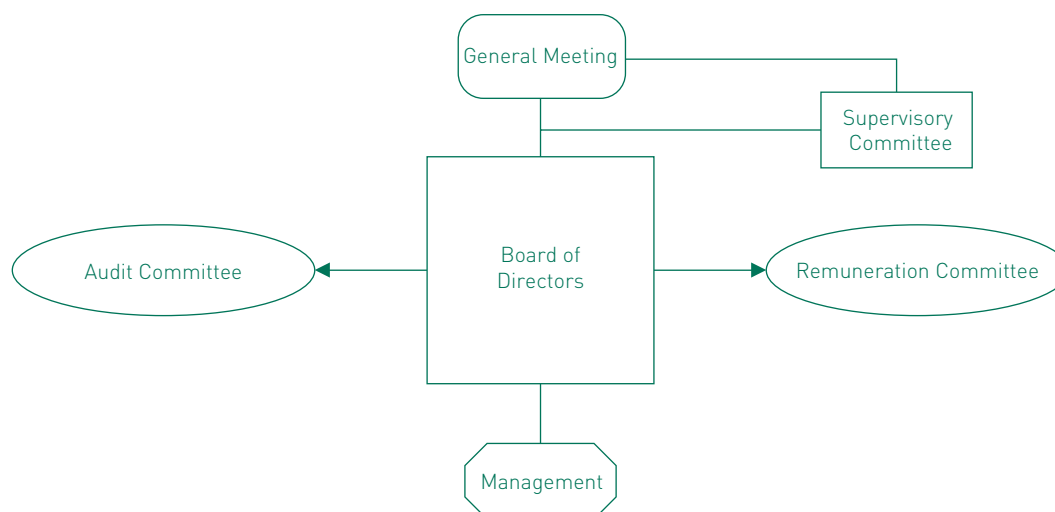


Corporate Governance Report

(I) CORPORATE GOVERNANCE

Throughout the financial year ended 31st December 2006, the Company has complied with all the code provisions of the Code on Corporate Governance Practices ("the Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") (save and except for the deviation from the code provision in respect of the segregation of duties of the roles of Chairman and Chief Executive Officer (General Manager) by two different individuals, which are explained in the following paragraphs). The Company has also directed its daily activities in strict compliance with various established corporate governance systems and reviewed from time to time its operations and management behaviors, enhanced its corporate governance standards on a continuous basis, ensured a stable development of the Company and strived for the enhancement of shareholder value.

(II) CORPORATE GOVERNANCE STRUCTURE



1. Shareholders and General meetings

The Company treats all shareholders equally and ensures that all shareholders have the rights to be informed of and to make decisions on material matters relating to the Company. The Company ensures that all shareholders, in particular, small and medium shareholders, are treated equally and may fully exercise their rights. Shareholders of the Company and insiders of the Company are prohibited from dealings and any act that may jeopardize the interests of shareholders and the Company.

– General Meeting

Details of convening, holding and the procedures of the general meeting are set out in section (III) "Compliance with the Code on Corporate Governance Practices and Other Information".

(II) CORPORATE GOVERNANCE STRUCTURE *(continued)***1. Shareholders and General meetings** *(continued)*– *Substantial Shareholders*

Being the substantial shareholder of the Company, CATIC Shenzhen Company holds 62.89% of the Company's shares. CATIC Shenzhen Company is China National Aero-Technology Import and Export Corporation's wholly-owned subsidiary in Shenzhen. China Aviation Industry Corporation I and China Aviation Industry Corporation II each holds 50% of the shares of China National Aero-Technology Import and Export Corporation.

The Company's businesses, assets, staff, organization and finance are separated from those of the controlling shareholder, allowing the Company to have full independence of its business as well as autonomy over its operations. The controlling shareholder exercises its right as a capital contributor strictly in accordance with the laws. There has been no circumstance in which the controlling shareholder makes use of its special position to pursue benefits that are beyond the entitlement of its legal rights.

2. Directors and the Board

The Board of the Company comprises a total of 13 directors, including 8 executive directors, 2 non-executive directors and 3 independent non-executive directors. In 2006, the election of all members of the new session of the Board was held and the fourth session of the Board was formed. The term of the directors is 3 years that commenced from 13th June 2006 and will end at the 2008 annual general meeting of the Company to be held in 2009.

Details of the composition, members and operational procedures of the Board are set out in section (III) "Compliance with the Code on Corporate Governance Practices and Other Information".

– *Independent Non-executive Directors*

The Company has 3 independent non-executive directors, namely Mr. Poon Chiu Kwok, Mr. Eugene Liu and Mr. Liu Xian Fa, of which Mr. Eugene Liu is a qualified accountant with substantial experience in accounting and financial matters. The Company has received the annual confirmation letters in respect of their independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Listing Rules. The Company considers that the independent non-executive directors are independent parties.

