

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

Having established a good, credible and dynamic foundation for corporate governance practices in the Company since 2005, the Company ensures the transparency and protection of shareholders' interest, as well as the stakeholders' interests.

The Company has adopted all the code provisions as set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Listing Rules as its own code on corporate governance practices since 2005.

The Company understood the importance on the sound corporate governance practices and recognized the changing regulatory environment. Therefore, the theme of the corporate governance practices in the Company is an evolving process, from implementing the existing Code, evaluating the effectiveness of the Code, and responding to the rapid changes and continuous development in our corporate governance practices, if necessary.

STATEMENT OF COMPLIANCE

The Company complied with the code provisions as set out in the Code during the year ended 31 December 2006 except that the members of the independent board committee were unable to attend the special general meeting of the Company held on 10 April 2006 due to other business commitment at that time. This does not comply fully with code provision E.1.2 of the Code which provides that the chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a transaction that is subject to independent shareholders' approval.

BOARD OF DIRECTORS

Composition

At the date of this report, the Board comprises 7 members (each member of the Board, a "Director"). Mr. Ou Yaping acts as Chairman of the Board, whereas Mr. Tang Yui Man Francis acts as Chief Executive Officer of the Company. Other executive Directors are Messrs. Chen Wei and Law Sze Lai. The Company has three independent non-executive Directors, Messrs. Davin A. Mackenzie, Tian Jin and Xin Luo Lin, and all independent non-executive Directors possess appropriate professional accounting experience and expertise.

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are disclosed on pages 14 to 15 of this annual report.

Each of the independent non-executive Director has confirmed, in accordance with Rule 3.13 of the Listing Rules that he is independent of the Company and the Company also considers that they are independent.

There is no relationship (including financial, business, family or other material relationship) between any members of the Board.

Pursuant to the Bye-laws, the Directors shall hold office subject to retirement by rotation at the annual general meeting of the Company at least once every three years and are eligible for re-election.



CORPORATE GOVERNANCE REPORT

The term of office of each independent non-executive Director is for a period of 1 year from 1 January 2007 to 31 December 2007 subject to retirement by rotation, except for Mr. Tian Jin, who was appointed in May 2005, whose term of office is for a period of 2 years from 18 May 2005 to 17 May 2007.

Function

The Board, headed by the Chairman, is responsible for formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management.

The executive Directors are responsible for day-to-day management of the Company's operations. The executive Directors conduct meetings with the senior management of the Group, at which operational issues and financial performance are evaluated.

The Company considers that internal controls system and risk management function are essential, and the Board plays an important role in implementing and monitoring internal financial control and risk management.

Matters specifically decided by the Board and those reserved for the management are reviewed by the Board on a periodic basis.

There are established procedures to enable Directors to seek independent professional advice in appropriate circumstances at the Company's expenses.

The Bye-laws states responsibilities and operational procedures of the Board. The Board meets regularly at least four times a year considers operational reports of the Company and policies. Significant operational policies have to be discussed and passed by the Board.

During the year 2006, the Board held 4 regular Board meetings (within the meanings of the Code) at approximately quarterly intervals and 24 board meetings convened as necessary. Due notice and Board papers were given to all Directors prior to each meeting in accordance with the Bye-laws and the Code. Details of individual attendance of Directors are set out below:

	No. of meetings attended
<i>Executive Directors</i>	
Ou Yaping (<i>Chairman</i>)	28
Tang Yui Man Francis (<i>Chief Executive Officer</i>)	28
Chen Wei	9
Law Sze Lai	7
<i>Independent Non-executive Directors</i>	
Davin A. Mackenzie	7
Tian Jin	6
Xin Luo Lin	6

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

The role of the Chairman, Mr. Ou Yaping, remains separate from that of the Chief Executive Officer, Mr. Tang Yui Man Francis. Such division of responsibilities allows a balance of power between the Board and the management of the Group, and ensures the independence and accountability of each.

The Chairman provides leadership for the Board and oversees the Board so that its acts in the best interests of the Group. The Chairman is responsible for deciding the agenda of each Board meeting, taking into account matters proposed by other Directors. The Chairman has overall responsibility for providing leadership, vision and direction regarding business development.

The Chief Executive Officer, assisted by other executive Directors, is responsible for the day-to-day business management and operations of the Group for formulating and successfully implementing policies and for maintaining an effective executive support team. The Chief Executive Office is accountable to the Board for keeping the Chairman and all Directors fully informed of all major business developments and issues.

Responsibilities

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- attending regular board meetings focusing on business strategy, operational issues and financial performance;
- active participation on the boards of subsidiaries and associated companies;
- approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of senior management, Board and shareholders;
- consideration of misuse of corporate assets and abuse in related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to meet their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.



CORPORATE GOVERNANCE REPORT

Board Committees

A number of committees of the Board, including the Audit Committee and Remuneration Committee, have been set up by the Company, with specific terms of reference relating to authority and duties, to strengthen the Board's functions and enhance its expertise.

