

Chapter V Structure of Corporate Governance

Section I Structure of Corporate Governance Disclosed Pursuant to Requirement by China Securities Regulatory Commission (“CSRC”)

I. Current Structure of Corporate Governance

Since its establishment, the Company has committed to perfecting its corporate governance structure and established modernized corporate system in compliance with the “Company Law” and “Securities Law” of the PRC, as to standardize its operations. The Company is, by and large, in compliance with the relevant laws and regulations relating to the corporate governance of listed companies.

1. Shareholders and General Meeting. The Company is able to ensure all shareholders, particularly minority shareholders, to have equal rights. All disclosures of significant events as required by the relevant laws, administrative rules and regulations are disclosed timely, accurately and completely, in the newspapers and websites as designated by the regulatory bodies in PRC and Hong Kong, respectively, in order to ensure access of shareholders to the Company’s information and participation in the decision making process. The Company convenes general meetings strictly pursuant to the Regulations of General Meeting. Connected transactions of the Company are fair and reasonable, with the pricing basis fully disclosed.
2. Controlling shareholder and the listed company. The controlling shareholder exercises its equity holder’s right strictly in accordance with the relevant laws, without any infringement against the General Meeting or intervene either directly or indirectly operations of the Company. In respect of personnel, finance, organization, business and assets, the controlling shareholder and the Company are independent from each other with autonomous financial systems, risks and obligations, thus the Company has an independent operation and business capacity. The election, appointment and dismissals of Directors, Supervisors and senior management are in strict adherence to procedures set forth in the relevant laws, administrative rules and regulations and Article of Association.
3. Directors and the Board. The Company elects Directors in strict accordance with the Articles of Association, and they shall attend Board meetings in a responsible manner and understand their respective rights, obligations and responsibilities as a Director. The independent non-executive Directors are able to perform their duties in strict accordance with relevant laws, regulations and the Articles of Association. In particular, they shall protect the overall interest of the Company as well as the legal rights of the minority shareholders.
4. Supervisors and Supervisory Committee. Members of the Supervisory Committee shall possess the relevant legal, financial and accounting expertise and perform their obligations and responsibilities in a serious manner. They shall supervise the financial management of the Company and the Directors and senior management to perform their duties in a legitimate manner and in compliance with the relevant laws.
5. Performance evaluation and motivation mechanism. The election, appointment and emolument of Directors, Supervisors and senior management should be in compliance with the relevant requirements as set forth by the Company Law and Articles of Association. The Company will keep perfecting its performance evaluation and incentive system on Directors, Supervisors and senior management.
6. Stakeholders. The Company respects the legal rights of stakeholders including banks and other creditors, employees, consumers, suppliers and the community. It works closely with stakeholders so as to ensure a sustainable and healthy growth of the Company.
7. Information disclosure and transparency. The Company designates the Secretary of the Board on information disclosure, handling of shareholders’ visits and enquiries. The Company discloses, in the format and content required by laws and regulations and the Articles of Association, any information that may have significant impact on the shareholders’ decision-making process, in a true, accurate and complete manner.

The Company will keep perfecting its structure of corporate governance, enhance its managerial efficiency to ensure shareholders, and minority shareholders in particular, to have equal rights.

**Section I Structure of Corporate Governance Disclosed Pursuant to Requirement by the CSRC (continued)****II. Performance of independent non-executive Directors**

The independent non-executive Directors have conscientiously performed their duties in accordance with relevant laws, rules and regulations and the Articles of Association. They have participated in the work of the Board and in the discussions in respect of significant matters. They also gave advice on the standardized operation and business activities of the Company based on their professional knowledge and experience and they had no objection to the proposals of the Company. The independent non-executive Directors offered their independent opinion as to whether certain connected transactions were fair and just. They also participated in the work of Audit Committee to review the financial statements of Company. The independent non-executive Directors protected the overall interests of the Company as well as the legal interests of the shareholders as a whole and made positive contribution to the development of the Company.

