

The Company recognizes that by maintaining good corporate governance standards throughout the Company serve as an effective risk management measure for the Company. The Board is committed to lead the Company to grow in an efficient manner followed by corporate missions in terms of business strategies and improved operational planning and procedures which are enforced under high corporate governance standards.

CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules contains certain Code Provisions (the “CPs”) and recommended best practices for corporate governance practices by listed companies. The Directors consider that the Company's prevailing structures and systems satisfied the requirements of all CPs. The Company will continuously enhance the corporate governance standards throughout the Company and ensure further standards to be put in place by reference to the recommended best practices whenever suitable and appropriate.

CORPORATE MANAGEMENT

Board of Directors

The Board reviews and approves corporate matters such as business strategies and investments, mergers and acquisitions, as well as the general administrative and management of the Company. The Board is directly accountable to the shareholders and is responsible for preparing the financial statements.

The Board currently consists of 4 executive Directors, 4 non-executive Directors, and 3 independent non-executive Directors. Please refer to the Report of the Directors for the composition of the Board and the Biography of Directors and Senior Management section in this report for the biographical details of the directors.

The posts of chairman and the chief executive officer are held separately by Mr. Wang Jinjun and Mr. Ma Jun respectively and their roles and responsibilities are separate. The chairman is responsible for formulating and setting Company strategies and policies in conjunction with the Board and for ensuring that he and his delegates shall, in the capacity of chairman, perform according to their responsibilities. The chief executive officer is responsible for managing Company strategic initiatives and major business activities.

The Board has a balance of skills and experience and the Board membership is covered by professionally qualified and widely experienced personnel so as to bring in valuable contribution and different professional advices and consultancy for the development of the Company.

All directors were provided with various briefing sessions as well as comprehensive materials on the responsibilities and duties of being a director of the Company, in particular highlighting the respective applicable rules and regulations, including the Listing Rules, which a director should aware and be informed of his appointment.

During the year ended 31 December 2006, 6 Board meetings have been held with an average attendance rate of 97%. Except for Mr. Chen Jinkui and Mr. Chen Shuguo had an attendance rate of 83%, all Directors had an attendance rate of 100%.

Mr. Yang Dexin and Mr. Chen Shuguo will retire from their offices at the forthcoming AGM to be held on 28 June 2007. At the forthcoming AGM, an ordinary resolution will be proposed to appoint Mr. Jiang Junzhou and Mr. Zhang Yuchen as non-executive Directors. Details of Mr. Jiang Junzhou and Mr. Zhang Yuchen are set out in the notice convening the AGM.

The term of office of each Director is for a period of three years.

Board Committees

There are four committees established under the Board, namely the Audit Committee, the Board Remuneration Committee, the Nomination Committee and the Connected Transactions Committee.

(a) *Audit Committee*

The Audit Committee comprises of two independent non-executive Directors and one non-executive Director, namely Mr. Lee Ka Chung, Mr. Ye Yongmao and Mr. Chen Shuguo. Mr. Lee Ka Chung possesses recognized professional qualification in finance and accounting. The terms of reference of the Audit Committee are in compliance with the relevant CPs. The chairman of the Audit Committee is Mr. Lee Ka Chung. The committee meets at least twice a year.

The functions of the Audit Committee includes but not limited to the following:

- Considering and reviewing the appointment, resignation and removal of external auditors and their fees
- Reviewing the interim and annual results of the Company
- Discussing with the external auditors problems and issues of significance during the audit of the Company
- The terms of reference of the Audit Committee follow the guidelines set out by The Hong Kong Institute of Certified Public Accountants, and have been updated on terms no less exacting those set out in the CP

Since the listing of the Company on 21 June 2006, Audit Committee met twice on 31 August 2006 and 19 April 2007 with all committee members attending the meetings except for Mr. Chen Shuguo who did not attend the meeting held on 31 August 2006. The work of the Audit Committee in 2006 included:

- Reviewing the 2006 interim results and annual results of the Company
- Discussing with the management of the Company over the completeness, fairness and adequate accounting standards and policies of the Company in the preparation of the 2006 interim and annual financial statements
- Reviewing and discussing with the external auditors over the financial report of the Company
- Recommending to the Board, for the approval by shareholders, of the re-appointment of the auditors

(b) *Board Remuneration Committee*

The Board Remuneration Committee consists of two independent non-executive Directors and one non-executive Director, namely Mr. Mao Fengge, Mr. Ye Yongmao and Mr. Gong Jianzhong. The terms of reference of the Board Remuneration Committee are in compliance with the relevant CPs. The chairman of the Board Remuneration Committee is Mr. Mao Fengge. The committee meets at least once a year.

