

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining a high standard of corporate governance and believes that a set of well-balanced corporate governance practices will enable the Company to better manage its business risks and ensure that the Company is managed in the best interests of Shareholders.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, throughout the year ended 31 December 2006, the Company has complied with the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules, except for the following deviations:

- (i) Under code provision A.4.2 of the CG Code, all Directors appointed to fill a casual vacancy should be subject to election by the Shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Bye-laws which was adopted on 26 May 2005, every Director (except the Chairman and the Managing Director), including those appointed by a specific term, should be subject to retirement by rotation at the annual general meeting at least once every three years and all Directors, whether appointed by the Board or the Shareholders in general meeting, to fill a casual vacancy or as an additional Director should be subject to election by the Shareholders at the first annual general meeting after their appointment.

At the Company's annual general meeting for 2006, all Directors, except for the Chairman and the Managing Director, were subject to retirement by rotation in accordance with the Bye-laws. Pursuant to the private company act 1991 under which the Company was incorporated in Bermuda, the Chairman and the Managing Director are not subject to retirement by rotation, which deviates from code provision A.4.2. of the CG Code.

- (ii) Under code provision E.1.2 of the CG Code, the Chairman of the Board and the Chairman of the Remuneration Committee should attend and answer questions at the annual general meeting of the Company. Mr. Zhou Zhongshu, the Chairman of both the Board and the Remuneration Committee, had not attended the Company's annual general meeting for 2006 due to unexpected business commitment. Accordingly, Mr. Wang Xingdong, the Managing Director and a member of the Remuneration Committee, took the chair of the said meeting.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has established a set of guidelines as its own "Rules and Procedures for Directors and Relevant Employees of the Company in respect of Dealings in Securities of the Company" ("Rules for Securities Transactions") on no less exacting terms than the required standard of the Model Code as set out in Appendix 10 to the Listing Rules. A designated committee comprising two members has also been established for receiving notifications from and issuing dated written acknowledgements to the Directors and the relevant employees of the Company.

Under the Rules for Securities Transactions, the Directors and the relevant employees of the Company are required to notify any one member of the said designated committee and receive a dated written acknowledgement before dealing in the securities of the Company, and in the case of a member of the said designated committee, he or she must notify another member of the designated committee and receive a dated written acknowledgement before any such dealing.

The Company has made specific enquiry of all Directors and has received a written confirmation from each Director confirming that he/she has complied with the Rules for Securities Transactions for the year ended 31 December 2006 in relation to his/her securities dealings, if any.

CORPORATE GOVERNANCE STRUCTURE

The Board has put in place a corporate governance structure for the Company and is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. There are currently four committees of the Board, namely Audit Committee, Executive Committee, Investment Committee and Remuneration Committee. All these committees perform their distinct roles in accordance with their respective terms of reference.

BOARD OF DIRECTORS

The Company is managed by the Board which is responsible for promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to the Shareholders.

The Board currently comprises nine Directors, including Mr. Zhou Zhongshu as the Chairman and a Non-executive Director, five Executive Directors and three Independent Non-executive Directors. All Non-executive Directors are appointed for a specific term of three years subject to the retirement and re-appointment provisions of the Bye-laws. Biographical details of all Directors are disclosed in the section headed "Directors' and Senior Management's Profile" in this annual report. To the best knowledge of the Company, there are no financial, business, family or other material/relevant relationships amongst members of the Board.

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors, and one of whom has the appropriate accounting and financial management expertise and professional qualifications.

Mr. Lam Chun, Daniel, an Independent Non-executive Director, is an honorary consultant of Shanghai City Development Law Firm 上海市建緯律師事務所 ("SCD"), a lawyer firm in the PRC which is the legal advisor acting for a wholly-owned subsidiary of the Company in a litigation proceeding conducted in the PRC and also provides other legal services to the Group from time to time. Mr. Lam is not a director, partner, principal or employee of SCD nor has any administrative or management role in SCD. Mr. Lam further confirms that he receives no economic or monetary benefit from the position nor do any obligations or duties arise which he must or is encouraged to perform.

Written confirmations were received from each of the Independent Non-executive Directors confirming their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors to be independent.

BOARD OF DIRECTORS (Cont'd)

Other than resolutions passed by means of resolutions in writing of all Directors, the Board held four meetings in 2006. Notice of at least fourteen days is given of a regular Board meeting to give all Directors an opportunity to attend. The attendance of individual Director at the meetings of the Board is set out below:

Name of Director	Designation	Number of Board meetings held during the Director's term of office in 2006	Number of Board meetings attended
Mr. Zhou Zhongshu (appointed on 28 February 2006)	Non-executive Director and the Chairman	3	3
Mr. Lin Xizhong (resigned on 28 February 2006)	Executive Director and the Chairman	1	1
Mr. Qian Wenchao	Executive Director and the Deputy Chairman	4	4
Mr. Wang Xingdong	Executive Director and the Managing Director	4	4
Mr. Yan Xichuan	Executive Director and a Deputy Managing Director	4	4
Mr. Yin Liang (appointed on 15 December 2006)	Executive Director and a Deputy Managing Director	0	0
Ms. He Xiaoli	Executive Director	4	4
Ms. Tam Wai Chu, Maria	Independent Non-executive Director	4	4
Mr. Lam Chun, Daniel	Independent Non-executive Director	4	3
Mr. Selwyn Mar	Independent Non-executive Director	4	4

The Company has maintained a set of procedures for the Directors to seek independent professional advice, in appropriate circumstances and at the Company's expenses, in the process of discharging their duties to the Company, and also arranged liability insurance coverage for the Directors and its officers.

