

Corporate Governance Report

The board of directors (“Board”) of the Company is pleased to present this Corporate Governance Report in the Group’s annual report for the year ended 31 December 2006.

The manner in which the principles and code provisions in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”) are applied and implemented are explained in the following parts of this Corporate Governance Report:

CORPORATE GOVERNANCE PRACTICES

The Group strives to attain and maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The Group’s corporate governance principles emphasize a quality Board, effective internal control and accountability to shareholders.

The Board of the Company believes that good corporate governance practices are increasingly important for maintaining and promoting shareholder value and investor confidence.

The Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”) sets out the principles of good corporate governance (“Principles”) and two levels of corporate governance practices:

- (a) code provisions which listed issuers are expected to comply with or to give considered reasons for any deviation; and
- (b) recommended best practices for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company’s corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

Throughout the year ended 31 December 2006, the Company has complied with the code provisions set out in the CG Code, save for the deviations from code provisions A.4.1 and E.1.2 which are explained in the relevant paragraphs in this Report.

The Company has also put in place certain Recommended Best Practices as set out in the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the CG Code and align with the latest developments.

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BOARD OF DIRECTORS

RESPONSIBILITIES

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the best interests of the Company.

The Board sets policy direction and approves strategies/operational plans to ensure effective functioning and growth of the Company, in the interests of all shareholders.

Every director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

DELEGATION OF MANAGEMENT FUNCTIONS

The Board undertakes responsibility for decision making in major Company matters, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

BOARD COMPOSITION

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board currently comprises 10 members, consisting of 6 executive directors, one non-executive director and 3 independent non-executive directors.

The list of all directors is set out under "Corporate Information" on page 2 and all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

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Members of the Board are unrelated to one another.

During the year ended 31 December 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

All directors, including non-executive directors and independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functions. Independent non-executive directors are invited to serve on the Audit, Nomination, Risk Management and Remuneration Committees of the Company.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Bye-laws. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors. Details of the Nomination Committee and its works performed during the year ended 31 December 2006 are set out in the "Board Committees" section below.

In accordance with the Company's Bye-laws which were amended by a special resolution at the annual general meeting held on 26 May 2006 for the purpose of compliance with the CG Code, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Although the non-executive directors are not appointed for a specific term, all directors of the Company are subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment pursuant to the Company's Bye-laws.

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TRAINING FOR DIRECTORS

Each newly appointed director receives a comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Continuing briefings and professional development to directors will be arranged whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

During the year ended 31 December 2006, four regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at the meetings of the Board, Nomination Committee, Remuneration Committee, Risk Management Committee and Audit Committee during the year ended 31 December 2006 are set out below:

| Name of Directors | Attendance/Number of Meetings | | | | | |
|---|-------------------------------|-------|----------------------|------------------------|-----------------|---------------------------|
| | Board | | Nomination Committee | Remuneration Committee | Audit Committee | Risk Management Committee |
| | Regular | Other | | | | |
| Ma Jun Li (Chairman) | 3/4 | 6/7 | 1/1 | 1/1 | N/A | 1/1 |
| Ng Tang | 4/4 | 7/7 | 1/1 | 1/1 | N/A | 1/1 |
| Wang Da Yong (Chief Executive Officer) | 4/4 | 6/7 | N/A | N/A | N/A | 1/1 |
| Ren Zheng | 2/4 | 2/7 | N/A | N/A | N/A | N/A |
| Cheung Hoi Ping | 2/4 | 2/7 | N/A | N/A | N/A | N/A |
| Zhang Jun | 2/4 | 2/7 | N/A | N/A | N/A | N/A |
| Mr. Leung Chung Tak Barry (appointed on 20/1/06) | 1/3 | 0/6 | N/A | N/A | N/A | N/A |
| Chung Kwo Ling | 1/4 | 0/7 | 1/1 | 1/1 | 2/2 | 1/1 |
| Sun Yeung Yeung | 1/4 | 0/7 | 1/1 | 1/1 | 1/2 | 1/1 |
| Lee Yuen Kwong | 1/4 | 0/7 | 1/1 | 1/1 | 2/2 | 0/1 |

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

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The Chief Executive Officer and Company Secretary attend almost all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable period of time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

The Company's Bye-Laws also contain provisions requiring directors to abstain from voting (or not be counted in the quorum) at meetings for approving transactions in which such directors or any of their associates have material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer are held by Ms. Ma Jun Li and Mr. Wang Da Yong respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

BOARD COMMITTEES

The Board has established four committees, namely, Nomination Committee, Remuneration Committee, Risk Management Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

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NOMINATION COMMITTEE

The Nomination Committee comprises 2 executive directors and 3 independent non-executive directors, namely Ms. Ma Jun Li as Chairman of the Committee and Mr. Ng Tang, Mr. Sun Yeung Yeung, Mr. Lee Yuen Kwong and Ms. Chung Kwo Ling as members.

