

# REPORT ON CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance that properly protect and promote the interests of all the shareholders and to enhance corporate value and accountability.

The Company wishes to highlight the importance of its Board of Directors (“Board”) in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

During year 2006, the Company devoted significant time and effort to identify and formulate corporate governance practices appropriate to the Company’s needs. The Company’s corporate governance practices are set out in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Stock Exchange”).

Throughout the year, the Company has complied with most of the CG Code with certain deviations as follows:

- (i) During the year, 14 board meetings were held, 14 days notices were given to 2 board meetings and all directors agreed to waive or to be given a shorter notice on other board meetings;
- (ii) Currently, under S 87(1) of the Company’s bye-laws, the Chairman and the Chief Executive Officers are not subject to retirement. A special resolution is to be proposed in the forthcoming shareholders’ meeting to amend the bye-laws of the Company, so that all directors are subject to re-election at regular intervals. In the spirit of good corporate governance practices, both the Chairman and the Chief Executive Officer of the Company have retired and offer themselves for re-election in the last annual general meeting of the Company notwithstanding that they are not required to do so by the bye-law.

## A. BOARD OF DIRECTORS

### Board

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company’s affairs. The Board focuses on overall corporate strategies and policies with attention particularly paid to the growth and financial performance of the Group.

The Board has determined that certain matter such as strategic planning; significant transactions; and budget should be retained for the Board’s approval. It has formalized the functions reserved to the Board to achieve a clear division of the responsibilities of the Board and the management. The Board delegated its responsibilities to the senior management to deal with day-to-day operations and review those arrangements on a periodic basis. Management has frequently reported back to the Board and obtained prior approval before making decisions for key matters or entering into any commitments on behalf of the Company.

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In order to maximize the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established audit committee, nomination committee and remuneration committee with specific written terms of reference to assist in the execution of their duties. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time, as are the committees' structure, duties and memberships.

The Company Secretary and the Qualified Accountant shall, as far as possible, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Group's compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations etc.

The Company gives all directors the opportunities to include matters to be discussed in the agenda of the Board/committee meetings. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda.

The Board meets regularly and at least four board meetings are scheduled annually at approximately quarterly intervals. Ad-hoc meetings are convened when it considers necessary. During the year, 14 board meetings were held, 14 days notices were given to 2 board meetings and all directors agreed to waive or to be given a shorter notice on other board meetings. Even though directors often stay/travel in different time zones, they make themselves available via teleconferencing mechanisms.

The Board/committee meetings minutes are recorded in details for the matters considered by the participants of such meetings and decisions reached, including concerns raised by directors or dissenting views expressed. The meeting minutes are circulated to relevant directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities on timely basis. The directors, to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

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In case a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a Board/committee meeting and the interested shareholder or director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. Independent non-executive directors who and their associates, have no material interest in the transaction, should be present at such a board meeting.

The Board currently comprises of four executive directors, one non-executive director and three Independent non-executive directors.

## **Name**

### *Executive Directors*

Yung Yeung (*Chairman*)

Chunhua Huang (*Deputy Chairman*)

Jun Li (*Chief Executive Officer*)

Yuwen Sun

Wing Tak Law (*resigned on 28 February 2007*)

### *Non-Executive Director*

Chizuko Kubo (*re-designated as non-executive director on 21 April 2006*)

### *Independent Non-Executive Directors*

Bangjie He

Peisheng Hu (*appointed on 9 November 2006*)

Wai Tak Cheung (*appointed on 24 April 2007*)

Ho Yip Lee (*resigned on 31 March 2007*)

Jian Wang (*resigned on 9 November 2006*)

Currently, under S87(1) of the Company's bye-laws, the Chairman and the Chief Executive Officers are not subject to retirement. A special resolution is to be proposed in the forthcoming shareholders' meeting to amend the bye-laws of the Company, so that all directors are subject to re-election at regular intervals.

Mr. Bangjie He will retire by rotation in accordance with clause 87(1) and (2) of the bye-laws of the Company will retire at the forthcoming annual general meeting of the Company and, being eligible, will offer himself for re-election.