CHAIRMAN AND MANAGING DIRECTOR

The positions of the Chairman and the Managing Director are held by Mr. Zhou Zhongshu and Mr. Wang Xingdong respectively. This segregation of roles ensures that a clear distinction between the management of the Board by the Chairman and the day-to-day management of the Company's business by the Managing Director. The respective responsibilities of the Chairman and the Managing Director are set out in an internal document entitled "Guidelines in respect of the Responsibilities of the Board of Directors".

NOMINATION OF DIRECTORS

Although the Board has not established a nomination committee, the Board meets on a regular basis to:

- a. review the composition and membership of the Board, inter alia, the length of services and the breadth of expertise of the Board as a whole;
- b. identify and nominate to the Board suitable candidate(s) who has(have) the expertise which is relevant and beneficial to the Group's business; and
- c. assess the independence of the Company's Independent Non-executive Directors.

INTERNAL CONTROLS

The Board is responsible for developing an internal control system of the Group, and maintaining and reviewing the effectiveness of such system to protect the Shareholders' interests and to safeguard the Group's assets. Such internal control system is implemented by the management upon the authorisation of the Board.

Throughout the year 2006, the Board had been assisted by the Audit Committee in reviewing the effectiveness of the internal control system of the Group. The Group's internal audit department is responsible for performing risk-driven audits to inspect and evaluate the Group's financial, operational and compliance controls and risk management on a regular or as-needed basis. Internal audit reports which furnished independent and objective evaluation and recommendation were then submitted directly to the Audit Committee, with the purpose of ensuring that the effectiveness of the internal control system of the Group has been improving continuously. The Audit Committee would make recommendations to the management and submit regular reports to the Board on the basis of such audit findings and views.

AUDITORS' REMUNERATION

For the year ended 31 December 2006, PwC, the independent auditor of the Group, received approximately HK\$1.59 million (2005: HK\$1.40 million) for audit services, and approximately HK\$0.72 million (2005: HK\$0.22 million) for non-audit services, which include fees for review of the 2006 interim report and provision of tax services.

BOARD COMMITTEES

A. Audit Committee

All the members of the Audit Committee are Independent Non-executive Directors. The committee is chaired by Mr. Selwyn Mar and the other members are Ms. Tam Wai Chu, Maria and Mr. Lam Chun, Daniel. In line with its terms of reference approved by the Board, the Audit Committee is principally responsible for providing independent review of the effectiveness of the financial reporting procedures and internal control system of the Group; reviewing the appointment of external auditors and the efficiency and quality of their work; and reviewing all internal audit reports as well as management feedback to such reports.

BOARD COMMITTEES (Cont'd)**A. Audit Committee (Cont'd)**

There are four meetings held by the Audit Committee in 2006. The attendance of individual member at those meetings is set out below:

Name of Director	Number of attendance
Mr. Selwyn Mar (Chairman of Audit Committee)	4/4
Ms. Tam Wai Chu, Maria	4/4
Mr. Lam Chun, Daniel	3/4

The major tasks accomplished by the Audit Committee for the year ended 31 December 2006 are as follows:

- a. reviewed the consolidated financial statements of the Group for the year ended 31 December 2005 and the independent auditor's report thereon and submitted them to the Board. The Audit Committee has also carried out a general review on the unaudited interim financial report for the six months ended 30 June 2006;
- b. reviewed the management recommendations furnished by the external auditors and the responses from the Group's management;
- c. reviewed with the management the accounting principles and practices adopted by the Group;
- d. reviewed and made recommendations on the appointment of external auditors and to approve their remuneration and terms of engagement on audit services;
- e. assisted the Board in conducting independent evaluation of the effectiveness of the Group's financial reporting procedures and internal control system;
- f. constantly reviewed internal audit reports and direct the internal audit department in its approaches to audit planning and reports;
- g. furnished its opinions to the management of the Group concerning related risks in respect of significant matters of the Group; and
- h. reviewed and made recommendations on the remuneration and terms of engagement of external auditors on non-audit services.

BOARD COMMITTEES (Cont'd)

B. Remuneration Committee

In line with its terms of reference approved by the Board, the role and function of the Remuneration Committee is to review and discuss the remuneration mechanism and incentive scheme of the Directors and senior management, and to establish and maintain a reasonable and competitive remuneration level in order to attract and retain Directors and senior management.

The chairman of the Remuneration Committee is Mr. Zhou Zhongshu, the Chairman of the Company. The other members of the committee are Mr. Wang Xingdong, an Executive Director and the Managing Director of the Company and Ms. Tam Wai Chu, Maria, Mr. Lam Chun, Daniel and Mr. Selwyn Mar, all being Independent Non-executive Directors of the Company.

The Remuneration Committee held one meeting during the year ended 31 December 2006. The attendance of individual member at such meeting is set out below:

Name of Director	Number of attendance
Mr. Zhou Zhongshu (Chairman of Remuneration Committee)	1/1
Mr. Wang Xingdong	1/1
Ms. Tam Wai Chu, Maria	1/1
Mr. Lam Chun, Daniel	1/1
Mr. Selwyn Mar	1/1

During the year under review, the Remuneration Committee reviewed and discussed the recruitment of senior management staff and their remuneration package. In the meeting, the Remuneration Committee also discussed the remuneration scheme of Directors and reviewed the Option Scheme.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for the preparation of the consolidated financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant period. In preparing the consolidated financial statements for the year ended 31 December 2006, the Directors ensured that the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The Directors are also responsible for the timely publication of the consolidated financial statements of the Group.

The statement of the independent auditor of the Company, PwC, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditor's Report" section of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.