The principal duties of the Nomination Committee include:

- To review the structure, size and composition of the Board and make recommendations regarding any proposed changes;
- To develop and formulate relevant procedures for nomination and appointment of directors and senior management;
- To identify suitable candidates for appointment as directors and senior management;
- To make recommendations to the Board on appointment or re-appointment of and succession planning for directors and senior management; and
- To assess the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships and senior management by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The attendance records of the Nomination Committee are set out under "Board Committees Meetings" on page 11.

In accordance with the Company's Bye-laws, Ms. Ma Jun Li, Mr. Ng Tang, Ms. Cheung Hoi Ping and Mr. Sun Yeung Yeung shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming 2007 annual general meeting.

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 28 April 2007 contains detailed information of the directors standing for re-election.

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REMUNERATION COMMITTEE

The Remuneration Committee comprises five members, namely Ms. Ma Jun Li as Chairman of the Committee and Mr. Ng Tang, Mr. Sun Yeung Yeung, Mr. Lee Yuen Kwong and Ms. Chung Kwo Ling as members. The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the individual performance and the operating results of the Company as well as the market conditions and practice.

The attendance records of the Remuneration Committee are set out under “Board Committees Meetings” on page 11.

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters when needs arise. The Human Resources Division is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee comprises 3 executive directors and 3 independent non-executive directors, namely Ms. Ma Jun Li as Chairman of the Committee and Mr. Ng Tang, Mr. Wang Da Yong, Mr. Sun Yeung Yeung, Mr. Lee Yuen Kwong and Ms. Chung Kwo Ling as members. The Risk Management Committee primarily focuses on raising the level of management awareness of, and accountability for the business risks faced by the Group’s business operations. In meeting its responsibilities, the Committee seeks to put in place policies and procedures to provide a framework for identification and management of risks.

The Risk Management Committee normally meets for prioritizing and accelerating those risk management strategies that are critical to the advancement of the Group’s objectives and ensuring that sufficient resources and appropriate level of support from the management are allocated. The Risk Management Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about the effectiveness of their recommendations and escalate to the Board of any risks relating to material transactions in the ordinary course of business and unusual transactions exceed the scope of principal business activities of the Group.

The Risk Management Committee met once during the year ended 31 December 2006 reviewed and monitored the effectiveness of the systems of internal control to ensure that the policies and procedures in place are adequately sufficient.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely Ms. Chung Kwo Ling, Mr. Sun Yeung Yeung and Mr. Lee Yuen Kwong. Among the committee members, two of them possess the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company’s existing external auditors.

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The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, internal auditor or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 December 2006 to review the financial results and reports, financial reporting and compliance procedures, report of Internal Auditor on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

The Company's annual results for the year ended 31 December 2006 has been reviewed by the Audit Committee.

MODEL CODE FOR 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 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2006.

The Company also has established written guidelines on no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

The directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and that relevant statutory requirements and applicable accounting standards are complied with.

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

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AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 27.

An analysis of the remuneration paid to the external auditors of the Company is shown on note 11 of the "Notes to Financial Statements" on page 54.

INTERNAL CONTROL

During the year under review, the Company engaged its auditors, Deloitte Touche Tohmatsu to initiate an independent review covering the financial, operational, compliance and risk management aspects of the finance and major operational functions for the Group. Report from auditors were presented to and reviewed by the Audit Committee.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

The key elements of the Group's internal control system include the following:

- the organizational structure is clearly defined with distinct lines of authority and control responsibilities.
- a comprehensive financial accounting system has been established to provide for performance measurement indicators and to ensure compliance with relevant rules.
- the senior management shall prepare annual plans on financial reporting, operations and compliance aspects by reference to potential significant risks.
- unauthorized expenditures and release of confidential information are strictly prohibited.
- specific approval by executive director prior to commitment is required for all material matters.
- the management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

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COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The Company continues to enhance communications and relationships with its investors. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

To promote effective communication, the Company maintains a website at www.cbgroup.com.hk, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

Code provision E.1.2 stipulates that the Chairman should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committee (as appropriate) or in their absence, another member of such committee or his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent Board committee should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Ms. Ma Jun Li was unable to attend the last annual general meeting due to business trip, but Deputy Chairman, Mr. Ng Tang attended to answer questions on her behalf at the annual general meeting. She will use her endeavours to attend all future shareholders' meetings of the Company.

SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-Laws. Details of such rights to demand a poll and the poll procedures were included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting at which voting is taking on a poll and posted on the websites of the Company and of the Stock Exchange.