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Mr. Wai Tak Cheung and Mr. Peisheng Hu, being Directors appointed by the Board pursuant to clause 86(2) of the bye-laws of the Company, will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The skills and expertise among the existing directors are well-balance with a mixture of core competencies in areas such as accounting and finance, legal, business and management, marketing strategies, business development, and scientific backgrounds.

The independent non-executive directors (the "INEDs") meet the requirements of independence under the Listing Rules so that there is sufficient element of independence in the Board to exercise independent judgments. The Board considers that all of the INEDs are independent and the confirmation of independence has been obtained from each of them as required by the Listing Rules.

The INEDs have the same duties of care and skill and fiduciary duties as the executive directors. The functions of INEDs include, but not limited to:

- Participating in Board meetings to bring an independent judgment to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- Taking the lead where potential conflicts of interests arise;
- Serving and active participating on committees, if invited;
- Attending general meetings of the Company and developing a balanced understanding of the views of shareholders; and
- Scrutinizing the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of performance.

## **Chairman, Deputy Chairman and Chief Executive Officer**

The Chairman of the Company is Mr. Yung Yeung, the Deputy Chairman is Mr. Chunhua Huang, and the CEO is Mr. Jun Li. The positions of the Chairman, Deputy Chairman, and CEO are held by separate individuals with a view to maintain an effective segregation of duties between management of the Board and the day-to-day management of the Group's business.

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Mr. Yung Yeung as the Chairman of the Company provides leadership to the Board so that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner.

Mr. Chunhua Huang as the Deputy Chairman assists the Chairman of the Company to carry out above duties.

Mr. Jun Li as CEO has executive responsibilities over the business directions and operational decisions of the management and performance of the Group.

The Chairman also seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

## **Appointment, Re-election and Removal**

It is the Board's responsibility to appoint new directors. The Board reviews the profiles of the candidates and makes recommendations on the appointment, re-election and retirement of directors.

All board directors will retire by rotation once every three years as required by the CG Code. Each director is briefed and updated to ensure that he has a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities of the latest changes under statute and common law, the Listing Rules, Companies Ordinance, Securities and Futures Ordinance, applicable legal and other regulatory requirements and the governance policies of the Company.

The INEDs are appointed for a specified terms and are subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with the Company's Bye-Laws. Every director shall ensure that he can contribute sufficient time and effort to the corporate affairs of the Company once he accepts the appointment.

## **Committees**

The Board has established Audit Committee ("AC"), Nomination Committee ("NC") and Remuneration Committee ("RC") with terms of reference to enable such committees to discharge their functions properly.

### **Nomination Committee**

The Company has a Nomination Committee to ensure that fair and transparent procedures for the appointment, re-election and removal of directors to the Board. The Nomination Committee is comprised of Mr. Bangjie He, Mr. Peisheng Hu (appointed on 9 November 2006), and Mr. Jian Wang (resigned on 9 November 2006), all are Independent Non-executive Directors and the chairman of the Nomination Committee is Mr. Yeung Yung.

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The Nomination Committee had met once during the year ended 31 December 2006, which were attended by Mr. Yeung Yung and Mr. Bangjie He. The Nomination Committee made recommendation to the Board to appoint Mr. Peisheng Hu as independent non-executive director and a member of Audit Committee.

## **Remuneration Committee**

The Company has set up the Remuneration Committee ensuring that there are formal and transparent procedures for setting policies on the remuneration of the Directors and senior management. The Remuneration Committee is comprised of two Independent non-executive directors, Mr. Bangjie He, Mr. Peisheng Hu (appointed on 9 November 2006), and the chairman of the Remuneration Committee is Mr. Yeung Yung. Mr. Jian Wang, an independent non-executive director, is the member of Remuneration Committee up to his resignation on 9 November 2006. One meeting was held and attended by Mr. Bangjie He, Mr. Jian Wang and Mr. Yeung Yung during the year ended 31 December 2006.

The terms of reference of the Remuneration Committee are consistent with the terms set out in the Code. No Director is involved in deciding his own remuneration.

## **Audit Committee**

The Company established an Audit Committee with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The terms of the Audit Committee are consistent with the terms set up in the Code.