From the unaudited management accounts of the Company, the Directors (including the independent non-executive Directors) noted that the aggregate value of the relevant continuing connected transactions (as defined in the Listing Rules) (i.e. the supply of finished goods, raw materials, parts and components by the Group to China Textile Machinery (Group) Limited and its group members) exceeded the relevant 2006 approved cap. The continuance of the relevant continuing connected transactions in the Year 2006 after exceeding the 2006 approved cap without obtaining the independent shareholders' approval on a timely basis constituted a breach of the Listing Rules. The Directors (including the independent non-executive Directors) consider that the failure to re-comply with the requirements of Listing Rules on a timely basis, which was inadvertent and regretful, is an isolated event. The Directors (including the independent non-executive Directors) will closely monitor the transaction amounts of the continuing connected transactions of the Company and regular meetings will be held on no less frequent than a quarterly basis.

Please refer to the announcement of the Company published in the Securities times, Wen Wei Po and The Standard in Hong Kong on 12th April 2007 for the relevant details.

The attendance at board meetings by the independent non-executive directors during the year is as follows:

Name of independent non-executive Directors	Number of board meetings held during the year (number)	Attendance in Person (number)	Attendance by proxy (number)	Absence (number)
Wang Zengjing	15	15	—	—
Kon Hiu King, Kenneth	15	14	—	1
Gao Yong	15	15	—	—
Chen Zhong	15	15	—	—
Yu Shiquan	15	15	—	—

III. Establishment and enforcement of Evaluation and Motivation Mechanism on Senior Management

The “Enforcement Measures of Motivation Scheme on the Managerial and Key Personnel of the Company” (“Enforcement Measures”) were considered and approved at the general meeting of the Company on 16th June 2004, pursuant to which the Company can, for the three-year period between 1st January 2004 and 31st December 2006, are empowered to allocate a certain number of ‘virtual shares’ on the managerial level of the Company, including executive Directors, management, business department and chairmen, general managers, financial controllers of subsidiaries, as a means to reward for their performance. During the reported period, no virtual shares were allotted to them pursuant to the Enforcement Measures.

Section II Report of Corporate Governance as required by the Rules (“Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”)

The Board, Supervisory Committee and Senior Management are committed for an effective implementation of corporate governance policy, to ensure all decisions are on a fair and true basis, on a transparent, equal and impartial manner, with checks and balances that keep improving the corporate governance structure. The Company operates strictly within the respective framework set forth by the Articles of Association, and provides timely, accurate, complete and reliable corporate information to all market participants and regulatory bodies. It targets to enhance corporate value, promote governance quality and meet the expectation of shareholders and concerned parties.

During the reporting period, except for the following deviations, the Company has fully complied with the code provisions of Codes on Corporate Governance in Appendix 14 to the Listing Rules of the Stock Exchange :

Code Provision A.1.1

Under Code Provision A.1.1, the Board shall convene at least 4 regular meetings per year, at approximately quarter intervals. According to the articles of association of the Company and the Rules Governing the Proceedings of the Board Meetings, the Board is required to convene to least two meetings (regular meetings) per year. Notwithstanding the above, in order to enhance the Company's corporate governance, the Board convened a total of 15 meetings during under reporting period, which has in fact fully complied with the requirements under the Code Provision A.1.1.

Code Provision A.1.3

Under Code Provision A.1.3, notice shall be given at least 14 days before convening a regular board meeting according to the articles of association of the Company and the Rules Governing the Proceedings of the Board Meetings, the Board shall serve notice 10 days before convening a Board meeting. Notwithstanding the above, in order to enhance the Company's corporate governance, the Board has managed to issue notice of not less than 14 days prior to each Board meeting. On such basis, the Directors consider that the Company was in fact fully complied with the requirements under Code Provision A.1.3.

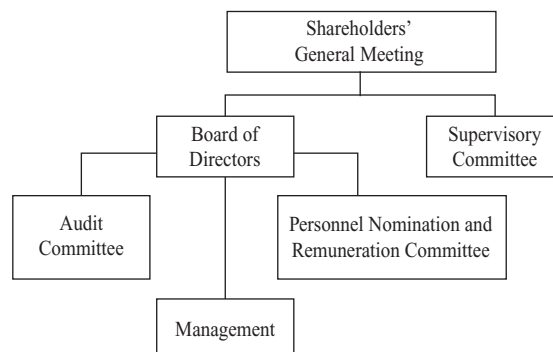
To ensure that the Company is in full compliance with the requirements of the above Code Provisions and enable it to promptly and efficiently make and implement its decision, the Company will consider making appropriate amendments to the articles of association and/or Rules Governing the Proceedings of the Board Meetings in the following financial year.