The independent directors have been able to perform their obligations faithfully and diligently in compliance with the relevant laws, regulations and the Listing Rules. The independent directors have participated in the Board and its various specialized committees, and have given their opinions on the decision-making of significant matters by making use of their professional knowledge and experience. They have expressed their views on the standardized operation of the Company and have conscientiously examined the connected transactions and capital dealings with connected parties to ensure fairness and impartiality, expressing their independent opinions and performing their duties independently. They have ensured that their acts are not influenced by any substantial shareholders, de facto controllers of the Company or any other units or individuals that have interests in the Company. The independent directors have made active contribution to protecting the interests of the Company as a whole and the legitimate rights and interests of all shareholders, as well as promoting the healthy development of the Company.

During the reporting period, the independent directors of the Company expressed no disagreement on all matters regarding the Company.

Corporate Governance Report

(II) CORPORATE GOVERNANCE STRUCTURE *(continued)***3. External Auditor**

The Group's external auditor is PricewaterhouseCoopers. The audit fee of the external auditor for the year 2006 was RMB4,300,000. The external auditor did not provide other non-audit services during 2006.

4. Supervisors and Supervisory Committee

On 13th June 2006, the election for all members of the Supervisory Committee of the Company was held and the fourth session of the Supervisory Committee was formed, for a term of 3 years ending at the date of the 2008 annual general meeting. The Supervisory Committee of the Company comprises of 3 supervisors. During the reporting period the Supervisory Committee met twice to discuss the annual results of 2005 and interim results of 2006.

The Supervisory Committee is accountable to all shareholders and exercises supervisory duty independently in accordance with the laws. Financial monitoring is the core responsibility among all of its specific duties. Besides, it is also responsible for supervising the due diligence of directors, managers and other senior management members of the Company. They also safeguard the Company's assets, lower the Company's financial and operational risks and protect the legitimate interests of the Company and shareholders.

5. The Management

The operational procedures of the Management are set out in section (III) "Compliance with the Code on Corporate Governance Practices and Other Information".

6. Audit Committee

The Board has established the Audit Committee to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company. The committee currently comprises all the independent non-executive directors of the Company, namely Mr. Poon Chiu Kwok (as Chairman), Mr. Eugene Liu and Mr. Liu Xian Fa. The independent non-executive director Mr. Eugene Liu is a qualified accountant with substantial experience in accounting and financial matters.

During 2006, the Audit Committee met twice to discuss the annual results of 2005 and interim results of 2006. The adequacy and effectiveness of the Company's internal control were also discussed in these meetings.

The duties and operational procedures of the Audit Committee are set out in section (III) "Compliance with the Code on Corporate Governance Practices and Other Information".

7. Remuneration Committee

The Board of the Company has established the Remuneration Committee. The committee members comprise Mr. Poon Chiu Kwok, Mr. Eugene Liu, Mr. Liu Xian Fa, Mr. Wu Guang Quan (as Chairman) and Mr. Sui Yong, 3 of which are independent non-executive directors.

During the year, the Remuneration Committee met once.

The duties and operational procedures of the Remuneration Committee are set out in section (III) "Compliance with the Code on Corporate Governance Practices and Other Information".

(III) COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

The Board reviewed the daily governance of the Company in accordance with the relevant code provisions of the Code during the reporting period and considered that, from 1st January 2006 to the date of this report, the Company regulated its operation and stringently governed in accordance with the relevant code provisions, and complied with the code provisions of the Code, save and except for the deviation from the code provision in respect of the segregation of duties of the roles of Chairman and Chief Executive Officer (General Manager) by two different individuals.

The Board and the management undertake to adhere to the code provisions of the Code. Detailed explanations on the Company's compliance with the Code are set out below.

Compliance with the Code on Corporate Governance Practices

A. Directors

A1. The Board

Code Principle

- The Board should assume responsibility for leadership and control of the issuer and be collectively responsible for directing and supervising the issuer's affairs. Directors should make decisions objectively in the interests of the issuer.

The best corporate governance status

- The Board of the Company reports to general meetings and fully represents the interests of shareholders and formulates the Company's development strategies in strict compliance with the "Rules of Proceedings for Board of Directors" within its terms of reference as stipulated by the Articles of Associations. The Board also monitors the implementation of the Company's operation management and its financial performance, and is responsible for preparing financial statements, with the primary mission of achieving operating results that generate the best stable long-term returns.

