

CORPORATE GOVERNANCE REPORT

COMMITMENT TO CORPORATE GOVERNANCE

The Company emphasizes on corporate governance and committed to maintaining high standard of corporate governance which is reviewed and strengthened from time to time. The Company has applied and complied with all the provisions under the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), except the deviation disclosed herein.

BOARD OF DIRECTORS

The board comprises eight directors, including four executive directors, namely Mr. Wang Zhiqiang, Mr. Wang Xubing, Dr. Shi Chongming and Mr. Siu Kwok Leung, one non-executive director Mr. Wang Nengguang, and three independent non-executive directors ("INED"), namely Mr. Lee Kit Wah, Professor Li Weian and Mr. Pang Chor Fu. All INEDs have complied with the requirements of the Listing Rules and have presented annual confirmations of independence issued pursuant to Rule 3.13 of the Listing Rules to the Company. The Directors consider that all the three INEDs are independent under these independence criteria and are capable to effectively exercise independent judgment.

The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations. Detailed biographies outlining each Director's range of specialist experience and suitability for the successful long-term management of the Group can be found in the Section of Directors Profile.

The principal functions of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organization of the Company for implementing the Board's decision. During the year, the Board has reviewed, inter alia, the performance and formulated business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31 December, 2005 and 30 June, 2006 respectively; approved the acquisitions of the Group; approved the subdivision of shares; reviewed and approved the grant of share option; reviewed the amendments to the articles of the Memorandum and Articles of the Company; reviewed internal controls taken by the Group, and other significant operational and financial matters.

CORPORATE GOVERNANCE REPORT

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Board held totally more than four (4) Board Meetings during the year under review. In the said Board Meetings, sufficient notices for regular board meetings and reasonable days for non-regular board meetings were given to all directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner. If necessary, Directors also have recourse to external professional advice at the Group's expense. During the intervals between Board meetings, Directors are kept apprised of all major changes that may affect the Group's business. The draft minutes of Board meetings are prepared by the secretary of the meetings and circulated to all Directors for comments within a reasonable time. The approved minutes of the Board meetings are maintained by the Company Secretary and available for inspection by all Directors at request.

The number of board meetings attended by each director during the year is set out in the following table.

Executive directors	Directors' attendance
Mr. Wang Zhiqiang (<i>Chairman & CEO</i>)	11/11
Mr. Wang Xubing (<i>President</i>)	8/11
Dr. Shi Chongming	9/11
Mr. Siu Kwok Leung	11/11
Non-executive director	
Mr. Wang Nengguang	9/11
Independent non-executive directors	
Mr. Lee Kit Wah	10/11
Professor Li Weian	10/11
Mr. Pang Chor Fu	9/11

NON-EXECUTIVE DIRECTORS

The Non-Executive Directors, together with the other directors of the Company are subject to retirement by rotation and re-election in accordance with the Company's Memorandum and Articles ("M&A") at each annual general meeting. They are expected to scrutinize the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of the board authority is within the powers conferred to the board under is M&A, by-laws and applicable laws, rules and regulations. All fees paid to non-executive Directors for their services to the Group are subject to annual review and approval by the Salary Review Committee.

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

For nomination, the Board will take into consideration of the nominee's qualifications, capabilities and potential to make contribution to the Company. The Board considers that the existing human resource policy in recruitment of new senior staff is also applicable to nomination of a new director. Furthermore, as the Board is responsible for selection and approval of candidates for appointment as directors to the Board, the Company has not established a nomination Committee for the time being.

In order to bring the Articles of Association in line with the Listing Rules, a special resolution was passed in 2006 annual general meeting which enabled the removal of directors by an ordinary resolution passed in a general meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code provision A.2.1 stipulated the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive officer ("CEO") should be clearly established and set out in writing.

