

The Group recognizes the importance of achieving and monitoring the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders and its fully committed to doing so. It is also with these objectives in mind that the Group has applied the principles of the Code of Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

In the opinion of the directors of the Company (the “Directors”), the Company has met with the code provisions set out in the CG Code.

## Board of Directors

The board of Directors (the “Board”) comprises two Executive Directors, being Mr. Zhang Chunting and Mr. Deng Rongjun, three Non-Executive Directors, being Mr. Zhang Yaping, Mr. Xiong Guangyang and Mrs. Ho Lam Lai Ping Theresa, and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat.

The Board is responsible for the leadership and control of the Company and oversees the Group’s businesses, strategic decisions and performances. The Management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the Management include the preparation of interim and annual reports and announcements for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

Four board meetings were held during the financial year ended 31 December 2006. The attendances of the Directors at the Board meetings are as follows:

<b>Directors</b>	<b>Number of Attendance</b>
Zhang Chunting	3/4
Deng Rongjun	4/4
Zhang Yaping ( <i>appointed on 9 January 2007</i> )	N/A
Xiong Guangyang	3/4
Ho Lam Lai Ping Theresa	4/4
Fung Lak	4/4
Choi Kam Fai Thomas	4/4
Chan Cheong Tat ( <i>appointed on 22 March 2006</i> )	4/4

The Company has received confirmation of independence from the three Independent Non-Executive Directors, namely Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat, in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

## Board of Directors (Continued)

The Board members do not have any financial, business, family or other material/relevant relationships with each other. Such balanced board composition ensures that strong independence exists across the Board. The biographies of the Directors are set out in pages 8 and 9 of this annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

## Chairman and Managing Director

The Chairman of the Board is Mr. Zhang Chunting and the Managing Director is Mr. Deng Rongjun. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Zhang Chunting as the Chairman has executive responsibilities, provides leadership to the Board and ensures the proper and effective functioning of the Board in the discharge of its responsibilities. Mr. Deng Rongjun as the Managing Director is accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations.

## Non-executive Directors

All Directors, including Non-Executive Directors, appointed to fill a causal vacancy or as an addition to the existing Board, shall hold office only until the first general meeting after his appointment and shall then be eligible for re-election. Moreover, each Non-Executive Director will hold office for a specific term expiring on the earlier of either (i) the conclusion of the annual general meeting of the Company in the year of the third anniversary of the appointment or re-election of that Director or (ii) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election of that Director and in any event, subject to earlier determination in accordance with the Articles of Association of the Company and/or applicable laws and regulations.

## Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. All Directors have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the year.

## Remuneration of Directors

The Company established a remuneration committee (the "Remuneration Committee") in June 2005. The authorities and duties of the Remuneration Committee are as follows:

### Authority

1. The Remuneration Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Remuneration Committee; and
2. The Remuneration Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

## Remuneration of Directors (Continued)

### Duties

1. To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
2. To have the delegated responsibilities to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. Factors which should be taken into consideration include but are not limited to salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;
3. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
4. To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
5. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
6. To make recommendations to the Board on the remuneration of non-executive directors;
7. To ensure that no director or any of his associates is involved in deciding his own remuneration;
8. To consult the chairman and/or the managing director about their proposals relating to the remuneration of executive directors and senior management and have access to professional advice if considered necessary; and
9. To consider other topics as defined by the Board.

The Remuneration Committee comprises one Executive Director, being Mr. Zhang Chunting and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat. Mr. Zhang Chunting is the Chairman of the Remuneration Committee.

## Remuneration of Directors (Continued)

During the financial year ended 31 December 2006, the Remuneration Committee held one meeting to review the annual remuneration package for the Executive Directors and senior management of the Company and approve the 2005 performance bonuses for the senior management of the Company. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	Number of Attendance
Zhang Chunting	0/1
Fung Lak	1/1
Choi Kam Fai Thomas	1/1
Chan Cheong Tat ( <i>appointed on 22 March 2006</i> )	1/1

Details of the amount of Directors' emoluments are set out in note 8 to the financial statements.

## Nomination of Directors

The Company established a nomination committee (the "Nomination Committee") in June 2005. The authorities and duties of the Nomination Committee are as follows:

### Authority

1. The Nomination Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Nomination Committee; and
2. The Nomination Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

### Duties

1. To review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
2. To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;
3. To assess the independence of independent non-executive directors;
4. To make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the managing director; and
5. To consider other topics as defined by the Board.

## Nomination of Directors (Continued)

The Nomination Committee comprises one Executive Director, being Mr. Zhang Chunting and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat. Mr. Zhang Chunting is the Chairman of the Nomination Committee.

The Nomination Committee identified suitable individual qualified to become Board members and makes recommendation to the Board on relevant matters relating to the appointment or reappointment of directors if necessary, in particular, candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of strong and diverse Board.