Corporate Governance Report

Compliance procedures of the Code – Code provisions

Code provision	Compliance	Corporate governance procedures																																						
<ul style="list-style-type: none">Regular Board meetings to be held at least 4 times a year, approximately once every quarter. A regular Board meeting does not include the practice of obtaining Board approval through circulation of written resolutions	Yes	<ul style="list-style-type: none">In 2006, the Company convened 10 Board meetings, including 4 regular meetings and 6 extraordinary meetings.Each of the Board meetings was actively participated by the majority of the directors who were entitled to attend, either voting in person or by proxy. Details of attendance of 2006 Board meetings:<table><tr><td>No of meetings held during the year</td><td>10</td></tr><tr><td>Executive Directors</td><td></td></tr><tr><td>Wu Guang Quan (<i>Chairman</i>)</td><td>10/10</td></tr><tr><td>Sui Yong</td><td>10/10</td></tr><tr><td>Yang Hai Zhong (Resigned on 13th June 2006)</td><td>7/7</td></tr><tr><td>Cheng Bao Zhong (Appointed on 13th June 2006)</td><td>3/3</td></tr><tr><td>Lai Wei Xuan</td><td>10/10</td></tr><tr><td>Liu Rui Lin</td><td>10/10</td></tr><tr><td>You Lei</td><td>10/10</td></tr><tr><td>Xu Dong Sheng</td><td>10/10</td></tr><tr><td>Wang Bao Ying</td><td>10/10</td></tr><tr><td>Non-executive Directors</td><td></td></tr><tr><td>Wang Bin Bin</td><td>7/10</td></tr><tr><td>Li Cheng Ning</td><td>8/10</td></tr><tr><td>Independent Non-executive Directors</td><td></td></tr><tr><td>Poon Chiu Kwok</td><td>9/10</td></tr><tr><td>Eugene Liu</td><td>9/10</td></tr><tr><td>Liu Xian Fa</td><td>8/10</td></tr><tr><td>Average attendance rate</td><td>93%</td></tr></table>	No of meetings held during the year	10	Executive Directors		Wu Guang Quan (<i>Chairman</i>)	10/10	Sui Yong	10/10	Yang Hai Zhong (Resigned on 13th June 2006)	7/7	Cheng Bao Zhong (Appointed on 13th June 2006)	3/3	Lai Wei Xuan	10/10	Liu Rui Lin	10/10	You Lei	10/10	Xu Dong Sheng	10/10	Wang Bao Ying	10/10	Non-executive Directors		Wang Bin Bin	7/10	Li Cheng Ning	8/10	Independent Non-executive Directors		Poon Chiu Kwok	9/10	Eugene Liu	9/10	Liu Xian Fa	8/10	Average attendance rate	93%
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Eugene Liu	9/10																																							
Liu Xian Fa	8/10																																							
Average attendance rate	93%																																							
<ul style="list-style-type: none">All directors are given an opportunity to include matters in the agenda for regular Board meetings	Yes	<ul style="list-style-type: none">All directors were given an opportunity to include matters in the agenda for regular Board meetings, and any major decisions would only be taken after deliberation at Board meetings.																																						

Corporate Governance Report

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> Notice of at least 14 days shall be given of a regular Board meeting 	Yes	<ul style="list-style-type: none"> Notice, agenda and the relevant information of each regular Board meeting were given 14 days prior to such meeting. Notice of the extraordinary Board meeting was also given within a reasonable time before the meeting so that all directors can arrange their time to attend the meeting to the best of their abilities.
<ul style="list-style-type: none"> All directors shall have access to the advice and services of the Secretary of the Board 	Yes	<ul style="list-style-type: none"> The Secretary of the Board maintained close communications with all directors and provided timely material information of the Company and the relevant updated rules, as well as contributed advice to the directors on matters arising from corporate governance and rules compliance, ensuring that the Board operation was in compliance with the procedures.
<ul style="list-style-type: none"> Minutes of meetings shall be kept by the Secretary of the Board and open for inspection by any director at any reasonable time 	Yes	<ul style="list-style-type: none"> The Secretary of the Board has been responsible for preparing and maintaining all minutes and the relevant meeting materials of the Company which were available for inspection by any director at any reasonable time.
<ul style="list-style-type: none"> Minutes of meetings shall record in sufficient detail the matters considered by the directors and decisions reached at meetings 	Yes	<ul style="list-style-type: none"> The minutes of meetings recorded the consideration, voting and opinions given by the directors in detail and were duly signed by directors attending the meetings.
<ul style="list-style-type: none"> Directors could seek independent advice under an agreed procedure at the Company's expense 	Yes	<ul style="list-style-type: none"> In respect of the matters that require advice from professional institutions, the Company will appoint professional institutions including accountants, lawyers, valuation firms, and so forth to issue written reports for the perusal of directors at the Company's expense.
<ul style="list-style-type: none"> If a substantial shareholder or a director has a conflict of interest in respect of a material matter, the connected director must abstain from voting 	Yes	<ul style="list-style-type: none"> The Company has established that, if a substantial shareholder or a director has a conflict of interest in respect of any material matter, the connected director must abstain from voting when a Board meeting is held.

Corporate Governance Report

A2. Chairman and Chief Executive Officer

Code Principle

- There should be a clear division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The best corporate governance status

- The positions of the Company's Chairman and General Manager were originally assumed by Mr. Wu Guang Quan. During the Board meeting held on 13th April 2007, the Board passed a resolution to approve the resignation of Mr. Wu Guang Quan as General Manager. The Board is currently in the process of selecting a new General Manager from suitable candidates. Since the Company is a holding company without daily operation businesses, the temporary vacant of General Manager has no material effect on the Company.

