

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company believes that a high level of corporate governance is pivotal to the protection of shareholders' interest and the sustainability of the Company's long-term development.

The Code on Corporate Governance Practices and Corporate Governance Report issued by the Hong Kong Stock Exchange was effective for the accounting periods commencing on or after 1 January 2005. The Board noted the changes and will apply them to the Company (as applicable).

The Company attaches great importance to the excellence, soundness and reasonableness of its corporate governance structure. The Company, currently and within the reporting period ended 31 December 2006, adopted and applied the principles of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (abbreviated as "CG Code"). The Company has complied with all the provisions in the CG Code.

The Board and management of the Company make every effort to comply with the CG Code in order to protect and enhance the benefits of shareholders. Following sustained development and growth of the Company, we will continue to monitor and revise the Company's governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders.

In accordance with relevant laws and regulations, the Company had established inter-restricting management systems comprising general meeting, Board, Board committees, supervisory committee and management, which were characterized by clear division of work and responsibility. In practical operation, the Company had been perfecting its corporate governance structure, regulating itself and strengthening information disclosure.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

For the reporting period ended 31 December 2006, the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as a code of conduct to regulate securities transactions of the directors and supervisors of the Company.

The Company, having made specific enquiries to all directors, has confirmed that all its directors have complied with the required standard set out in the Model Code during the reporting period.

BOARD

(a) Board composition

In accordance with the relevant provisions under the Listing Rules, the Board of the Company comprises nine directors, one of whom is the chairman of the Board, six being executive directors and three being independent non-executive directors. The details are as follow:

Executive Directors :

Chen Zhaoxiong (*Chairman*)
 Lu Ming
 Tam Man Chi
 Wang Jincheng
 Yang Jun
 Su Duan

Independent non-executive Directors :

Li Sanli
 Wang Qinfang
 Kennedy Ying Ho Wong

The above directors will hold office until the conclusion of the Company's 2006 annual general meeting.

Directors of the Company had observed strictly their commitments made public and performed their obligations with faithfulness, integrity and diligence. The composition of the Board of the Company was accordant with relevant laws and regulations. The Board of the Company had held itself responsible to shareholders for the leading and steering of the Company. The Board convened regular meetings and extraordinary meetings according to legal procedures and exercised its powers of office according to laws, regulations and Articles of Association and has taken good care of the interests of the Company and shareholders as a whole.

(b) Independent non-executive Directors

The Company has complied with the provisions of Rules 3.10 (1) and 3.10 (2) of the Listing Rule that at least three independent non-executive Directors be appointed by listed issuers and that at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. All independent non-executive Directors are financially independent from the Company and any of its subsidiaries.

All independent non-executive Directors have entered into service contracts with the Company. None of the independent non-executive Directors has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation other than under statutory compensation

The Company had received an annual confirmation of independence from each of the independent non-executive Director pursuant to Rule 3.13 of the Listing Rules. The Company was of the view that all the independent non-executive Directors met the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

(c) Attendance record at board meetings

A total of four Board meetings were held during the year ended 31 December 2006.

Attendance rates of individual Board members during the year are as follows:

Name of Board members	Attendance rates for the year ended 31 December 2006
Executive Directors	
Mr. Chen Zhaoxiong (<i>Chairman</i>)	4/4
Mr. Lu Ming	4/4
Mr. Tam Man Chi	4/4
Mr. Wang Jincheng	4/4
Mr. Yang Jun	4/4
Mr. Su Duan	0/0
Mr. Li Weisheng	4/4

Note: The appointment of Mr. Su Duan as executive director of the Company was approved at the Extraordinary General Meeting held in November 2006. Mr. Li Weisheng resigned as executive director of the Company in November 2006 for personal reasons.

Independent non-executive Directors	
Mr. Li Sanli	4/4
Ms. Wang Qinfang	4/4
Mr. Kennedy Ying Ho Wong	0/0
Mr. Li Xiaoru	4/4

Note: Mr. Kennedy Ying Ho Wong was formally appointed as independent non-executive director of the Company upon approval granted at an extraordinary general meeting held in November 2006, and Mr. Li Xiaoru resigned from the office of independent non-executive director of the Company for personal reasons in November 2006.