The Company considers that the chairman is responsible for the operation of the board and the CEO is responsible for managing the operations of the Group, and the responsibilities are clearly set out in writing and approved by the Board. Mr. Wang Zhiqiang has been both the Chairman and Chief Executive Officer of the Company, which deviated from the provisions set out in the Code. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive Officer in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions and dealing (the Code of Conduct) by directors on terms no less exacting than the required standard set out in Appendix 10 to Listing Rule. Specific enquiry has been made to all directors of the Company who have confirmed their compliance with the Code of Conduct regarding securities transactions during the year.

ACCOUNTABILITY AND AUDIT

The directors acknowledge their responsibility for preparing the 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 saved the accounting treatment on an investment in subsidiary as detailed in the consolidated financial statements. Having made appropriate enquiries, the directors 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.

CORPORATE GOVERNANCE REPORT

The financial statements of the Company for the year ended 31 December 2006 have been reviewed by the Audit Committee and audited by the external auditors, Messrs. Deloitte Touche Tohmatsu. For the year ended 31 December 2006, the audit fee was approximately HK\$1,547,000 and the non-audit service fee was HK\$9,500 (For tax filing). The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Report of the Auditors".

SALARY REVIEW COMMITTEE

The Salary Review Committee comprising five members with a majority of INEDS, namely Mr. Pang Chor Fu, Professor Li Weian, and Mr. Lee Kit Wah, Mr. Wang Zhiqiang and Mr. Wang Nengguang and is chaired by Mr. Pang Chor Fu, which meets at least once a year.

The primary objectives of Salary Review Committee, inter alia, is to formulate the remuneration policy based on the responsibilities, qualifications and working performance of senior management and directors; review and recommend the Board the annual remuneration policy. The major objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

No Directors and executives can determine his own remuneration. During the year, the Salary Review Committee has held one meeting for review and approval of the remuneration policy of the Group. Minutes of Salary Review Committee Meeting are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meeting are sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

During the year, one meeting regarding the remuneration policy review was held, and details of the attendance of the meeting are as follows:-

	Directors' Attendance
Mr. Wang Zhiqiang (<i>Chairman & CEO</i>)	1/1
Mr. Wang Nengguang	1/1
Mr. Lee Kit Wah	1/1
Professor Li Weian	1/1
Mr. Pang Chor Fu	1/1

AUDIT COMMITTEE

The audit committee has three members comprising, namely Mr. Lee Kit Wah, Mr. Pang Chor Fu, and Professor Li Weian. All of them are independent Non-Executive Directors and none of them are members of the former or existing auditors of the Company. The audit committee held two meetings during the year which were chaired by Mr. Lee Kit Wah who is a qualified accountant. The Board considers the audit committee has extensive commercial experience in business, financial and legal matters. The primary duties of the Audit Committee include, inter alia, to review and monitor financial reporting and the judgements contained therein; and to review financial and internal controls, accounting policies and practices with management and external auditors.

CORPORATE GOVERNANCE REPORT

The Audit Committee has reviewed and discussed with the management the accounting principles and practice adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial statements of the Group for the financial year ended 31 December 2006 have been reviewed by the Audit Committee.

The Audit Committee held two meetings during the year, which were attended by the external auditors, Deloitte Touche Tohmatsu. Details of the attendance of the Audit Committee Meetings are as follows:–

	Directors' Attendance
Mr. Lee Kit Wah	2/2
Professor Li Weian	2/2
Mr. Pang Chor Fu	2/2

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. The management of the Group has reviewed the Group's internal control and risk management system for the year ended 31 December 2006 and had submitted the results of the review and its recommendations and opinions for consideration by the audit committee and the board.

INVESTOR RELATIONS

During the year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its mandatory interim and final reports, and timely distribution of press releases. The corporate website of the Company has provided an effective communication platform to keep the public abreast of its latest developments. Regular meetings and visits have been organised to enhance understanding of the institutional investors and analysts on Group's business and operations.

COMMUNICATION WITH SHAREHOLDERS

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The members of the Board are pleased to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue. Details of poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. The circular also includes relevant details of proposed resolutions.