Compliance procedures of the Code – Code provisions

Code provision

Compliance

Corporate governance procedures

- | | | |
|---|-----|---|
| <ul style="list-style-type: none"> • Roles of the Chairman and the Chief Executive Officer should be separate and clearly established and set out in writing | No | <ul style="list-style-type: none"> • The positions of the Company's Chairman and General Manager were originally assumed by Mr. Wu Guang Quan. In order to better comply with the provisions stipulated in the Code and to further foster the business and development of the Company, during the Board meeting held on 13th April 2007, the Board of Directors passed a resolution to approve the resignation of Mr. Wu Guang Quan as General Manager. The Board is currently in the process of selecting a new General Manager from suitable candidates. Since the Company is a holding company without daily operation businesses, the temporary vacant of General Manager has no material effect on the Company. |
| <ul style="list-style-type: none"> • The Chairman should ensure all directors be briefed on issues arising at Board meetings | Yes | <ul style="list-style-type: none"> • The Board has established a reporting system in which at each Board meeting, the Chairman reports to each director the most updated status of the Company. The Chairman also tabled the decision-making on any material matters of the Group to the Board for collective discussion and voting by the directors at the meeting. |
| <ul style="list-style-type: none"> • The Chairman should ensure that the directors receive adequate information in a timely manner | Yes | <ul style="list-style-type: none"> • The Chairman has appointed the Secretary of the Board to timely provide all the information regarding the performance of the Board's obligations. |

Corporate Governance Report

A3. Board Composition
Code Principle

- The Board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The Board should also include a balanced composition of executive and non-executive directors (including independent non-executive directors) to ensure that independent judgment can be made effectively. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

The best corporate
governance status

- The Board of the Company comprises a total of 13 directors, including 8 executive directors, 2 non-executive directors and 3 independent non-executive directors. In 2006, the election of all members of the new session of the Board was held and the fourth session of the Board was formed. The term of the directors is 3 years that commenced from 13th June 2006 and will end at the 2008 annual general meeting in 2009.
- The directors are elected or replaced by General Meetings for a term of 3 years. The appointment of all directors is determined by the General Meeting. Directors can be re-elected when their terms expire. All directors appointed to fill a casual vacancy should be subject to election by shareholders at general meeting.
- Members of the Board have different industry background. They diversify in experience, competence and judgment, which make the Board more prudent and considerate when making decisions.
- There is no relationship among members of the Board, including financial, business, family or other material relationship.

Compliance procedures of the Code – Code provisions

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> • Identify the independent non-executive directors in all corporate communications 	Yes	<ul style="list-style-type: none"> • The Board members are disclosed in all corporate communications according to the types of directorship (including executive directors, non-executive directors and independent non-executive directors).

Corporate Governance Report

A4. Appointment, Re-election and Removal

Code Principle

- There should be a formal, considered and transparent procedure for the appointment of new directors and plans in place for orderly succession for appointments to the Board. All directors should be subject to re-election at regular intervals. The issuer should provide reasons for the resignation or dismissal of any director.

The best corporate governance status

- The Company does not have a Nomination Committee. The Board is responsible for the appointment of directors and nomination of suitable candidates for election at general meetings to fill a vacancy or to appoint new directors. To ensure an informed decision made by shareholders at the election, the circular or notice of the general meeting should enclose the details of director candidates, including the curriculum vitae of all candidates who stand for election or re-election. During the process of selection, criteria considered by the Board include the candidate's reputation, accomplishments and experience in the relevant industry, his/her professional and educational background, the amount of time that he/she can devote and related interests he/she has.

Compliance procedures of the Code – Code provisions

Code provision

Compliance

Corporate governance procedures

- Non-executive directors should be appointed for a specific term, subject to re-election

Yes

- The non-executive directors are appointed for a fixed term of 3 years. The current term of the existing non-executive directors will expire at the conclusion of the 2008 annual general meeting of the Company.

- Directors appointed to fill casual vacancies should be subject to election by shareholders at the first general meeting after their appointment. Each director should be subject to retirement by rotation at least once every 3 years

Yes

- The Articles of Association of the Company stipulate that each director is appointed for a term of 3 years but is eligible for re-election at a General Meeting after retirement.
- The election of all members of the new session of the Board was held at the 2005 annual general meeting of the Company held in 2006 and the fourth session of the Board was formed.

Corporate Governance Report

A5. Responsibilities of Directors
Code Principle

- Each director is required to keep abreast of responsibilities as a director of the issuer and of the conduct, business activities and development of the issuer.

