

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is firmly committed to the overall standards of corporate governance and has always recognised the importance of accountability and communication with shareholders. The Company adopted all the code provisions of the Code on Corporate Governance Practices (the “Code”), as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), as its own code on corporate governance practices.

In the opinion of the directors, the Company has applied the principles in the Code through the adoption of the code provisions of the Code and has complied with the code provisions of the Code throughout the year ended 31 December 2006.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”) to regulate the directors’ securities transactions. Following specific enquiry by the Company, all directors have confirmed that they have complied with the Model Code regarding directors’ securities transactions during the year ended 31 December 2006.

BOARD OF DIRECTORS

As at the date of this Corporate Governance Report, the board of directors of the Company (the “Board”) comprises ten directors, namely, Mr Cheung Shuen Lung (Chairman), Professor Xiao Jian Guo (Deputy Chairman), Mr Liu Xiao Kun (President), Professor Wei Xin, Mr Zhang Zhao Dong, Mr Chen Geng and Mr Xie Ke Hai as executive directors, Dr Hu Hung Lick, Henry, Mr Li Fat Chung and Ms Wong Lam Kit Yee as independent non-executive directors. The biographical details of each director are disclosed on pages 17 to 18 of this Annual Report.

The Company has three independent non-executive directors, two of them are professional accountants, which is in compliance with the requirement of rule 3.10 of the Listing Rules. Each independent non-executive director has, pursuant to rule 3.13 of the Listing Rules, provided an annual confirmation of his/her independence to the Company and the Company also considers them to be independent. Save as disclosed herein, to the best of knowledge of the directors, there is no relationship (including financial, business, family or other material/ relevant relationship) among members of the Board.

The Board oversees the Group’s strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls the operating and financial performance in pursuit of the Group’s strategic objectives. Day-to-day management of the Group’s business is delegated to the management of the Company under the supervision of the executive directors. The functions and powers that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are the overall strategy of the Group, major acquisition and disposal, major capital investments, dividend policy, significant changes in accounting policies, material contracts, appointment and retirement of directors, remuneration policy and other major operational and financial matters. The Board members have access to appropriate business documents and information about the Group on a timely basis. All directors and Board committees have recourse



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to external legal counsel and other professionals for independent advice at the Group's expense upon their request. The Company has received acknowledgements from the directors of their responsibilities for preparing the financial statements and a statement by the external auditors of the Company about their reporting responsibilities.

The Board held four regular board meetings at approximately quarterly interval during the year ended 31 December 2006. Additional board meetings were held when necessary. Due notice and board papers were given to all directors prior to the meeting in accordance with the Listing Rules and the Code. The individual attendance of each director at the board meetings is as follows:

Name of director	Number of attendance/Number of meetings
<i>Executive Directors</i>	
Mr Cheung Shuen Lung	4/4
Professor Xiao Jian Guo	3/4
Professor Wei Xin	3/4
Mr Zhang Zhao Dong	4/4
Mr Xia Yang Jun	3/4
Mr Chen Geng	0/0
Mr Xie Ke Hai	0/0
<i>Independent Non-executive Directors</i>	
Dr Hu Hung Lick, Henry	0/4
Mr Li Fat Chung	2/4
Ms Wong Lam Kit Yee	2/4

There are also two board committees under the Board, which are the audit committee and the remuneration committee.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and the chief executive officer are segregated and are not exercised by the same individual. Mr Cheung Shuen Lung is the Chairman of the Board. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. Mr Liu Xiao Kun is the President of the Company, who acts as the chief executive officer of the Company. The President is responsible for the day-to-day management of the Group's business. Their respective role and responsibilities are set out in writing which have been approved by the Board.

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NON-EXECUTIVE DIRECTORS

There are currently three non-executive directors, all of them are independent. Each independent non-executive director has entered into a service agreement with the Company for a period of one year. Pursuant to the Bye-laws of the Company, one third of all the directors, including the non-executive directors, shall be subject to retirement by rotation at each annual general meeting.

REMUNERATION OF DIRECTORS

The Board has established a remuneration committee in 2005. As at the date of this Corporate Governance Report, the remuneration committee comprises Mr Cheung Shuen Lung (Chairman), Mr Li Fat Chung and Ms Wong Lam Kit Yee. The role and function of the remuneration committee include formulating the remuneration policy, determining the remuneration packages of all executive directors and senior management, making recommendations to the Board of the remuneration of non-executive directors, reviewing and approving performance-based remuneration, and ensuring that no director or any of his associates is involved in deciding his own remuneration. The terms of reference of the remuneration committee are available on the Company's website.