I. Corporate Governance

Since its establishment, the Company has, in strict compliance with the Company Law and Securities Law of the PRC, as well as the applicable laws and regulations of the CSRC, the listing rules of Shenzhen Stock Exchange and the Stock Exchange respectively, perfected its corporate governance structure and established modernized corporate system as well as standardized its operations in accordance with the relevant CSRC documents.

Documentations relating to its corporate governance consist of the Articles of Association, Rules Governing the Proceedings of the General Meeting, Rules Governing the Proceedings of the Board Meetings, and Rules Governing the Proceedings of Meetings of Supervisory Committee. The Board has established two special committees, the Audit Committee and Personnel Nomination and Remuneration Committee.

The Chart of Corporate Governance of the Company:





Section II Report of Corporate Governance as required by the Listing Rules of the Stock Exchange (continued)

II. Board

The Board comprises 13 Directors, of which 8 are executive Directors and 5 are independent non-executive Directors. The current Board is the fourth Board since the establishment of the Company and the terms of office of all Directors commenced on 15th August 2004 or the date of their respective appointment to the date of re-election of the Board (i.e. 15th August 2007).

The main duties of the Board are to exercise the management decision-making under the authorization of the shareholders at the general meeting in the aspects of corporate development strategy, management structure, investment and financing, planning and financial control.

The Directors are elected or replaced in shareholders' meeting and a polling system is adopted for the election of Directors. Shareholders representing more than 5% of issued shares and the Board are entitled to nominate Directors in writing. The term of office of Directors is three years and Directors can be re-elected upon expiry of their term. Independent non-executive Directors are independent parties not connected with the management and major shareholders of the Company.

The positions of Chairman and General Manager (Chief Executive Officer) of the Company are taken up by different persons and there is a clear division of work between the two roles. The Chairman presides the Board meeting and reviews the implementation of the Board's decisions. General Manager, supported by other senior management of the Company, is responsible for the management and coordination of the Group's business, and for making daily decisions in accordance with the strategy formulated by the Board. In Year 2006, Chairman and General Manager (Chief Executive Officer) of the Company are Mr. Liu Haitao and Mr. Ye Maoxin, respectively.

The Board is accountable to the shareholders and mainly exercises the following authorities:

- (1) to convene the General Meetings and report its work to the shareholders at the General Meeting;
- (2) to implement the resolutions passed at the General Meetings;
- (3) to decide the operation plans and investment plans of the Company;
- (4) to prepare the annual financial budget and final accounts of the Company;
- (5) to prepare the profit distribution proposal and loss-covering plans of the Company;
- (6) to formulate plans of increasing or reducing registered capital, or issuing bonds of the Company;
- (7) to draft plans for corporate merge, sub-division and dissolution;
- (8) to determine the set-ups of the Company's internal management departments;
- (9) to engage or dismiss General Manager of the Company; to engage or dismiss Deputy General Manager of the Company, Chief Financial Officer and other senior management as recommended by the General Manager and determine their remuneration and payment methods;
- (10) to establish the fundamental management system of the Company;
- (11) to prepare the proposal for the amendments of the Articles of Association;
- (12) to draft material acquisition or disposal proposals of the Company;
- (13) without contribution of the relevant laws, regulations, the Articles of Associations to exercise the authorities on fund-raising and borrowing loans for the Company and to decide the pledge, lease, subcontracting or transfer of the Company's significant assets, and authorize the General Manager to exercise the said authorities within a prescribed scope;
- (14) to perform other duties authorized by the General Meeting and the Articles of Association; and
- (15) to consider and approve any external guarantees subject to approval by the General Meeting, and submit for approval by the General Meeting;

Section II Report of Corporate Governance as required by the Listing Rules of the Stock Exchange (continued)

II. Board (continued)

The General Manager is accountable to the Board and mainly exercises the following authorities:

- (1) to supervise the management of the production and operations of the Company, and implement the Board resolutions;
- (2) to implement the operation plans and investment plans of the Company;
- (3) to formulate the proposal for the set-ups of the Company's internal management departments;
- (4) to formulate the fundamental management system of the Company;
- (5) to establish the fundamental regulations of the Company;
- (6) to propose the engagement, dismissal or job rotation of Deputy General Manager or Chief Financial Officer;
- (7) to engage or dismiss any other administrative staff who are not subject to the engagement or dismissal by the Board;
- (8) to chair in person (or authorise a Deputy General Manager as proxy) the regular meetings of the General Manager, which should be attended by General Manager, Deputy General Managers and other senior management staff;
- (9) to determine the awards, punishment, promotion or demotion, salary increase or deduction, engagement, employment, dismissal or discharge of Company staff;
- (10) to exercise the authority on the pledge, lease, subcontracting or transfer of the Company's assets under the scope as authorized by the Board; and
- (11) Other authorities as granted by the Articles of Association and the Board.

The Deputy General Manager assists the work of the General Manager.

The members of the Board come from different industrial background and have expertise in corporate management, financial accounting, investment strategy and textile machinery. Their profiles are set out in Chapter IV "Directors, supervisors and senior management and staff" of this annual report.

In 2006, two Directors held management positions in the Company, accounting for more than 1/7 of the total number of Directors. This arrangement enabled the Board to review and supervise the procedure of management of the Company.

Currently, the Company has five independent non-executive Directors, representing more than 1/3 of the total number of Directors. Independent non-executive Directors are familiar with the duties and obligations of being the directors of listed companies and independent non-executive directors of listed companies. During the reporting period, independent non-executive Directors, with a prudent and serious attitude, fully leveraged on their experiences and expertises in perfecting the corporate governance and formulation of major decisions, and have provided objective opinions on the Company's significant events and connected transactions. Independent non-executive Directors have promoted the scientific approach in the Board's decisions and the decision-making process and safeguarded the interests of the Company and shareholders as a whole. Three independent non-executive Directors of the Company held positions in the special committees under the Board.



Section II Report of Corporate Governance as required by the Listing Rules of the Stock Exchange (continued)

II. Board (continued)

In 2006, the Company held 15 Board meetings to discuss the Company's overall strategic and investment proposals as well as the operation and financial performance of the Company. The Board meeting achieved efficient and timely discussions and prudent decisions. Independent non-executive Directors of the Company had no objection to the Company's decisions. Attendance percentage of the meetings was 99% (including attendance by other Directors as proxy) and the details are as follows:

Name	Position	Attendance in meetings (Number)	Total number of meetings (Number)	Attendance Percentage	Remarks
Liu Haitao	Chairman	15	15	100%	–
Zhang Jie	Former Director	1	2	50%	Resigned on 13th April 2006
Ye Maoxin	Vice-chairman, General Manager	15	15	100%	–
Fan Xinmin	Vice-chairman	15	15	100%	–
Yan Fuquan	Executive Director	13	13	100%	Appointed on 13th April 2006
Liu Hong	Executive Director	15	15	100%	–
Shi Tinghong	Executive Director	15	15	100%	–
Yao Yuming	Executive Director, Chief Financial Controller, Standing Deputy General Manager	15	15	100%	–
Zhang Jianguo	Executive Director	15	15	100%	–
Wang Zengjing	Independent Non-executive Director	15	15	100%	–
Kon Hiu King, Kenneth	Independent Non-executive Director	14	15	93%	–
Gao Yong	Independent Non-executive Director	15	15	100%	–
Chen Zhong	Independent Non-executive Director	15	15	100%	–
Yu Shiquan	Independent Non-executive Director	15	15	100%	–

All the Directors are capable of acquiring the relevant information and latest development on the legal, regulatory and other continuing obligations to be complied with by directors of listed companies from the Board Secretary and such arrangement ensures that Directors fully understand his duties and that the Board meeting will be proceeded smoothly and the relevant laws and regulations are complied with. Directors and the Board Committees are authorized, pursuant to the requirements for the exercise of duties, performance of obligations or the business requirements, to engage independent professional bodies for providing necessary services to them. Any reasonable costs arising therefrom shall be borne by the Company.

The Company is strictly in compliance with the relevant provisions in respect of securities transactions by directors as promulgated by the regulatory bodies in the Mainland and Hong Kong.

