is responsible for maintaining a sound and effective internal control system for the Company. The system includes a management structure with terms of reference to protect its assets from misappropriation, and ensures keeping appropriate accounting records so as to provide reliable financial information for internal use or for dissemination, as well as ensuring compliance with the laws and regulations. The system aims at providing reasonable (but not absolute) guarantees for the prevention of material untrue statements or losses, as well as management on the interruption of the Company's management system and risks existing in the course of arriving at the Company's objectives.

The Directors, through the audit committee and the engagement of an independent accounting firm, have conducted an annual review of the effectiveness of the internal control system of the Company and its subsidiaries for the year ended 31 December 2006. The review covers all material controls including financial, operational and compliance controls and risk management functions. The audit committee and the Board have discussed the relevant results of review, and agreed that internal control procedures and risk management systems have been implemented in the various major operation sectors.

INVESTOR RELATIONS

To foster effective communications, the Company provided all necessary information to the shareholders in its annual report, interim report and press releases. The Directors host the annual general meeting each year to meet the shareholders and answer to their enquiries. Directors of the Company make efforts to attend the annual general meetings so that they may answer any questions from the Company's shareholders.

The Directors, the company secretary or other appropriate members of senior management also respond to inquiries from shareholders and investors promptly.