In 2006, the remuneration committee met once to review and discuss the remuneration policy for the directors of the Company and the remuneration packages of all directors of the Company. The individual attendance of the members of the remuneration committee at the meeting is as follows:

Name of member	Number of attendance/Number of meetings
Mr Cheung Shuen Lung (<i>Chairman</i>)	1/1
Mr Li Fat Chung	1/1
Ms Wong Lam Kit Yee	1/1

NOMINATION OF DIRECTORS

The Board has not established a nomination committee. The power to nominate or appoint additional directors is vested in the Board according to the Bye-laws of the Company, in addition to the power of the shareholders to nominate any person to become a director of the Company in accordance with the Bye-laws of the Company and all applicable laws.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the applicable laws and regulations. The nomination procedure basically follows Bye-laws 102(B) of the Bye-laws of the Company, which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The directors will select and evaluate the balance of skills, qualifications, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deem fit. The directors shall consider the candidate from a wide range of backgrounds, on his merits and against objective criteria set out by the Board and taking into consideration his time devoted to the position.



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During the year, appointment of Mr Chen Geng and Mr Xie Ke Hai as new directors was put to the full Board for approval and will be subject to re-election at the forthcoming annual general meeting. The individual attendance of each director at the board meeting is as follows:

Name of director	Number of attendance/Number of meetings
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Executive Directors

Mr Cheung Shuen Lung	1/1
Professor Xiao Jian Guo	1/1
Professor Wei Xin	1/1
Mr Zhang Zhao Dong	1/1
Mr Xia Yang Jun	1/1

Independent Non-executive Directors

Dr Hu Hung Lick, Henry	0/1
Mr Li Fat Chung	0/1
Ms Wong Lam Kit Yee	0/1

AUDITORS' REMUNERATION

The Company engaged Ernst & Young as the statutory auditors of the Company. The principal services provided by Ernst & Young in 2006 include the review of interim condensed consolidated financial statements of the Group, the audit of annual consolidated financial statements of the Group, and the audit of the financial statements of certain subsidiaries of the Group.

Apart from the above-mentioned audit services, associates of Ernst & Young were also engaged in providing taxation services and other advisory services to the Group.

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The remuneration in respect of audit and non-audit services provided by Ernst & Young and its associates to the Company in 2006 is summarised as follows:

	<i>HK\$'000</i>
Audit fees	3,095
Non-audit fees:	
Interim review service	590
Taxation services	77
Other advisory services	412
	<u>1,079</u>
Total	<u>4,174</u>

AUDIT COMMITTEE

The Company has established the audit committee since 1998, which is comprised solely of independent non-executive directors, namely, Mr Li Fat Chung (Chairman), Dr Hu Hung Lick, Henry, and Ms Wong Lam Kit Yee. A majority of the committee members possesses appropriate professional accounting and financial qualifications. The primary responsibilities of the audit committee include making recommendation to the Board on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, developing and implementing policy on the engagement of external auditors to supply non-audit services, monitoring the integrity of the financial statements and the reports of the Company, and overseeing the Company's financial reporting system and internal control procedures. The terms of reference of the audit committee are available on the Company's website.

In 2006, the audit committee met four times. In these meetings, the audit committee reviewed reports from the external auditors regarding their audit on annual financial statements, review on interim financial results and performance of agreed upon auditing procedures on connected transactions, discussed the internal control of the Group, and met with the external auditors. The individual attendance of the members of the audit committee at the meetings is as follows:

Name of member	Number of attendance/Number of meetings
Mr Li Fat Chung (<i>Chairman</i>)	4/4
Dr Hu Hung Lick, Henry	1/4
Ms Wong Lam Kit Yee	4/4



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INTERNAL CONTROL

The Board has the ultimate responsibility to maintain a sound and effective internal control system for the Group to safeguard the shareholders' investment and the Group's assets and to ensure strict compliance with relevant laws, rules and regulations. The Audit Committee is responsible for reviewing the effectiveness of the internal control system and reporting to the Board.

During the year, the Company has engaged the external auditors, Shinewing (HK) CPA Limited, to carry out an overview on the effectiveness of the internal control system of the Group. The review covers all material controls, including financial, operational and compliance controls and risk management functions of the Group. No material internal control aspects of any significant problems were noted. Both of the Audit Committee and the Board were satisfied that the internal control system of the Group has been functioned effectively during the review year.

ON BEHALF OF THE BOARD

Cheung Shuen Lung

Chairman

Hong Kong

20 April 2007