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers”, in Appendix 10 to the Listing Rules as the code of practice for securities transactions by Directors. The Company has made specific enquiries to all the directors and all the Directors have confirmed that they have complied with the code for securities transactions by Directors as set forth in “Model Code for Securities Transactions by Directors of Listed Issuers” during the reporting period.

Special Committees of the Board

Pursuant to the resolutions of general meeting, the Board has established two special committees and each of which has defined terms of reference. Their respective scope of supervision are as follows:

Section II Report of Corporate Governance as required by the Listing Rules of the Stock Exchange (continued)

II. Board (continued)

Audit Committee

The terms of reference of the Committee was formulated with reference to “Guidelines on Effective Operations of the Audit Committee” issued by Institute of Certified Public Accountants. Its duties include: to review the degree of completeness, accuracy and fairness of the financial reports of the Company, to receive the reports from the Company’s management and Auditors, to make inquiry to the Finance Department and Auditors in respect of the Company’s financial status and get reasonable explanation thereon and to review the Company’s internal control and financial reporting mechanisms and to report to the Board on the matters thereon.

The members of the Audit Committee under the fourth Board of the Company are Mr. Wang Zengjing (Chairman of the Committee), Mr. Kon Hiu King, Kenneth and Mr. Yu Shiquan. All the three members are independent non-executive Directors and are in compliance with the relevant requirements.

Two meetings of the Audit Committee were held in 2006. All the matters passed by the Audit Committee have been properly recorded and filed according to the relevant rules. The Chairman of the Committee would report to the Board on all the important matters.

The attendance of members is as follows:

Name of the committee member	Attendance in meetings (Number)	Total number of meetings (Number)	Attendance percentage
Wang Zengjing (Chairman of the Committee)	2	2	100%
Kon Hiu King, Kenneth	2	2	100%
Yu Shiquan	2	2	100%

The work of Audit Committee for the year include: reviewed the completeness of the 2005 Annual Report, 2006 Interim Report and the relevant accounts of the Company, and reviewed the substantial opinions on financial reporting as set out in financial statements and reports. It also reviewed the Company’s internal financial reporting procedures, financial and accounting policies and practices, and conducted relevant discussions with Executive Directors, General Manager and external Auditors. The Committee examined the independence of external Auditors and considered and approved its terms of employment and remuneration. It also discussed the nature, scope and relevant reporting obligations of Auditors and provided written reports and recommendations to the Board in a timely manner.

Personnel Nomination and Remuneration Committee

The Committee has specific written terms of reference, with clearly defined duties and responsibilities. The terms of reference of the Personnel Nomination and Remuneration Committee include the specific duties and responsibilities set out in code provisions B.1.3(a) to (f), while appropriate modifications will be made as and when necessary.

The Personnel Nomination and Remuneration Committee comprises three Independent non-executive Directors and two Executive Directors, including Mr. Wang Zengjing, Mr. Zhang Jie (resigned on 13th April 2006) Mr. Fan Xinmin, Mr. Kon Hiu King, Kenneth and Mr. Yu Shiquan, with Mr. Wang Zengjing being the Chairman. The relevant requirements were complied with.

The main duties of Personnel Nomination and Remuneration Committee are: to provide recommendations to the Board on the scale and composition of the Board on the basis of the Company’s operations, scale of assets and shareholding structure, to study the selection criteria and procedure of Directors and Managers and provide recommendations thereon to the Board, to broadly identify qualified Directors and Managers, to review the candidates of Directors and Managers and to provide recommendations thereon, to formulate the remuneration proposal or policy on the basis of the scope, duties and importance of Directors and senior management and the remuneration of similar positions of other enterprises and the remuneration proposal or policy shall include but not limited to the criteria, procedure and mechanism of appraisal and the major proposal and system of rewards and punishments and to supervise the implementation of the Company’s remuneration policy.



Section II Report of Corporate Governance as required by the Listing Rules of the Stock Exchange (continued)

III. Mechanism of supervision

Supervisory Committee

The Supervisory Committee, established under the laws of the PRC and pursuant to the Article of Association, reviews the financial condition of the Company, and carries out supervision on whether the decisions and management of the Board and senior management are in compliance with the legal requirements for safeguarding the legal interests of shareholders, the Company and the staff. The fourth Supervisory Committee of the Company was established at the Extraordinary General Meeting held on 15th August 2004 and the term of office of the supervisors will expire on 15th August 2007. The fourth Supervisory Committee comprises seven members and the Chairman of Supervisory Committee is Mr. Wang Tiankai. The number and the qualification of members are in compliance with the legal requirements. The profiles of Supervisors are set out in Chapter IV “Directors, supervisors and senior management and staff” of this annual report.

