

CORPORATE GOVERNANCE REPORT

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability.

In accordance with the requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Audit Committee has been established in compliance with the Code on Corporate Governance Practices set forth in Appendix 14 to the Listing Rules. The Group has also appointed a qualified accountant to oversee the financial reporting procedures and internal controls of the Group so as to ensure compliance with the Listing Rules. In addition, the Group has engaged CCIF Corporate Consultancy Limited which has directly reported to the Board of Directors and the Audit Committee to perform an internal control review.

To further enhance the Group's corporate governance and its transparency, the Company has established the Remuneration Committee. The Group has also implemented a compliance manual which covers areas such as ongoing compliance obligations of the Company and the Directors, business operations of the Group, financial management systems, human resources management systems, internal control systems, quality assurance and property management systems.

THE BOARD

Board Functions

The Board is responsible for the promotion of the success of the Company by directing and guiding its affairs in an accountable and effective manner. Board members have a duty to act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders.

The types of decisions which are to be taken by the Board include:

1. Setting the Company's mission and values;
2. Formulating strategic directions of the Company;
3. Reviewing and guiding corporate strategy; setting performance objectives and monitoring implementation and corporate performance;
4. Monitoring and managing potential conflicts of interest of management and board members; and
5. Ensuring the integrity of the Company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Group has complied with all the code provision set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the "CG Code") that has regulated the functions and responsibilities of shareholders, Directors, management and staff and has made arrangement for the convening of general meetings and its process, meetings of Board of Directors and meetings of the committees of the Board of Directors. It also provides for the remunerations of the Directors and Senior Management, internal controls, external auditors, financial reporting and financial management.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code requires that the roles of Chairman and Chief Executive Officer be separated and not performed by the same individual.

During the year under review, Mr. Fang James, who directs the strategic growth and development of the Group, with responsibility for reviewing implementation of the Board's policies and decisions and representing the Group in communications with the media and external parties, was the Chairman of the Group while Mr. Fang Shengkang, who is responsible for overseeing the day-to-day operations of the Group and the implementation of the Board's policies and decisions, including execution of annual business plan and investment plan. The role of the chairman (Mr. Fang James) are separated from those of the General Manager (Mr. Fang Shang kang) in order to reinforce their respective independence, accountability and responsibility, acted as the General Manager of the Group whose role is similar to that of Chief Executive Officer.

NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors is appointed for a fixed period of three years commencing from 14 July 2006 with specific terms and each of the independent non-executive Directors is appointed for a fixed period of three years commencing from 16 November 2006 with specific terms.

BOARD COMPOSITION

The Company is committed to the view that the Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board which can effectively exercise independent judgement. The Company is also committed to the view that the independent non-executive Directors should be of sufficient calibre and number for their views to carry weight. The independent non-executive Directors, biographical details of whom are set out in the Section headed "Biographical Details of Directors and Senior Management" in this annual report, are free from any business or other relationship which could interfere in any material manner with the exercise of their independent judgement.

The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders.

The Board has established specific committees with written terms of reference to assist it in the efficient implementation of its functions, namely, the Executive Committee, Audit Committee, and Remuneration Committee. Specific responsibilities have been delegated to the above committees.

The Board delegates specific tasks to the Group's management including the implementation of strategies and decisions approved by the Board and the preparation of accounts for approval by the Board before public reporting.

CORPORATE GOVERNANCE REPORT

The chairman is responsible for developing strategic direction and development of the Group and the General Manager (performing the role of chief executive officer), working with and supported by the non-executive Directors, is responsible for managing the Group's business affairs, including the implementation of strategies adopted by the Board and attending to the formulation and successful implementation of Group's policies and assuming full accountability to the Board for all Group's operations.

The independent non-executive Directors contribute to the Company with diversified industry expertise, advise the management on strategy development and ensure that the Board maintains high standards of financial and other mandatory reporting as well as provide adequate checks and balances to safeguard the interests of shareholders and the Company as a whole.

Each of independent non-executive Directors has given a written confirmation to the Company confirming that he has met the criteria set out in Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of independence of directors.

Mr. James Fang is the cousin of Mr. Fang Shengkang. Save as disclosed above and in the "Biographical Details of Directors and Senior Management" Section of this report, none of the directors of the Company has any financial, business, family or other material/relevant relationships with one another.