During the financial year ended 31 December 2006, the Nomination Committee held one meeting to review the structure, size and composition of the Board and to recommend to the Board the proposed re-election of Mr. Deng Rongjun, Mr. Xiong Guangyang and Mr. Chan Cheong Tat as Directors at 2006 Annual General Meeting of the Company. The attendance of each member of the Nomination Committee is set out as follows:

Directors	Number of Attendance
Zhang Chunting	1/1
Fung Lak	1/1
Choi Kam Fai Thomas	1/1
Chan Cheong Tat ( <i>appointed on 22 March 2006</i> )	1/1

## Audit Committee

An audit committee of the Company (the "Audit Committee") was established in September 1998. The authorities and duties of the Audit Committee are as follows:

### Authority

1. The Audit Committee is authorized by the Board to investigate activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee; and
2. The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

### Duties

1. to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

## Audit Committee (Continued)

### Duties (Continued)

2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
3. to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
4. to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and , if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee should focus particularly on:
  - i. any changes in accounting policies and practices;
  - ii. major judgmental areas;
  - iii. significant adjustments resulting from audit;
  - iv. the going concern assumptions and any qualifications;
  - v. compliance with accounting standards; and
  - vi. compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting.
5. In regard to (4) above:
  - i. members of the Audit Committee must liaise with the Company's Board, senior management and the person appointed as the Company's qualified accountant and the Audit Committee must meet, at least once a year, with the Company's auditors; and
  - ii. the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors.
6. to review the Company's financial controls, internal controls and risk management systems;

## Audit Committee (Continued)

### Duties (Continued)

7. to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
8. to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
9. where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
10. to review the group's financial and accounting policies and practices;
11. to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of controls and management's response;
12. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
13. to report to the Board on the matters set out in the terms of reference of the Audit Committee; and
14. to consider other topics, as defined by the Board.

The Audit Committee comprises the three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat who all possess the required experience and knowledge in the accounting profession. Mr. Fung Lak is the Chairman of the Audit Committee.

During the financial year ended 31 December 2006, the Audit Committee held three meetings to review the 2005 annual results and the 2006 interim results of the Company before their submission to the Board and to review the scope of the audit of the external auditors and to approve their fees. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's financial results. The Audit Committee has also met the external auditors during the financial year ended 31 December 2006 to discuss any areas of concerns without the presence of the management. The attendance of each member of the Audit Committee is set out as follows:

Directors	Number of Attendance
Fung Lak	3/3
Choi Kam Fai Thomas	3/3
Chan Cheong Tat ( <i>appointed on 22 March 2006</i> )	3/3



## Auditors' Remuneration

During the year under review, the remuneration paid/payable to the Company's auditors, Messrs Ernst & Young, is set out as follows:

<b>Services rendered</b>	<b>Fee paid/payable</b> <i>HK\$'000</i>
Audit of Final Results	990,000
Review of Interim Results	210,000

## Accountability and Audit

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2006, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that financial year. In preparing the financial statements for the year ended 31 December 2006, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements and, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on the going concern basis.

The Company aims at presenting a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The annual and interim results of the Company are announced in a timely manner within the limit of 4 months and 3 months respectively after the end of the relevant periods in accordance with the Listing Rules.

## Internal Controls

The Board is responsible for the Group's system of internal controls and its effectiveness. The internal control system has been designed to mitigate the Group's risk exposure; to facilitate the effectiveness and efficiency of operations; to safeguard the assets against loss and misappropriation; to maintain proper accounting records for producing reliable financial information and ensuring compliance with applicable laws and regulations.

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.



**Internal Controls (Continued)**

The internal control system of the Group comprises a well-established organisational structure and comprehensive policies and standards. The Board has clearly defined the authorities and key responsibilities of each operational unit to ensure adequate checks and balances. The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

The Audit Committee is established to, *inter alia*, review internal control issues identified by the Internal Audit Department, external auditors, regulatory authorities and management, and evaluate the adequacy and effectiveness of the Group's risk management and internal control systems.

The Internal Audit Department monitors compliance with policies and procedures and the effectiveness of the internal control systems, and highlight significant findings in respect of any non compliance. It plays an important role in the Group's internal control framework, and provides objective assurance to the Board that a sound internal control system is maintained and operated in compliance with the established processes and standards by performing periodic checking. Using a risk-based approach, the Internal Audit Department plans its internal audit schedules annually with audit resources being focused on higher risk areas. To preserve the audit independence, the Head of Internal Audit Department of the Company reports directly to the Board.

The Board has conducted an 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 systems. The Board is satisfied that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and accounts is sound and is sufficient to safeguard the interests of shareholders and the Group's assets.