In 2006, the Supervisory Committee of the Company held 3 meetings and all the Supervisors attended the meetings and the Board meetings and have performed the duties of Supervisory Committee in diligent manner. The Supervisory Committee reviewed the financial information of the Company’s 2005 annual results, 2006 interim results and amendments to the Rules Governing the Proceedings of the Meetings of Supervisory Committee. The Committee has monitored the management of the Board and senior management of the Company and provided recommendations thereon to the management.

The attendance of members (including attendance by other supervisors as proxy) is as follows:

Name	Position	Attendance in meetings (Number)	Total number of meetings (Number)	Attendance percentage	Remarks
Wang Tiankai	Chairman of Supervisory Committee	3	3	100%	–
Peng Zeqing	Vice-chairman of Supervisory Committee	3	3	100%	–
Yan Fuquan	Former Supervisor	–	–	–	Resigned on 13th April 2006
Tu Kelin	Supervisor	3	3	100%	–
Sun Jie	Supervisor	2	2	100%	Appointed on 13th April 2006 and deceased of illness on 23rd July 2006
Dong Min	Supervisor	3	3	100%	–
Lian Jinhua	Supervisor	3	3	100%	–
Bao Weiguo	Supervisor	3	3	100%	–

Internal Control and Internal Audit

The Board is responsible to make a balanced, clear and comprehensive assessment on the performance and prospect of the Group. The Board is also responsible for making arrangement for the preparation of accounts of the Company (including accounts for the year ended on 31st December 2006) on the going concern basis that reasonably and fairly reflect the financial conditions of the Group, as well as arranging for the announcement of price-sensitive information and financial disclosure. The management reports to the Board all relevant information and records which enables the Board to make the above evaluations and to prepare the accounts and financial disclosure.

The Board is responsible for establishing and maintaining the Company’s internal control and reviewing the control procedures in relation to finance, operation and supervision, so as to safeguard the interests of shareholders and assets of the Company. The Board authorizes the management to carry out internal control mechanism, and the effectiveness of which will be reviewed by Audit Committee.

The Company has established the Internal Audit Department which regularly, or whenever necessary, reviews the possible risks and significance of the financial, operating and internal control activities of the Company’s branches and subsidiaries in accordance with the internal control system of different business operations of the Company, so as to provide independent and objective evaluation and recommendations for ensuring the compliance of the Company’s operations with regulations, the efficiency of operations and the effectiveness of the control mechanism of the Company.

Section II Report of Corporate Governance as required by the Listing Rules of the Stock Exchange (continued)**III. Mechanism of supervision (continued)****Internal Control and Internal Audit (continued)**

The Company has always placed a lot of emphasis to internal control and has established corresponding internal management mechanism and procedures in aspects of operations, finance and human resources. To consistently standardize corporate governance, the Board of the Company has reviewed the effectiveness of the internal control system of the Company in 2006 and the review covered its financial, operational and compliance controls and risk management functions.

Fee to External Auditors and Term of Service

The aggregate remuneration to PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (as auditors of the Group's financial statements prepared in accordance with HKFRS and PRC GAAP) for the year ended 31 December 2006 was RMB4,250,000. In addition to audit related services, PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company have not provided non-audit services during the year.

PricewaterhouseCoopers (Certified Public Accountants registered in Hong Kong) and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Certified Public Accountants registered in the PRC) have been the international auditors and PRC auditors for the Company for 12 consecutive years.

Starting from 2004, in accordance with the "Regulations on the Regular Rotation of Signatory Certified Public Accountant for Auditing Securities and Futures Transactions", the Company requires rotation of certified public accountants for signature of domestic auditor's reports. The domestic auditor's report for the PRC GAAP financial statements for the year ended 31 December 2006 were signed by Mr Zhang Guojun and Mr Liu Lei, both of whom are certified public accountants registered in the PRC.