The best corporate
governance status

- A comprehensive director's handbook is issued to every director, which sets out guidelines on conduct by making reference to the relevant sections of the statutes or the Listing Rules, and reminds directors of their responsibilities in making disclosure of their interests and potential conflict of interests.
- Orientation programmes are organized for providing an induction to new directors to help them familiarize with the Company's management, business and governance practices.
- The management provides appropriate and sufficient information to directors and committee members in a timely manner to keep them apprised of the latest development of the Group and to enable them to discharge their responsibilities. Directors also have independent and unrestricted access to senior executives of the Company.

Compliance procedures of the Code – Code provisions

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> • Each new director should receive an induction on the first occasion of his/her appointment to ensure he/she has a proper understanding of the business and operation of the issuer and of his/her responsibilities under legal requirements and the regulatory policy 	Yes	<ul style="list-style-type: none"> • A comprehensive information package containing an introduction to the Group's operations, a brief introduction to directors' responsibilities and duties and other statutory requirements will be provided to new directors upon their appointment. • All non-executive directors will be provided with reports on business progress, financial objectives, development plans and strategic plans regularly by the management. • The Secretary of the Board is responsible for organizing the orientation programmes for providing an induction to new directors to help them familiarize with the Company's management, business and governance practices.

Corporate Governance Report

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> Responsibilities of non-executive directors 	Yes	<ul style="list-style-type: none"> Non-executive directors have actively participated in Board meetings and served as committee members, reviewed the achievement of the Company's business objectives and provided independent opinions on the Board's decision making.
<ul style="list-style-type: none"> Each director should ensure that he/she can give sufficient time to deal with the affairs of the issuer 	Yes	<ul style="list-style-type: none"> All directors of the Company have worked hard and faithfully performed their duties. The attendance at Board meetings and meetings of various committees in 2006 was satisfactory.
<ul style="list-style-type: none"> Directors must comply with the Model Code as set out in Appendix 10 	Yes	<ul style="list-style-type: none"> The Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules has been adopted as a code of securities transactions for directors and supervisors of the Company. The Company, having made specific enquiries to its directors and supervisors, confirms that, throughout the financial year ended 31st December 2006, all directors and supervisors met the criteria laid down in the said code for securities transactions for directors.

Corporate Governance Report

A6. Supply of and Access to Information

Code Principle

- Directors should be provided in a timely manner with appropriate information to enable them to make an informed decision and to discharge their duties and responsibilities.

The best corporate governance status

- The Secretary of the Board is responsible for providing all information to directors, including meeting documents of all meetings of the Board and specialized committees; providing reports on business progress, financial objectives, development plans and strategic plans of the Company regularly and the latest information on the Listing Rules and other statutory requirements; and improving the quality and timeliness of information on a continuous basis.

Compliance procedures of the Code – Code provisions

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> • Meeting documents should be sent to directors at least 3 days before the date of a Board/committee meeting 	Yes	<ul style="list-style-type: none"> • Meeting materials were sent to directors at least 3 days before the date of each Board/committee meeting.
<ul style="list-style-type: none"> • The management has the responsibility to provide sufficient information to the Board and its committees in a timely manner so that the Board can make informed decisions. Each director could have separate and independent access to the Company's senior management for making further enquiries 	Yes	<ul style="list-style-type: none"> • The management provided sufficient information to the Board and its committees in a timely manner. Director could have separate and independent access to the Company's senior management for obtaining necessary information. The Board and the committees would make arrangements for relevant members of the senior management to attend their meetings and report the latest situation about operations, including the background or explanatory information on matters to be submitted to the Board for consideration, disclosure documents, budgets, forecasts and monthly financial statements and other relevant internal financial statements.
<ul style="list-style-type: none"> • All directors are entitled to have access to Board papers and related materials. Steps must be taken by the issuer to respond as promptly and fully as possible to queries raised by directors 	Yes	<ul style="list-style-type: none"> • All Board papers and related materials have been kept by the Secretary of the Board for inspection by directors at any time. The Board and the committees have also made arrangements for relevant members of the senior management to attend their meetings and report the latest situation about operations and respond to queries.

Corporate Governance Report

*B. Remuneration of Directors and Senior Management***B1. The Level and Make-up of Remuneration and Disclosure**

Code Principle	<ul style="list-style-type: none"> The Company should establish a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration package for all directors. No director should be involved in deciding his/her own remuneration.
The best corporate governance status	<ul style="list-style-type: none"> The Company has established the Remuneration Committee, with its scope of duties including formulating and reviewing the remuneration policy and plan for the Company's directors and managers. No director is involved in deciding his own remuneration. During the year, the directors' fees paid by the Company to the independent non-executive directors Mr. Poon Chiu Kwok and Mr. Eugene Liu amounted to HK\$150,000 each person per year and the directors' fees paid to the independent non-executive director Mr. Liu Xian Fa amounted to RMB50,000. Other than the directors' fees, the independent non-executive directors have not received other compensation from the Company. The fees for directors are determined with reference to the average market level and the Company's current status.