Code Provision A.1.1 provides that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. In addition, Code Provision A.1.3 provides that notice of at least 14 days should be given of a regular board meeting. On the other hand, according to Article 102 of the Company's Articles of Association, meetings of the Board shall be convened at least twice every year. Such meetings shall be convened by the chairman of the board by giving notice to all the directors not less than 10 days before the meeting date. For the year ended 31 December 2006, four Board meetings were held and notices of at least 14 days before the meeting date were given, thus the Company complied with the requirements under Code Provisions.

(d) Role and function

Major functions of the Board under the leadership of the Chairman are as follows:

1. to formulate business development strategies;
2. to review and monitor the Group's financial performance;
3. to prepare and approve the Group's financial performance and financial statements;
4. to approve the Group's annual budget, material funding proposals, investment and divestment proposals and operation plans;
5. to monitor and evaluate the Group's internal control, risk management, financial reporting and compliance;
6. to formulate the profit distribution plan and loss recovery plan of the Company;
7. to decide on proposals such as merger, division and dissolution of the Company;
8. to formulate the basic management system of the Company;
9. to formulate proposals concerning amendments to the Company's Articles of Association; and
10. to exercise the Company's powers of raising funds and borrowing money, deciding on the charge, lease, subcontract or transfer of the Company's major assets and to authorize the president or vice presidents to exercise these powers mentioned herein within a certain scope, provided that the relevant laws, statutes, the Company's Articles of Association and relevant regulations are complied with.

The Directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, Directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that board procedures, and all applicable rules and regulations, are followed.

Senior management are responsible for the daily operations of the Group. The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

For the year ended 31 December 2006, the Board:

1. reviewed and monitored the performance of the Group;
2. reviewed and approved the annual results of the Group for the year ended 31 December 2005 and the interim results of the Group for the period ended 30 June 2006;
3. reviewed and approved notifiable/discloseable transactions.

To the best knowledge of the Company, there is no financial, business and family relationship among our Directors and between the Chairman and the Chief Executive Officer. All of them are free to exercise their independent judgment.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of Chairman of the Board and Chief Executive Officer of the Company are assumed by different individuals to achieve effective delineation of the operation of the Board and the management of the Group's daily operations. Mr. Chen Zhaoxiong and Mr. Lu Ming are the Chairman of the Board and Chief Executive Officer of the Company respectively.

The Chairman of the Board shall ensure the efficient operation of and satisfactory performance of its obligations by the Board, which mainly include:

1. to preside over general meetings and to convene and preside over the Board meetings;
2. to check on the implementation of resolutions of the Board meetings;
3. to sign securities certificates issued by the Company;
4. to ensure all key and appropriate issues are properly briefed and discussed by the Board in a timely manner; and
5. to perform such other duties authorized by the Board.

Chief Executive Officer heads the management and is responsible for daily operation of the Group. He is responsible for the implementation of policies adopted by the Board and reporting to the Board in respect of the overall operation of the Company.

BOARD COMMITTEES

The Board has also established the following Board committees:

- Audit Committee
- Nomination and Remuneration Committee
- Strategic Development and Risk Management Committee

Each Board committee makes decisions on matters within its term of reference and applicable limits of authority to monitor the Company's business in particular aspects and assist directors' performance of their duties. The terms of reference as well as the structure and membership of each committee will be reviewed by the Company from time to time.

a) Audit Committee

The Audit Committee was established in December 1999. It currently consists of three independent non-executive Directors.

