

The Company believes that the incessant upgrading of its standard of corporate governance is the underlying cornerstone for safeguarding the interests of Shareholders and investors as well as enhancing corporate value of the Company. The Company, with reference to the Company Law of the People's Republic of China, the Listing Rules, the Articles and other relevant laws and regulations, and taking into considerations of its own characteristics and requirements, has been making enormous efforts in enhancing its standard of corporate governance.

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period for the year ended 31 December 2006 in compliance with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises thirteen Directors, four of which are executive Directors, six are non-executive Directors and three are independent non-executive Directors. The members are as follows:

Chairman: Mr. Lu Mao Hao

Executive Directors: Mr. Lu Mao Hao, Mr. Zeng Hong An, Mr. Wang Wei Bing and Mr. Chen Bing Heng

Non-executive Directors: Mr. Liu Wei, Mr. Huang Guo Xuan, Mr. Ren Mei Long, Mr. Chen Guo Zhang, Mr. Jiang Li and Mr. Lu Ya Xing

Independent non-executive Directors: Mr. Gui Shou Ping, Mr. Liu Shao Buo and Mr. Peng Xiao Lei

The chairman and the chief executive of the Company are two distinct and separate positions, which are held by Mr. Lu Mao Hao and Mr. Wang Wei Bing respectively, both being executive Directors.

The main duties of the Board include: determining the operating plans and investment proposals of the Company; convening general meetings and executing the resolutions of general meetings, etc. Shareholders' and the Company's interest is the primary concern for every member of the Board. Directors have been performing their duties in accordance with the relevant laws and regulations in a diligent manner.

The independent non-executive Directors of the Company, who are appointed from the finance and logistics sectors and who also have extensive experience in accounting or financial management and other professional areas, are expected to act and have been acting in a diligent manner to uphold the interests of the Company and the Shareholders by maintaining their independence of their opinions given with respect to their review of the Company's connected transactions and significant events, and by providing professional advice for the stable and disciplined operations of the Company and long-term development of the Company.

The Directors of the Company are appointed for a term of office of three years and are eligible for re-election upon the expiry of their terms.

Corporate Governance Report

The Articles of the Company clearly provides for the rights of the directors, including the right to attend, receive notices of, and to vote in board meetings and the rules of procedure for the board meetings of the Company were specifically formulated and implemented to regulate the conduct and procedures of the board meetings of the Company.

During 2006, the Company has held a total of six board meetings, with an average attendance rate of 85.57%. The Company keeps detailed minutes for the business transacted in the meetings.

The attendance details of each member of the Board during the year are set out below:

	Meetings attended/held	Attendance Rate
<i>Executive Directors</i>		
Lu Mao Hao (<i>Chairman</i>)	6/6	100%
Zeng Hong An	5/6	83%
Wang Wei Bing	6/6	100%
Chen Bing Heng	6/6	100%
<i>Non-executive Directors</i>		
Liu Wei	6/6	100%
Deng Xiao Hua*	0/2	0%
Huang Guo Xuan	6/6	100%
Ren Mei Long	5/6	83%
Chen Guo Zhang	5/6	83%
Jiang Li	5/6	83%
Lu Ya Xing (<i>appointed as Director on 22 June 2006</i>)	4/4	100%
<i>Independent non-executive Directors</i>		
Gui Shou Ping	6/6	100%
Liu Shao Buo	5/6	83%
Peng Xiao Lei	5/6	83%

Deng Xiao Hua resigned as a non-executive Director in 22 June 2006.

Deng Xiao Hua was absent for 2 meetings and had authorized Wang Wei Bing to vote and sign the relevant documents on his behalf in writing.

Liu Shao Buo was absent for 1 meeting and had authorized Gui Shou Ping to vote and sign the relevant documents on his behalf in writing.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the model code ("Model Code") for securities transactions by directors as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding its directors' and supervisors' securities transactions in 2006. Having made specific enquiries of all Directors and Supervisors of the Company, they have confirmed that they complied with the required standard set out in the Model Code for the year ended 31 December 2006.

AUDIT COMMITTEE

The primary duties of the audit committee of the Company are, among others, to appoint external auditors, review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. As at 31 December 2006, the Audit Committee, chaired by Mr. Peng Xiao Lei, had a total of three members, namely Mr. Peng Xiao Lei, Mr. Liu Shao Buo and Mr. Huang Guo Xuan. The members of audit committee met regularly with management and external auditors and revised the external audit reports and the annual accounts of the Group. It has reviewed the audited financial statements for the year ended 31 December 2006, and recommended their adoption by the Board. The Audit Committee had two meetings in 2006 with an attendance rate of 67% by each of the members, whereby the Company reported to the Audit Committee the major business of the Company after its listing and the various management suggestions proposed by the Company's international auditor, PricewaterhouseCoopers. For the year ended 31 December 2006, the Company has been in compliance with the requirements relating to audit committees under Rule 3.21 of the Listing Rules.

COMPENSATION COMMITTEE

The Company has also established a Compensation Committee to determine the policies in relation to human resources management, to review the compensation strategies, to determine the compensation packages of the senior executives and managers, to recommend and establish annual and long-term performance criteria and targets as well as to review and supervise the implementation of all executive compensation packages and employee benefit plans. The Compensation Committee consists of one executive Director, Mr. Wang Wei Bing, and two independent non-executive Directors, Mr. Gui Shao Ping and Mr. Liu Shao Buo.