Compliance procedures of the Code – Code provisions

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> The issuer should establish the Remuneration Committee with a majority of members of the committee are independent non-executive directors 	Yes	<ul style="list-style-type: none"> The Board of the Company has established the Remuneration Committee. The committee members comprise Mr. Poon Chiu Kwok, Mr. Eugene Liu, Mr. Liu Xian Fa, Mr. Wu Guang Quan and Mr. Sui Yong, 3 of which are independent non-executive directors.
<ul style="list-style-type: none"> The Remuneration Committee should consult the Chairman or the Chief Executive Officer about their proposals relating to the remuneration of other executive directors 	Yes	<ul style="list-style-type: none"> The Chairman of the Board of the Company also acts as the Chairman of the Remuneration Committee.

Corporate Governance Report

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> The responsibilities of the Remuneration Committee 	Yes	<ul style="list-style-type: none"> The Board has established the Remuneration Committee with specific authority and responsibilities.
<ul style="list-style-type: none"> The Remuneration Committee should make available its terms of reference and be provided with sufficient resources to discharge its duties 	Yes	<p>The major responsibilities of the Remuneration Committee are:</p> <ul style="list-style-type: none"> – To formulate remuneration policy and make recommendations on the annual remuneration review; – To determine the remuneration of executive directors and members of the senior management. <ul style="list-style-type: none"> The terms of reference of the Remuneration Committee have been disclosed in the 2005 annual report of the Company. The Company also provides sufficient resources for the Committee to discharge its duties.

Corporate Governance Report

C. Accountability and Audit

C1. Financial Reporting
Code Principle

- The Board should present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects.

The best corporate
governance status

- The Board has strived to provide comprehensive information in all regular financial reports issued to shareholders so as to comply with the requirements of the Listing Rules and continues to improve the "Management Discussion and Analysis" section, thereby disclosing comprehensive information on the Company's production and operation, finance and project development. Meanwhile, it also takes the initiative to increase the amount of information, including information on the Company's operating environment, development strategies and corporate culture, and to enhance the corporate governance report, so as to give a comprehensive, objective, fair and clear presentation of the Company's operating management conditions and prospects.

Compliance procedures of the Code – Code provisions

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> • The management will provide sufficient explanation and information to enable the Board to make assessment of the relevant matters 	Yes	<ul style="list-style-type: none"> • The management of the Company has provided comprehensive reports on the Company's business progress, financial objectives, development plans and strategic plans to the Board at all Board meetings to enable all directors to make assessment with merits on the financial and other information submitted to them for approval.
<ul style="list-style-type: none"> • Directors should acknowledge their responsibilities for preparing the accounts; there should be a statement by the auditors about their responsibilities in the report 	Yes	<ul style="list-style-type: none"> • Directors have been responsible for overseeing the preparation of annual accounts so that the accounts could give a comprehensive, true and fair view of the Company's operational results. • The auditors' report stated their reporting responsibilities.
<ul style="list-style-type: none"> • The Board should present a balanced, clear and comprehensible assessment of the Company's performance in regular reports, announcements on share price-sensitive information and other financial information required to be disclosed 	Yes	<ul style="list-style-type: none"> • The Board gave an objective, fair and clear presentation of the Company's position and prospects in all circulars issued to shareholders. • The information disclosed by the Company at the annual and interim results and reports would be sufficient for shareholders to assess the performance, financial position and prospects of the Company.

C2. Internal Control
Code Principle

- The board should ensure that the issuer maintains a sound and effective internal control system to safeguard shareholders' investment and the issuer's assets.

The best corporate
governance status

- The Board has authorized the Audit Committee to establish and implement the internal control system and conduct reviews on the financial, operating and regulatory procedures to safeguard the Group's assets and shareholders' interests. Currently, the system is under further establishment and improvement.
- Through the Auditing Department and based upon various businesses and workflows, the Company conducts inspection, supervision and assessment of financial position, operation and internal control of all subsidiaries on a regular basis. Besides, it has appointed external audit institutions to audit the financial reports of the Company regularly pursuant to HKFRS and provide independent and objective evaluations and recommendations in the form of an audit report.
- The Company has initiated a comprehensive risk management system, of which the legal risk control and management of ownership have been systemized, standardized with established procedures.
- The Company has appointed accountants with qualifications of the HKICPA pursuant to the requirements of the Stock Exchange to assist the accountants of the Company, and cooperated with the Audit Committee to audit the Company's financial reports and relevant accounts regularly and reported to the Board.

Corporate Governance Report

Compliance procedures of the Code – Code provisions

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> Directors should conduct at least once a year a review of the effectiveness of the internal control system including financial control, operating control, compliance control and risk management functions 	Yes	<ul style="list-style-type: none"> The Board, through the Audit Committee, reviews the internal control system over financial, operational and compliance issues every year. Through the Auditing Department and based upon the various businesses and workflows, the Company conducts inspection, supervision and assessment of financial position, operation and internal control of all subsidiaries on a regular basis. The Audit Committee concluded that, in general, the Company has set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance. The Board, through the review of the Audit Committee, is satisfied that the Group in 2006 fully complied with the code provisions on internal controls as set forth in the Code. The Company has ensured that the information disclosed in all circulars issued to shareholders is meaningful information and that the information do not contain misrepresentations, misleading statements or major omissions and is jointly and severally responsible for the truth, accuracy and integrity of the statements contained therein.