Composition of Audit Committee:

Mr. Kennedy Ying Ho Wong (*Chairman*)

Mr. Li Sanli

Ms. Wang Qinfang

ROLE AND FUNCTION

The Audit Committee is mainly responsible for, inter alia:

1. to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
2. to discuss with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved;
3. to develop and implement policy on engagement of an external auditor to supply non-audit services;
4. to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half year report and to review significant financial reporting contained in them;
5. to discuss problems and reservations arising from the interim and annual audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary);
6. to review the Group's financial and accounting policies and practices;
7. to review the Company's financial control, internal control and risk management systems;
8. to discuss the Company's internal control system with the management to ensure that the management has discharged its duty to have an effective internal control system.

A copy of the terms of reference of the Audit Committee is available upon request.

The following is the attendance record of the Audit Committee meetings for the year ended 31 December 2006:

Committee member	Attendance rates for the year ended 31 December 2006
Mr. Kennedy Ying Ho Wong (<i>Chairman</i>)	0/0
Mr. Li Sanli	2/2
Ms. Wang Qinfang	2/2
Mr. Li Xiaoru	2/2

Note: Mr. Kennedy Ying Ho Wong was formally appointed as independent non-executive director of the Company upon approval granted at an extraordinary general meeting held in November 2006, and Mr. Li Xiaoru resigned from the office of independent non-executive director of the Company for personal reasons in November 2006.

During the meetings, the Audit Committee discussed the following matters:

1. Financial Reporting

The Audit Committee discussed the interim and annual financial statements and system of internal control of the Group. The auditors, the chief executive officer, the company secretary and the financial manager of the Company were also in attendance to answer questions on the financial results. The management of the Company provided breakdown, analysis and supporting documents to the Audit Committee members in order to ensure that the Audit Committee members were fully satisfied and make proper recommendations to the board.

2. External Auditors

The appointment of Ernst & Young Hua Ming and Ernst & Young as domestic auditors and international auditors of the Company respectively for the year ended 2006 was approved.

b) Nomination and Remuneration Committee

The Nomination and Remuneration Committee was established on 8 April 2005. It currently consists of two independent non-executive directors and one executive director.

Composition of Nomination and Remuneration Committee:

Mr. Li Sanli (*Chairman*)

Mr. Wang Jincheng

Mr. Kennedy Ying Ho Wong

ROLE AND FUNCTION

The Nomination and Remuneration Committee is mainly responsible for, inter alia, the following directors' nomination and appointment issues:

1. to identify and nominate qualified individuals with reference to educational qualifications, industry background and experiences in the relevant field, subject to the approval of the Board, to be additional directors or to fill vacancy in the Board as and when they arise;
2. to review on an annual basis the Board structure, size and composition and the independence of the Board;
3. to develop the criteria for selection of directors;
4. to assess the independence of independent non-executive directors;
5. to make recommendations to the Board on all new appointments or re-appointments of directors, the establishment of a succession plan for directors, in particular the chairman and chief executive officer.

The Nomination and Remuneration Committee is mainly responsible for, inter alia, the following directors' remuneration issues:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
2. to assess the performance of the executive directors and approve the terms of their service contracts, determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including 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;
3. to 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;
4. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;
5. to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
6. to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

7. to ensure that no director or any of his associates is involved in deciding his own remuneration; and
8. to advise the shareholders on how to vote in respect of any service contract of director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

A copy of the terms of reference of the Nomination and Remuneration Committee is available upon request.

The following is the attendance record of the Nomination and Remuneration Committee meetings for the year ended 31 December 2006:

Committee member	Attendance rates for the year ended 31 December 2006
Mr. Li Sanli (<i>Chairman</i>)	1/1
Mr. Li Xiaoru	1/1
Mr. Wang Jincheng	1/1
Mr. Kennedy Ying Ho Wong	0/0

Note: Mr. Kennedy Ying Ho Wong was formally appointed as an independent non-executive director of the Company upon approval granted at an extraordinary general meeting held in November 2006, and Mr. Li Xiaoru resigned from the office of independent non-executive director of the Company for personal reasons in November 2006.

During the meeting, the Nomination and Remuneration Committee considered the remuneration policy of executive directors, assess their performance and discuss and determine the bonus payments to all senior management.