During 2006, the Compensation Committee had held one meeting.

On 3 March 2006, a meeting of the Compensation Committee was held to consider and approve the increase of the monthly director's fees from RMB3,000 to RMB5,000 for each independent non-executive director of the Company and the increase of the monthly supervisor's fees from RMB2,000 to RMB4,000 for each independent supervisor of the Company, which had been proposed and approved at the annual general meeting of the Company held on 22 June 2006.

SUPERVISORY COMMITTEE

The Supervisory Committee comprises seven members, two of whom are independent Supervisors while another three are Supervisors representing the staff of the Group. The Supervisory Committee is responsible for supervising the Board and its members as well as the senior management, so as to safeguard the interests of the Shareholders of the Company. In 2006, the Supervisory Committee has examined the financial position and the legal compliance of the operations of the Company and conducted the due diligence review of the senior management through convening Supervisory Committee's meetings and attending the board meetings, and general meetings of the Company, as well as undertaking its duties in a proactive and diligent manner under the principles of due care.

INTERNAL CONTROL

In 2006, the Company highly emphasized on its internal control and adopted a number of initiatives to control and monitor and prevent potential risks, the particulars of which are as follows:

1. Financial control

The Company has continued to strictly comply with each financial systems including "Measures for Budget Management", "Measures for Reimbursement Management" and "Measures for Management of Receivables" that the Company had come up with, and considering the position of the Company, newly prepared the "Management and Standardization of NC Financial System" in 2006. The preparation and implementation of these systems have further strengthened our financial management and lifted its standard.

The internal auditing staff of the Company monitors the daily financial management of the Company in accordance with their responsibilities, and advises the financial management department and the general manager and makes recommendations on the improvement of the financial management.

The audit committee of the Company had held two meetings to liaise and discuss with the auditors of the Company and the department of financial management on financial management, financial statements and auditing.

2. Operational control

The management of the Company and all departments undertake their respective work and faithfully perform their functions and discharge their duties in accordance with the articles of association and systems of the Company in order to ensure the safe operation of the Company's businesses.

The Company has been carrying out statistics compilation and analysis of our production operations on a monthly basis, in order for the management to have a better grasp of the position and to make judgements and decisions. The material events of the Company are submitted to the Board and general meetings for consideration and voting in accordance with the articles of association. Supervisors of the Company supervises pursuant to the articles of association the exercising of powers by the management and the Board in the management of affairs of the Company and advises and makes recommendations.

3. Compliance control

In the course of the Company's external expansion of operations, the relevant laws and regulations are complied with so as to strengthen the systems of the Company. The management staff and departments of the Company had entered into contracts and took part in tendering processes in accordance with the requirements of the Company. The Company has in place a designated team of professionals for legal matters, which advises on the lawfulness and compliance of material operation decisions.

The Company has established its information disclosure mechanism pursuant to the "Measures for the Administration of Information disclosure" to ensure that the Company can report matters of significance timely and ensure the accuracy and timeliness of regular reports and provisional reports of the Company. The Company conducts regular statistics compilations of connected transactions which occur in various subsidiaries and departments pursuant to the Listing Rules and "Provisions on the Administration of Connected Transactions" so as to ensure that the proceeding and procedures of connected transactions and the disclosure of information are in compliance with the requirements of the Listing Rules.

4. Risk management

Since the establishment of the Company, we have prepared the "Provisional Measures of Investment management" to strengthen our management of investment, guarantee, litigations and material projects of the Company, thereby standardizing our operations and minimizing our risks.

AUDITORS

The Company has appointed PricewaterhouseCoopers and Guangdong Zhengzhong Zhujiang Certified Public Accountants as the international and PRC auditors of the Company. The fees for the audit and non-audit services provided by the above auditors to the Group for the period amounted to RMB2,970,000 and RMB480,000 respectively.

GENERAL MEETINGS

The general meeting holds the highest authority of the Company. The Company convened two general meetings in 2006 to review, consider and approve the resolutions relating to the report of the Directors, the report of the Supervisory Committee, the profit distribution proposal, the appointment of additional directors and the amendments to the Articles, etc. The Company highly values the functions of the general meetings, and therefore encourages all Shareholders to attend the general meeting, which can serve as a direct and effective communication channel between the Board and the investors of the Company. The articles of association of the Company expressly provide for the rights of the Shareholders, the right to attend, to receive notices to, and to vote in general meetings.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

In respect of any discloseable and significant event, the Company will make accurate and complete disclosure in a timely manner in the newspapers and websites as specified by the relevant supervisory authorities for information disclosure pursuant to the disclosure requirements under the Listing Rules. This is to ensure the right to information and participation of the Shareholders.

The Company has established a department to be responsible for investor relations and places strong emphasis on its communications with investors, and considers that maintaining an on-going and open communications with investors can promote investors' understanding and confidence in the Company. During the year, the Company has participated in a number of roadshows, investors' conferences, telephone interviews and one-on-one meetings with institutional investors in order to enhance the Group's relationship with the investor community and its understanding of the Group's operations and developments. During the year, the Company also organized securities companies and investment fund companies in Hong Kong to visit our asphalt warehouse in San Shui, Wayaogang service zone and the control centre of the South Section of Jing-Zhu and thus helping the investors to have a direct understanding in our business.