The functions of the Board Remuneration Committee is to, among other things, consider and approve the remuneration plans and policies for all directors of the Company by reference to the remuneration paid by comparable companies, as well as the time commitment and responsibilities of the directors. Since the listing of the Company on 21 June 2006, the Board Remuneration Committee met once on 19 April 2007 with all committee members other than Mr. Gong Jianzhong attending the meeting.

(c) *Nomination Committee*

The Nomination Committee consists of two independent non-executive Directors, and one non-executive Director, namely Mr. Mao Fengge, Mr. Ye Yongmao and Mr. Chen Jinkui. The terms of reference of the Nomination Committee are in compliance with the relevant CPs. The chairman of the Nomination Committee is Mr. Mao Fengge. The Committee meets at least once a year.

The Nomination Committee reviews the structure, size and composition of the Board on a regular basis and recommends to the Board regarding any proposed changes, including the appointment and succession of Directors and other related matters. It ensures that all nominations of director are fair and transparent and that the Board benefits from the right balance of skills, experience and knowledge to govern the Company effectively. It also assesses the independence of the independent non-executive Directors. Since the listing of the Company on 21 June 2006, the Nomination Committee met once on 19 April 2007 with all committee members attending the meeting.

(d) Connected Transactions Committee

The Connected Transactions Committee consists of three independent non-executive Directors, namely Mr. Mao Fengge, Mr. Lee Ka Chung and Mr. Ye Yongmao. The chairman of the Connected Transactions Committee is Mr. Mao Fengge. The committee meets at least once a year.

The primary duties of the Connected Transactions Committee are to review the Company's proposed connected transactions (including connected transactions exempted under the Listing Rules) to be entered into with any connected person of our Company. It also reviews the approval procedures of relevant Board meetings. Since the listing of the Company on 21 June 2006, the Connected Transactions Committee met once on 19 April 2007 with all committee members attending the meeting.

Supervisory Committee

The Company's Supervisory Committee consists of five Supervisors. Two of the Supervisors are elected by our shareholders as their representatives, one is elected by our employees and the other two are independent Supervisors. Supervisors serve for a term of three years, after which they are subject to re-election. The Supervisor Committee meets at least twice a year.

The Supervisory Committee is responsible for exercising supervision over the Board and the Company's senior management. Since the listing of the Company on 21 June 2006, the Supervisory Committee met once with all Supervisors attending the meeting.

INTERNAL CONTROLS**Framework**

The Board has overall responsibility in monitoring the process of corporate reporting and control system throughout the Company. The corporate reporting standards are delegated to the finance and accounting department in terms of proper and regular reviews on the deployment of resources and financial reporting systems. The corporate governance practices and compliance with the Listing Rules, SFO and other applicable regulations are delegated to the joint company secretaries of the Company. The management of the Company reviews and briefs the reporting systems with the executive directors regularly and the Audit Committee, Board Remuneration Committee, Nomination Committee and Connected Transactions Committee annually.

Assessment on effectiveness of internal control system

The system of internal controls is designed to provide reasonable assurance against human errors, material misstatement, losses, damages or fraud. It is also designed for the identification and management of risks that are significant to the fulfillment of company's business objectives.

Activities, procedures and controls are well documented and the existence and effectiveness of the existing control procedures are tested by reference to the ranking of each individual risk area. The criteria for assessing the effectiveness of internal controls are based on the assessment of whether the documented control processes have operated throughout the period being reviewed, and to identify whether there are any control weaknesses.

The internal audit department carries out various audits on control procedures in respect of those significant risk areas of the Company with findings reported to the Audit Committee. The Audit Committee reviews the findings and reports to the Board annually.

In respect of the year ended 31 December 2006, the Board reviewed and were satisfied with the internal control systems of the Company and no significant areas of concern were identified.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Board of Directors has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") in Appendix 10 of the Listing Rules. All the Directors have confirmed that they have complied with the required standards set out in the Model Code.

AUDITORS' REMUNERATION

Remuneration paid to the Company's external auditors for services provided for the year ended 31 December 2006 is as follows:

	RMB'000
Audit services	<u>1,700</u>