

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) are effective for accounting periods commencing on or after 1 January 2005. Subject to the deviations as disclosed on this report, in the opinion of the directors, the Company complied with the code provisions of the Code by establishing a formal and transparent procedures to protect and maximise the interests of shareholders throughout the year under review.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules to govern securities transactions by the directors. After having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code and its code of conduct throughout the year under review.

BOARD OF DIRECTORS

The board of directors (the “Board”) currently comprises ten directors, including seven executive directors and three independent non-executive directors. The Board is mainly accountable to the shareholders and is also in charge of the management, business, strategy, annual and interim results, risk management, major acquisitions, disposals and capital transactions and other major operation and financial aspects of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for Board approval before public reporting, 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 requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman and the directors of the Company are set out on pages 9 to 11. All directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. There is no relationship among the members of the Board.



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BOARD OF DIRECTORS (continued)

The Board fulfilled the requirement under rules 3.10(1) and (2) of the Listing Rules and have three independent non-executive directors and have an independent non-executive director with appropriate professional accounting or financial management expertise. They have appropriate and sufficient experience and qualification to carry out their duties so as to fully represent the interests of the shareholders. The Company has received annual confirmations of independence from all independent non-executive directors and as at the date of this report still considers them to be independent.

The Board held three regular meetings during the year under review, which constitutes a deviation from code provision A.1.1 of the Model Code which stipulates members of the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals and such regular board meetings will normally involve the active participation, either in person or through other electronic means of communication. However, the Company considers it is more efficient to hold board meetings to address emerging issues as appropriate. Sufficient measures will be taken to ensure that the Company's corporate governance practices are no less exacting than those in the Model Code.

Details of the attendance of the regular board meetings are as follows:

Name of directors	Positions	Attendance
Mr. Zhang Honghai	Chairman and executive director	3 at 3 meetings
Mr. Li Kangying	Executive director	3 at 3 meetings
Mr. E Meng	Executive director	3 at 3 meetings
Mr. Wang Yong	Executive director	3 at 3 meetings
Mr. Cao Wei	Executive director	3 at 3 meetings
Dr. Yu Xiaoyang	Executive director	3 at 3 meetings
Mr. Ng Kong Fat, Brian	Executive director	3 at 3 meetings
Mr. Cao Guixing	Independent non-executive director	3 at 3 meetings
Prof. Liu Wei	Independent non-executive director	2 at 3 meetings
Dr. Jin Lizuo	Independent non-executive director	3 at 3 meetings



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CHAIRMAN AND PRESIDENT

As the leader of the Board, Mr. Zhang Honghai, the executive Chairman is responsible for the approval and supervision of the overall strategies and policies of the Group, approval of annual budgets and business plans, evaluation of the Company's performance and oversight of the management. Mr. Li Kangying, the President is responsible for the day-to-day operations of the Group.

NON-EXECUTIVE DIRECTORS

None of the existing non-executive directors of the Company is appointed for a specific term, which constitutes a deviation from code provision A.4.1 of the Model Code which stipulates non-executive directors should be appointed for a specific term, subject to re-election. However, all of the non-executive directors are subject to retirement by rotation in accordance with the Company's articles of association. As such, the Company considers that sufficient measures are in place to ensure that the corporate governance practices of the Company are no less exacting than those of the Model Code.

REMUNERATION OF DIRECTORS

The remuneration committee of the Company was established in accordance with the Model Code on 6 April 2006. The role and function of the remuneration committee include the determination of the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. Details of directors' remuneration are set out in note 8 to the financial statements.

Members of the remuneration committee include two independent non-executive directors, Dr. Jin Lizuo and Mr. Cao Guixing and the chairman of the Board, Mr. Zhang Honghai. Dr. Jin Lizuo is the chairman of the remuneration committee. The remuneration committee held a meeting during the year under review. Details of the attendance of the remuneration committee meeting are as follows:

Members	Attendance
Dr. Jin Lizuo	1 at 1 meeting
Mr. Cao Guixing	1 at 1 meeting
Mr. Zhang Honghai	1 at 1 meeting





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NOMINATION OF DIRECTORS

The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, auditors' remuneration for audit services is approximately HK\$3,750,000. There was no significant non-audit service assignment performed by the external auditors.

AUDIT COMMITTEE

The audit committee of the Company was established in compliance with rule 3.21 of the Listing Rules. The role and function of the audit committee include supervising the accounting and financial reporting procedure and auditing the financial statements of the Group, examining and monitoring the internal control system adopted by the Group and reviewing the relevant work of the Group's external auditors. Members of the audit committee include three independent non-executive directors, Mr. Cao Guixing, Prof. Liu Wei and Dr. Jin Lizuo. Mr. Cao Guixing is the chairman of the audit committee.

The audit committee held two meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Mr. Cao Guixing	2 at 2 meetings
Prof. Liu Wei	2 at 2 meetings
Dr. Jin Lizuo	1 at 2 meetings

The audit committee has reviewed the interim and annual results, financial positions, internal control and the management issues of the Company during the year under review.

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DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The directors' responsibilities for preparing the accounts and the responsibilities of the auditors to the shareholders are set out on page 24. The directors have confirmed that the Group's financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, accounting principles generally accepted in Hong Kong and the Companies Ordinance.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group. The Company convened meeting periodically to discuss financial, operational and risk management control. During the year under review, the Board has reviewed the operational and financial reports, budgets and business plans provided by the management. Besides, the audit committee and the Board will perform half-yearly review on the Group's performance and internal control system in order to ensure effective measures are in place to protect material assets and identities.