Corporate Governance Report

C3. Audit Committee
Code Principle

- The Board should make formal and transparent arrangements regarding how to apply principles related to financial reporting and internal control, as well as how to maintain a proper relationship with the Company's auditors. The terms of reference of the Audit Committee established by the issuer in compliance with the Listing Rules should be specified clearly.

The best corporate
governance status

- The Board has established the Audit Committee to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company. The committee currently comprises all the independent non-executive directors, namely Mr. Poon Chiu Kwok (as Chairman), Mr. Eugene Liu and Mr. Liu Xian Fa. The independent non-executive director Mr. Eugene Liu is a qualified accountant with substantial experience in accounting and financial matters.
- During 2006, the Audit Committee met twice to discuss the annual results of 2005 and interim results of 2006. The adequacy and effectiveness of the Group's internal control are also discussed in these meetings.
- The Audit Committee makes at least one direct contact with external auditors of the Company each year to understand the procedures and principles for the preparation of the auditors' report so as to serve as a basis for evaluation.
- The major responsibilities of the Audit Committee are:
 - To serve as a focal point for communication between Directors, the external auditors and internal auditors;
 - To assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, and the effectiveness of the Group's internal control system;
 - To review the appointment of external auditors on an annual basis as well as to ensure independence of the continuing auditor.

Corporate Governance Report

Compliance procedures of the Code – Code provisions

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> Full minutes of the Audit Committee meetings should be kept by a duly appointed secretary of the meeting and should be confirmed by all members of the Committee 	Yes	<ul style="list-style-type: none"> The Secretary of the Board has been responsible for compiling and keeping the minutes and relevant meeting materials of the Committee. The minutes reflected the consideration and voting situation of the meetings in an objective and detailed way and were signed by all directors attending the meetings for confirmation.
<ul style="list-style-type: none"> A former partner of the existing auditors should not sit on the Audit Committee 	Yes	<ul style="list-style-type: none"> None of the Audit Committee members is a former partner of the external auditors.
<ul style="list-style-type: none"> The terms of reference of the Audit Committee should be made available 	Yes	<ul style="list-style-type: none"> The terms of reference of the Audit Committee of the Company have been specified and disclosed in the 2005 annual report of the Company.
<ul style="list-style-type: none"> The Board should obtain opinions from the Audit Committee on the selection or removal of external auditors 	Yes	<ul style="list-style-type: none"> The Audit Committee makes recommendations on the selection or removal of external auditors to the Board, subject to approval by the Board.
<ul style="list-style-type: none"> The Audit Committee should be provided with sufficient resources to discharge its duties 	Yes	<ul style="list-style-type: none"> The Audit Committee may seek necessary independent advice pursuant to the established procedures at the Company's expense.

Corporate Governance Report

*D. Delegation by the Board***D1. Management Functions****Code Principle**

- The issuer should specify matters reserved to the Board for its decision and those delegated to the management and should give directions to the management as to the matters that must be approved by the Board.

The best corporate governance status

- The main functions and duties of the Board include convening general meetings, being responsible for making the Company's operational plans, development strategies, investment and financing plans and establishment of the internal management organization; preparing the Company's annual budget, final accounts and profit distribution scheme; formulating corporate merger, demerger, dissolution proposals and significant acquisition or sale proposals; and implementing the resolutions passed at general meetings.
- The Board may delegate part of its functions and duties to specialized committees and the management and specify matters requiring approval by the Board.

Compliance procedures of the Code – Code provisions

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> • When the Board delegates aspects of its management and administration functions to the management, it must at the same time give clear directions as to the authorities of the management 	Yes	<ul style="list-style-type: none"> • The Board has delegated the day-to-day management responsibility to the management staff under the instruction and supervision of the Chief Executive Officer and various Board committees. • The management is accountable to the Board. When exercising its power, the management cannot surpass its terms of reference and resolutions of Board meetings.
<ul style="list-style-type: none"> • The issuer should separately identify functions reserved to the Board and those delegated to the management and conduct reviews on a regular basis 	Yes	<ul style="list-style-type: none"> • The Company has in its articles specified the matters that required to be resolved at Board meetings and the Board conducted reviews on the functions to be delegated to the management regularly.

Corporate Governance Report

D2. Board Committees
Code Principle

- Board committees should be formed with specific written terms of reference that deal clearly with the committees' authorities and duties.