THE ATTENDANCE OF MEETINGS OF BOARD OF DIRECTORS

Three meetings of Board of Directors were held on 16 November 2006, 16 March 2007 and 18 April 2007 during the period from the date of incorporation to the date of the first Directors' report. The attendance of each Director is as follows:

Names of Director	Full Meeting of the Board of Directors	Remuneration Committee of the Board of Directors	Audit Committee of the Board of Directors
	No. of Attendance/ No. of Meetings	No. of Attendance/ No. of Meetings	No. of Attendance/ No. of Meetings
Fang James (<i>chairman and executive Director</i>)	3/3	N/A	N/A
Fang Shengkang (<i>executive Director</i>)	3/3	N/A	N/A
Lu Songkang (<i>non-executive Director</i>)	3/3	1/1	1/1
Chai Junqi (<i>non-executive Director</i>)	3/3	N/A	N/A
Wu Tak Lung (<i>independent non-executive Director</i>)	3/3	1/1	1/1
Cheng Houbo (<i>independent non-executive Director</i>)	3/3	1/1	1/1
Shen Jianlin (<i>independent non-executive Director</i>)	3/3	1/1	0/1

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

The Company has not established any Nomination Committee. It is the responsibility of the Board of Directors to identify suitable candidates to be appointed to the Board of Directors whenever there is any vacancy of Directors or when it is considered appropriate. Generally speaking, the chairman of the Board of Directors will recommend suitable candidates to the Board of Directors. The Board of Directors will then review the qualifications of the candidate and determine whether he/she is suitable to the Group based on his/her qualifications, experience and background. The Board of Directors will submit the proposal of appointing of suitable candidates to the shareholders for their approval at the general meeting of the Company.

AUDIT COMMITTEE

The Company established the Audit Committee on 16 November 2006 with written terms of reference in compliance with the Code on Corporate Governance Practices set forth in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee include the review and supervision of the financial reporting processes and internal control systems of the Group. Messrs Wu Tak Lung, Shen Jianlin and Cheng Houbo, all being independent non-executive Directors, and Mr. Lu Songkang, a non-executive Director, are members of the Audit Committee with Mr. Wu Tak Lung being the chairman. The first Audit Committee was held on 17 April 2007 and reviewed the internal control review report from CCIF Corporate Consultancy Limited and the audited financial statements of the Group for the year ended 31 December 2006 before forwarding the same to the Board of Directors for approval.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 16 November 2006 with written terms of reference. The primary duties of the Remuneration Committee include reviewing the terms of remuneration packages, determining the award of bonuses and considering the grant of options under the Share Option Scheme. Messrs. Wu Tak Lung, Shen Jianlin, Cheng Houbo, all being independent non-executive Directors, and Mr. Lu Songkang, a non-executive Director, are members of the Remuneration Committee with Mr. Lu Songkang being the chairman. The first Remuneration Committee was held on 17 April 2007 and reviewed the existing terms of remuneration packages, determining the award of bonuses and considering the grant of options under the Share Option Scheme.

SECURITIES TRANSACTIONS BY THE DIRECTORS

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, and after having made specific enquiry with regard to securities transactions after listing by the Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code regarding securities by the Directors.

AUDITOR'S REMUNERATION

The auditors of the Company, Deloitte Touche Tohmatsu, received audit fees amounting to HK\$1,250,000 for the year under review. The Company has also paid fees amounting to HK\$3,250,000 to the auditors for listing service as reporting accountants during the year.

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Company and its subsidiaries, in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Company Ordinance.

The statement by the auditors of the Company about their responsibilities for the financial statements is set out in the report of the auditors contained in this Annual Report.

INTERNAL CONTROL

During the year, the Board has engaged CCIF Corporate Consultancy Limited to perform internal audit functions and to assist Board in reviewing the effectiveness of the internal control system of the Group. The periodic review will cover all material controls, including financial, operational and compliance controls and risk management functions of the Group.

The internal audit division of the Group has been established under AUPU Electrical. The main functions of the internal audit division are to audit the operating efficiencies of each of the operating units, to carry out audit upon resignation of any key management personnel and to review internal controls of business processes and project based auditing (such as auditing of trade receivables and issuance of commodities auditing report).

INVESTOR RELATIONSHIPS AND SHAREHOLDERS' COMMUNICATION

The Group maintains the investor relationships and shareholders' communication through the following methods:

To disclose information on a timely basis: The Company will use various channels like financial report, announcement and website of the Company to disclose relevant public information to the public and the shareholders.

To communicate with shareholders and investors: The Company maintains effective communications with shareholders and investors through annual general meeting, presentation conference of company results, company visit and visiting institutional investors.

Web-based reporting: The website of the Company will open an Investor Relationships Forum which would contain, among others, the following contents

- a. relevant systems of the Company, such as manual of corporate governance practices, system of disclosure of price sensitive information and articles of association;
- b. information on the annual general meeting of the Company;
- c. the annual report and interim report of the Company;
- d. the biographical details of the Directors and senior management of the Company;
- e. the details of the shareholders of the Company holding 5% or more of its issued share capital;