The remuneration of the Directors, supervisors and senior management of the Company is determined with reference to state policies, the Company's profits realized in the corresponding period and individual achievement.

c) Strategic Development and Risk Control Committee

The Strategic Development and Risk Control Committee was established on 8 April 2005. It currently consists of five executive directors and three independent non-executive directors.

The Strategic Development and Risk Control Committee met once during the year ended 31 December 2006.

Composition of Strategic Development and Risk Control Committee:

Mr. Lu Ming (*Chairman*)

Mr. Tam Man Chi

Mr. Wang Jincheng

Mr. Yang Jun

Mr. Su Duan

Mr. Li Sanli

Ms. Wang Qinfang

Mr. Kennedy Ying Ho Wong

ROLE AND FUNCTION

The Strategic Development and Risk Control Committee is mainly responsible for, inter alia, the following:

1. to study and make recommendations on the Company's long term development strategies;
2. to study and make recommendations on material investments and financing proposals which are subject to the Board's approval as required under the Articles of Associations;
3. to study and make recommendations on material capital operations, asset operation projects which are subject to the Board's approval as required under the Articles of Associations;
4. to study and make recommendations on any other material issues concerning the Company's development;
5. to examine the implementation of the above issues;
6. to perform such other duties authorized by the Board.

The Strategic Development and Risk Control Committee met once during the year ended 31 December 2006.

The following is the attendance record of the Strategic Development and Risk Control Committee meeting for the year ended 31 December 2006:

Committee member	Attendance rates for the year ended 31 December 2006
Mr. Lu Ming (<i>Chairman</i>)	1/1
Mr. Tam Man Chi	1/1
Mr. Wang Jincheng	1/1
Mr. Yang Jun	1/1
Mr. Li Weisheng	1/1
Mr. Su Duan	0/0
Mr. Li Sanli	1/1
Mr. Li Xiaoru	1/1
Ms. Wang Qinfang	1/1
Mr. Kennedy Ying Ho Wong	0/0

Note: 1. Mr. Su Duan was formally appointed as an executive director of the Company upon approval granted at an extraordinary general meeting held in November 2006, and Mr. Li Weisheng resigned from the office of executive director of the Company for personal reasons in November 2006.

2. Mr. Kennedy Ying Ho Wong was formally appointed as independent non-executive director of the Company upon approval granted at an extraordinary general meeting held in November 2006, and Mr. Li Xiaoru resigned from the office of independent non-executive director of the Company for personal reasons in November 2006.

During the meeting, the Strategic Development and Risk Control Committee mainly discussed how to contain and minimize the Group's risks arising from the provision of guarantees and loans to GWBNS.

AUDITORS' REMUNERATION

It is the auditor's responsibility to form an independent opinion, based on their audit, on financial statements. Apart from the provision of audit services, the Company's external auditors also carried out review of the Company's interim results.

For the year ended 31 December 2006, Messrs. Ernst & Young, the external international auditors, and Messrs. Ernst & Young Hua Ming, the external domestic auditors, provided 2005 annual accounting statements audit services to the Company, and Ernst & Young provided 2006 interim results review services to the Company. Remuneration for the above services is as follows:

	Remuneration RMB'000
2005 annual accounting statements audit services in accordance with the accounting principles generally accepted in Hong Kong and the PRC GAAP respectively	1,950
2006 interim results review services	400

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control system, which is aimed at providing reasonable assurance for the effectiveness and efficiency of the operations, reliability of financial reports and compliance with applicable laws and regulations, so as to protect shareholders' investment and the Group's assets. The key procedures that the Group has established to provide effective internal controls and checks and balances include the following:

1. to enhance its risk awareness through education and training;
2. to establish a risk control team to enhance the guidance and leadership on risk control; to carry out checks on points of risk seriously; to further standardize the operation of the enterprise; to plug loopholes in the process of operation and management; and to establish, on a gradual basis, a mechanism to control operation risks with long-term effect;
3. to introduce advanced international management system; and to strengthen the process of supervision and control, for instance, the introduction and implementation of the 6 SIGMA Management Method by Great Wall Kaifa, Kaifa Magnetic and Excelstor Technology, which has effected a substantial savings of costs and an effective supervision and control of the operation process;
4. to strengthen the management of financial funds; to enhance risk resistance and forewarning capability; to procure continuing improvement of financial information quality by subsidiaries; to make serious analysis of the enterprise's risk exposure, so as to bring the forewarning role of financial analysis into full play;
5. to establish an internal audit department to perform independent risk reviews and internal control;
6. to issue self-assessment questionnaires to subsidiaries as a base for assessing internal control environment and risks;

7. to formulate corresponding policies and procedures to safeguard corporate assets, to keep proper accounting records; and to ensure that transactions are conducted within the scope of authority granted by the management;
8. to put in place arrangements for the internal audit department and external auditors, to conduct internal control tests based on results of risk assessment, and to report the test results to the Board, so as to ensure that the internal control measures function as effectively as planned, and to rectify, as necessary, any weakness in internal control which are identified.

Major functions of the Group's internal audit work include:

1. to review the Group's important controls on its business in financial, operational and compliance aspects;
2. to conduct special reviews on and investigations into areas of concern identified by the Group's senior management;
3. to monitor progress of corrective actions recommended by external auditors in their internal control reports.

The Board is responsible for overseeing the Company's internal control system and reviewing its effectiveness, while the Group's internal audit department and management are responsible for reviewing the effectiveness of the internal control systems of the Company and its subsidiaries. The audit committee holds at least two meetings annually to consider the results of investigations done by, and the opinion of, the Group's internal audit department and management regarding the effectiveness of the Company's internal control system, and to report the review results to the board on an annual basis.

For the year ended 31 December 2006, the Board considers the Group's internal control system reasonable, effective and adequate. The scope of review covers all material aspects of internal control, including finance, operation and compliance control and risk management function.

Price-sensitive information

The procedures and internal control measures of the Company for handling and releasing price sensitive information are as follow:

1. to understand the obligations to be performed by us under the Listing Rules and to publish any price sensitive information immediately after a decision is made taken;
2. to strictly comply with the Guide on Disclosure of Price-Sensitive Information issued by the Stock Exchange in 2002 in handling related matters;
3. to put in place express and specific rules of the Company to prohibit any unauthorised use of confidential or insider information; and
4. to formulate and implement a set of procedures for responding to external enquiries on the Group's affairs, and to authorize the spokesman of the board of directors to respond to enquiries falling within a designated scope.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board, supported by the finance department of the Company, is responsible for the preparation of the financial statements of the Group. The Board acknowledges their responsibilities for the preparation of the financial statements of the Group.

The Directors confirm that, to the best of their knowledge, information and belief having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 43 to 44.

INVESTOR RELATION

The Group is committed to fostering long-term, smooth and positive relationships with shareholders and investors through open and prompt communication. The Group adopts a policy of disclosing relevant information to shareholders in a timely manner. The Group's annual general meeting allows the directors to meet and communicate with shareholders, and the Company also attends various investment reporting meetings and roadshows to increase the opportunities for enhancing communication and understanding between the Company and the investors. Our corporate website contains corporate information, interim and annual reports issued by the Group as well as recent developments of the Group which enable shareholders and investors to have timely and updated information of the Group.

During the reporting period, the following amendments were made to the Articles of the Company :

The original Article 13 of the Articles: "The business scope of the Company include: development and manufacture of hardware components of calculators, software systems and external equipment, communications equipment, electronic equipment, spare parts and components of electronic instruments, gadgets, connecting components and raw materials and development of network systems. Additionally: establishment of unincorporated branch offices in Beijing."

Amended to: "The business scope of the Company include: development and manufacture of hardware components of calculators, software systems and external equipment, communications equipment, electronic equipment, spare parts and components of electronic instruments, gadgets, connecting components and raw materials and development of network systems, house leasing. Additionally: establishment of unincorporated branch offices in Beijing."