The best corporate
governance status

- The Board of the Company has established 2 specialized committees, including the Audit Committee and the Remuneration Committee.
- Each committee has defined rules for operation that deal clearly with the committee's authority and duties as well as the procedures for handling matters.
- Meetings of all committees will be convened regularly to report their working progress and discussion results to the Board. Most members have actively participated in committee affairs. The Secretary of the Board offers comprehensive assistance to facilitate commencement of the work of all committees.
- The governance structure and meetings attendance record of the committees for the year 2006 are set out below:

**Major roles
and functions****Composition
of members****Attendance**

Audit Committee	• To serve as a focal point for communication between Directors, the external auditors and internal auditors	Poon Chiu Kwok	2/2
		Eugene Liu	2/2
		Liu Xian Fa	2/2
	• To assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, and the effectiveness of the Company's internal control system		
	• To review the appointment of external auditors on an annual basis as well as to ensure independence of the continuing auditor		

Total number of meetings held in 2006: 2

Corporate Governance Report

Major roles and functions	Composition of members	Attendance
Remuneration Committee	<ul style="list-style-type: none"> To formulate remuneration policy and make recommendations on the annual remuneration review To determine the remuneration of executive directors and members of the senior management 	Wu Guang Quan 1/1 Sui Yong 1/1 Poon Chiu Kwok 1/1 Eugene Liu 1/1 Liu Xian Fa 1/1

Total number of meetings held in 2006: 1

Compliance procedures of the Code – Code provisions

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> The Board should specify clearly the terms of reference of the committees so that the committees can perform their duties properly 	Yes	<ul style="list-style-type: none"> The two committees established by the Board have adopted their respective Detailed Rules of Operation to provide guidance on their decision-making procedures and performance of duties. For the terms of reference of the committees, please see "A4. Appointment, Re-election and Removal", "B1. The Level and Make-up of Remuneration and Disclosure" and "C3. Audit Committee".
<ul style="list-style-type: none"> The terms of reference of the committees should require them to report to the Board their decisions and recommendations 	Yes	<ul style="list-style-type: none"> The committees have reported their decisions and recommendations to the Board after each meeting and submitted to the Board for consideration the matters that required to be decided by the Board.

Corporate Governance Report

*E. Communication with Shareholders***E1. Effective Communications**

Code Principle	<ul style="list-style-type: none"> The Board should endeavor to maintain on-going dialogues with shareholders and in particular, by means of annual general meetings or other general meetings to communicate with shareholders and encourage their participation.
The best corporate governance status	<ul style="list-style-type: none"> The Board endeavored to maintain on-going communications with shareholders and regarded the annual general meeting as a major opportunity to contact individual shareholders. All shareholders holding shares of the Company are entitled to attend the annual general meeting. The Company issues the shareholders' notices at least 45 days before a general meeting. The Company issues the notice and the attached annual report, which contain the matters for consideration at the meeting and the voting procedures in detail, at least 45 days before the annual general meeting.

Compliance procedures of the Code – Code provisions

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the Chairman of that meeting 	Yes	<ul style="list-style-type: none"> Separate resolutions were proposed at the general meeting on each substantially separate issue, including the election of individual directors.
<ul style="list-style-type: none"> The Chairman of the Board should attend the annual general meeting and arrange for the Chairmen or members of the committees to be available to answer questions at the meeting 	Yes	<ul style="list-style-type: none"> The Chairman of the Board has attended and presided over the annual general meeting and has arranged for representatives of all committees and the management of the Company to be available to answer questions raised by shareholders at the meeting.

Corporate Governance Report

E2.	Voting by Poll Code Principle	<ul style="list-style-type: none"> The issuer should notify shareholders on a regular basis regarding procedures related to the voting by poll and ensure the procedures are in compliance with the requirements related to voting by poll stipulated in the Listing Rules and the issuer's own Articles of Association.
	The best corporate governance status	<ul style="list-style-type: none"> The Company has formulated the "Corporate Governance Practices" specifying the voting format and the voting procedures of general meetings and ensured that the format and procedures comply with the requirements contained in the Listing Rules and the Articles of Association.

Compliance procedures of the Code – Code provisions

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> The procedures for voting by poll and the right of shareholders demanding voting by poll should be disclosed in the circular of the general meeting. The Chairman of a meeting and/or directors who individually or collectively hold proxies should disclose the votes represented by all proxies held by directors at the meeting 	Yes	<ul style="list-style-type: none"> The circular of a general meeting contained the details of the matters for consideration at the meeting and the voting procedures. The relevant procedures were also explained at the meeting. The Chairman of the meeting disclosed the voting rights represented by proxies during voting.
<ul style="list-style-type: none"> Ensure the votes cast are properly counted and recorded 	Yes	<ul style="list-style-type: none"> If poll voting is needed, the Company appointed appropriate persons as scrutineers to properly count and record the valid votes.
<ul style="list-style-type: none"> The Chairman of a meeting should explain the procedures for voting by poll and for raising questions by shareholders before the commencement of the meeting 	Yes	<ul style="list-style-type: none"> The Chairman of the meeting took care of the meeting procedures and questions raised by shareholders, and conducted a poll after all shareholders had gained a full understanding of the resolutions.