Remuneration Committee

The Remuneration Committee comprised of one executive Director, Mr. Ou Yaping and two independent non-executive Directors, Messrs. Davin A. Mackenzie and Xin Luo Lin and is chaired by Mr. Xin Luo Lin.

The terms of reference of the Remuneration Committee compiled with the Code.

The Remuneration Committee's responsibilities include the review and consideration of the Company's remuneration policy for Directors and senior management, the determination of remuneration packages for executive Directors and senior management including benefits in kind, pension rights and compensation payments, and recommendations relating to remuneration of non-executive Directors.

During the year 2006, the Remuneration Committee:

- reviewed the remuneration policy for 2006/2007;
- reviewed the remuneration of the executive Directors and the independent non-executive Directors; and
- reviewed the annual share option policy.

The Remuneration Committee held 1 meeting during 2006 with individual attendance as follows:

	No. of meetings attended
<i>Members of Remuneration Committee</i>	
Ou Yaping	1
Davin A. Mackenzie	1
Xin Luo Lin (<i>Chairman of the committee</i>)	1

The Group recognises the importance of high caliber and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Other various benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the approved share option scheme adopted by the Group.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Audit Committee comprised three independent non-executive Directors, namely Messrs. Davin A. Mackenzie, Tian Jin and Xin Luo Lin and is chaired by Mr. Xin Luo Lin.

The Audit Committee reports directly to the Board and reviews financial statements and internal controls, to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditors to discuss accounting issues, and reviews effectiveness of internal controls and risk evaluation. Written terms of reference, which describe the authority and duties of the Audit Committee are regularly reviewed and updated by the Board.

During the year 2006, the Audit Committee:

- reviewed the financial statements for the year ended 31 December 2005 and for the six months ended 30 June 2006;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditors' findings; and
- reviewed and approved remuneration of auditors for 2006.

The Audit Committee held 2 meetings during the year 2006 with individual attendance as follows:

<i>Members of Audit Committee</i>	No. of meetings attended
Davin A. Mackenzie	2
Tian Jin	2
Xin Luo Lin (<i>Chairman of the committee</i>)	2

Nomination of Directors

The Board has not established a nomination committee. According to the Bye-laws, the Board has the power 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. In assessing nomination of new Directors, the Board taking into account a nominee's qualifications, ability and potential contribution to the Company. Therefore, nomination will be made by the members of the Board based on the need of the Company and the expertise and the experience of individual candidate.

As there was no change in composition of the Board during the year 2006, no meeting was held for the aforesaid purpose during the year 2006.



CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that in respect of the year ended 31 December 2006, all Directors have complied with the required standard set out in the Model Code.

The Company also has written guidelines regarding securities transactions on terms no less exacting than the required standard set out in the Model Code for senior management and any individuals who may have access to price-sensitive information in relation to the securities of the Company.

EXTERNAL AUDITOR

The external auditor of the Company is Deloitte Touche Tohmatsu ("Deloitte"). Deloitte provided professional services in respect of the audit of Company's consolidated financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs") for the year ended 31 December 2006. Deloitte also reviewed the 2006 unaudited interim financial report of the Company, prepared under HKFRSs.

Fees charged by Deloitte in respect of audit services for the year 2006 amounted to HK\$1,400,000. Non-audit services fees charged by Deloitte are as follows:

	Fee HK\$'000
<i>Description of services performed</i>	
Review of the interim financial report of the Company for the six months ended 30 June 2006	320
Other services	<u>770</u>
Total	<u><u>1,090</u></u>

INTERNAL CONTROL

The Company places great importance on internal control and risk management. The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Group. The review covered all material controls, including financial, operational and compliance controls and risk management functions. Based on the results of the review, the Group would take steps to further enhance the effectiveness of the internal control system.

CORPORATE GOVERNANCE REPORT

GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

SHAREHOLDERS COMMUNICATION

Shareholders are provided with detailed information about the Company so that they can exercise their rights in an informed manner.

The Company uses a range of communication tools, such as the annual general meeting, the annual report, various notices, announcements and circulars, to ensure its shareholders are kept well informed of key business imperatives. Procedures for demanding a poll are included in all circulars and the notice convening the annual general meeting and are also read out by the chairman at the general meeting.

At the 2006 Annual General Meeting, a resolution was proposed by the Chairman in respect of each separate issue itemized on the agenda, including re-election of Directors. At the special general meeting held on 10 April 2006 ("2006 SGM"), a resolution was proposed by a shareholder for the purpose of the refreshment of general mandate. The Chairman of the Board and certain members of all committees attended the 2006 Annual General Meeting and answered questions from shareholders. The Chairman of the Board attended 2006 SGM and answered questions from shareholders whereas the independent board members were unable to attend the 2006 SGM due to other business commitment at that time.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the financial statements which give a true and fair view of the state of affairs of the Group and of the profit and cash flows of the Group for the year. The statement of the Auditors regarding their reporting responsibility for the financial statements is set out in the Independent Auditor's Report on page 37.