Financial Controller

Financial Controller is in charge of the Company's financial matters and is accountable to General Manager. Financial Controller is responsible for preparing the financial statements pursuant to the generally accepted accounting principles in PRC and Hong Kong Financial Reporting Standards and the relevant disclosure requirements of CSRC, Shenzhen Stock Exchange and the Stock Exchange of Hong Kong Limited. Financial Controller is also responsible for preparing the annual budget and annual accounts and supervising the implementation of the annual financial and operation plans. Financial Controller shall comply with the relevant systems of internal control as formulated by the Board and make recommendations to the Board.

The Company has determined to engage a Hong Kong qualified accountant to provide assistance to the person in charge of the financial matters. The Company wants to identify a candidate who satisfies the professional requirements of the Stock Exchange of Hong Kong Limited, as well as having the industry background of textile machinery and is familiar with the operation of the enterprise. During the reporting period, although the Company used its endeavor to identify such candidate, no appropriate candidate was identified. In 2007, the Company will continue to seek for suitable candidate so as to satisfy the requirements of relevant provisions of the Listing Rules of The Stock Exchange of Hong Kong Limited, and improve the operation of the Company.

Equity Interests in Shares and securities transactions by Directors, Supervisors and senior management

Please refer to: Section II, Chapter IV, Terms of office, interest in share capital and remunerations of Directors, Supervisors and senior management

Interest in shares of the Substantial Shareholders

Save as disclosed in chapter III "Movements in share capital and information on shareholders", to the best knowledge of the Directors, Supervisors and senior management of the Company, as at 31st December 2006, no person (other than the Directors, Supervisors and senior management of the Company) holds any interests or short positions in the shares or underlying shares of the Company (as appropriate) which shall be notified to the Company and the Hong Kong Stock Exchange Limited pursuant to in Divisions 2 and 3 of Part XV of Securities and Futures Ordinance or any interests or short positions recorded in the register required to be maintained pursuant to section 336 of Securities and Futures Ordinance.



Section II Report of Corporate Governance as required by the Listing Rules of the Stock Exchange (continued)

III. Mechanism of supervision (continued)

Shareholders, investors' relationship and other stakeholders

The Company is devoted to ensuring that all the shareholders, in particular the minority shareholders, are able to enjoy equal status and sufficiently exercise their respective rights.

General Meeting

General Meeting is the highest authority of the Company and will exercise its authority and make decisions on significant events pursuant to laws and regulations. Annual General Meeting and Extraordinary General Meeting held will serve as the channel of direct communications between the Board and shareholders. Therefore, the Company places strong emphasis on General Meetings, 45-day notice will be given of the general meetings and the Company will request all the Directors, Supervisors and senior management to attend by serving a 45 days notice. The Company encourages all the shareholders to attend the meetings and welcome shareholders to voice their opinions at the meetings.

Substantial shareholder

The Company's substantial shareholder is China Textile Machinery (Group) Company Limited (holding 33.83% of shares of the issued share capital of the Company). Being the Company's substantial shareholder, it has not, directly or indirectly, intervened the decisions and operation of the Company. The Company maintains independence with respect to the staff, resources, finance, structure and business of its substantial shareholder.

Information disclosure and management of investors' relationship

The Board Secretary and the stock representative are responsible for information disclosure and reception of shareholders and investors. To optimize the management over investors' relationship, the Company formulated "Information Disclosure System" and "Management System of Investors Relationship" to ensure the openness, fairness and equity of information disclosed and to enhance the transparency of the Company.

Evaluation and Incentive of Senior Management

The Personnel Nomination and Remuneration Committee is responsible for the appraisal of senior management. The details of the incentives provided are set out in Chapter IV of Directors, Supervisors and senior management and staff.

IV Summary

The Company has adopted a corporate governance mechanism that reflects its capability in management and business operation and good corporate governance is essential to the healthy development of the Company and the promotion of investors' confidence. To achieve good corporate governance, it is essential for the Company to review whether the measures on corporate governance keep abreast of the market development trend and the requirements of regulatory bodies. This is the Company's objective to establish itself as a leading, healthy and modernized corporation. The Company will continue to devote efforts in promoting the standard of corporate governance so as to ensure the stable development of the Company and to increase the shareholders' values.