The Audit Committee comprises all three Independent non-executive directors, and the chairman of the Audit Committee, Mr. Lee Ho Yip possesses a professional accountancy qualification and has substantial experience in accounting and financial matters. Mr. Wai Tak Cheung assumed this position after Mr. Lee Ho Yip's resignation on 31 March 2007.

The principle duties of the Audit Committee include the review and supervision of the Group's financial reporting system, financial statements and internal control procedures. It also acts as an important link between the Board and the Company's auditors in matters concerning the Group's audit.

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Two meetings were held during the year ended 31 December 2006. The individual attendance of each member is set out below:

<b>Name of Member</b>	<b>No. of committee meetings attended</b>
Bangjie HE	1/2
Ho Yip LEE ( <i>resigned on 31 March 2007</i> )	2/2
Jian WANG ( <i>resigned on 9 November 2006</i> )	2/2
Peisheng HU ( <i>appointed on 9 November 2006</i> )	0/2*
Wai Tak CHEUNG ( <i>appointed on 24 April 2007</i> )	N/A

\* No meeting was held since Mr. Peisheng Hu was appointed on 9 November 2006.

The AC met two times during the year 2006 and performed the following work:

- Reviewed and discussed with management and the external auditors regarding the financial statements for the year ended 31 December 2005,
- Reviewed with management the un-audited interim financial statement for the six months ended 30 June 2006; and
- Recommended to the Board, for the approval by shareholders, of the re-appointment of the external auditors.

The Company Secretary keeps the minutes of AC. Draft and final versions of minutes have been sent to all members of the AC within a reasonable time after the meeting for their comments and records respectively. The term of reference of the AC is available from the Company Secretary on request.

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## Board and Committee Attendance

Details of the attendance of individual director at Board meetings and committee meetings during the year 2006 are set out below:

Executive Directors	Number of board meetings attended
Yung YEUNG	11/14
Chunhua HUANG	13/14
Jun LI	12/14
Yuwen SUN	13/14
Wing Tak Jack LAW ( <i>resigned on 28 February 2007</i> )	14/14

## Non-Executive and Independent Directors

Chizuko KUBO ( <i>re-designated as non-executive director on 21 April 2006</i> )	6/14
Bangjie HE	11/14
Ho Yip LEE ( <i>resigned on 31 March 2007</i> )	9/14
Jian WANG ( <i>resigned on 9 November 2006</i> )	8/14*
Peisheng HU ( <i>appointed on 9 November 2006</i> )	2/14#
Wai Tak CHEUNG ( <i>appointed on 24 April 2007</i> )	N/A

\* Mr. Wang Jian resigned on 9 November 2006 and was only entitled to attend eleven board meetings.

# Three meetings were held since Mr. Peisheng Hu was appointed on 9 November 2006.

## Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions (the "Model Code"). Having made specific enquiry of all directors, they have confirmed that they have fully complied with the required standards set out in the Model Code throughout the year ended 31 December 2006.

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## B. ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on pages 33 to 35 of this annual report.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavors to ensure a balanced, clear and understandable assessment of the Group's position and prospects to extend the Group's financial reporting including annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements and application accounting standards.

### Internal Controls

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The directors conducted annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls, and risk management functions.

The Group maintains a centralized cash management system for the Group's treasury function to oversee the Group's investment, lending and borrowing activities.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment.

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## Auditors' Remuneration

During the year under review, the remuneration paid/payable to the Group's external auditors, Messrs. Grant Thornton is set out as follows:

2006 Audit fee paid/payable	HK\$1,100,000
Accountant fee and taxation services	HK\$131,000

## C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, press announcements and circulars made through the Company's and Stock Exchange's websites.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

Details of the poll voting procedures and rights of shareholders to demand a poll are included in circular convening a general meeting dispatching to the shareholders of the Company. The Chairman of the meeting should ensure compliance with the voting by poll requirement.

The Company should count all proxy votes, and except where a poll is required, the Chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company should ensure that votes cast are properly counted and records.

The Chairman of the meeting should at the commencement of the meeting ensure that an explanation is provided of (1) the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and (2) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.