

The Company has made continuous effort to ensuring high standards of corporate governance. The principles of corporate governance adopted by the Company emphasizes a quality board, sound internal controls and accountability to shareholders and these are based upon an established ethical corporate culture.

## CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in the Appendix 14 of the Listing Rules during the year ended 31 December 2006, with an exception of the code provision A.2.1 of the CG Code that stipulates the roles of Chairperson and Chief Executive Officer should be separate and should not be performed by the same individual.

## THE BOARD OF DIRECTORS

The overall management of the Group's business is vested in the Board. Key responsibilities include formulation of the Group's overall strategies and policies, setting of performance targets, evaluation of business performance and oversight of management.

As at 31 December 2006, the Board comprised nine Directors, including four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. Non-executive Directors and Independent Non-executive Directors are appointed for a term of three years from their respective dates of appointment. For a Director to be considered independent, the Board must determine the Director does not have any direct or indirect material relationship with the Group. In determining the independence of the Directors, the Board follows the requirements set out in the Listing Rules. Biographical details of the Directors are set out on pages 21 to 24.

The Board meets regularly and at least four times a year. Between scheduled meetings, senior management of the Group provides to the Directors information on a timely basis on the activities and development in the businesses of the Group and when required, additional Board meetings are held. In addition, Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board to ensure that the Board acts in the best interests of the Group and Board meetings are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. With the support of the Company Secretary and other senior management, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. The Chairman also actively encourages Directors to fully engage in the Board's affairs and make contribution to the Board's functions.

The Board held five meetings in 2006 and two meetings to date in 2007. The attendance record of each member of the Board in 2006 is set out below:

Directors	Attendance of Board meetings in 2006
<i>Executive Directors</i>	
Song Jiacheng ( <i>Chairman</i> )	5/5
Cao Yu	5/5
Peng Kaichen	5/5
Xu Shaowen	5/5
<i>Non-executive Directors</i>	
Zeng Jun	4/5
Lee Kwan Hung, Eddie	5/5
<i>Independent Non-executive Directors</i>	
Chang Tso Tung, Stephen	5/5
Chan Chi On, Derek	5/5
Sun Lun	4/5

## BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board established the following Board committees in 2006 to oversee particular aspects of the Group's affairs. Each of these committees comprises entirely Non-executive Directors who have been invited to serve as members. These committees are governed by the respective terms of reference approved by the Board.

## AUDIT COMMITTEE

The Audit Committee consists of three Independent Non-executive Directors with Mr Chang Tso Tung, Stephen as the chairman. Other members are Mr Chan Chi On, Derek and Mr Sun Lun. At the discretion of the Audit Committee, Executive Directors and/or senior management personnel overseeing the Group's finance or internal audit functions may be invited to attend meetings. The Audit Committee normally meets four times a year.

The duties of the Audit Committee include, among other things, reviewing and monitoring the financial and internal control aspects of the Group. The Audit Committee reviews the truth and fairness of the Group's interim and annual financial statements, discusses with the external auditors the nature and scope of audit before the audit commences as well as the findings and recommendations raised by the auditors during and after completion of the audit. The Audit Committee conducts an assessment, at least annually, of the effectiveness of the Group's internal controls. This allows the Board to monitor the Group's overall financial position and to protect its assets. In addition, the Audit Committee supervises the internal audit function. The chairman of the Audit Committee summaries activities of the Audit Committee, highlights issues arising therefrom, and provides recommendations for reporting to the Board after each meeting.

The Audit Committee held four meetings in 2006 and three meetings to date in 2007. The attendance record of each member of the Audit Committee in 2006 is set out below:

Directors	Attendance of Audit Committee Directors meetings in 2006
Chang Tso Tung, Stephen ( <i>Chairman</i> )	4/4
Chan Chi On, Derek	4/4
Sun Lun	4/4

## REMUNERATION COMMITTEE

The Remuneration Committee consists of one Non-executive Director and two Independent Non-executive Directors with Mr Chan Chi On, Derek, an Independent Non-executive Director, as the chairman. Other members are Mr Chang Tso Tung, Stephen and Mr Lee Kwan Hung, Eddie. At the discretion of the Remuneration Committee, Executive Directors and/or senior management personnel overseeing the Group's human resource function may be invited to attend meetings.

The duties of the Remuneration Committee include, among other things, review the remuneration packages of Directors and senior management of the Group to assist the Board in attracting, retaining and motivating the right people to manage the business of the Group. In addition, the Remuneration Committee assesses the performance of the Executive Directors and senior management. The chairman of the Remuneration Committee summarises activities of the Remuneration Committee and provides recommendations for reporting to the Board after each meeting.

The Remuneration Committee held two meetings in 2006 and one meeting to date in 2007. The attendance record of each member of the Remuneration Committee in 2006 is set out below:

Directors	Attendance of Remuneration Committee Directors meeting in 2006
Chan Chi On, Derek ( <i>Chairman</i> )	2/2
Chang Tso Tung, Stephen	2/2
Lee Kwan Hung, Eddie	2/2

## NOMINATION OF DIRECTORS

Having considered the scale and composition of the Board, the Company does not set up a nomination committee. The function of appointment and removal of Directors is undertaken by the Board. When considering candidates for directorship, the Board assesses, among others, experience level, qualifications and independence of candidates, if appropriate.

## COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or

was not, in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2006 except that both the roles of chairman and chief executive officer of the Company are performed by Mr Song Jiacheng ("Mr Song"), which constitutes a deviation from the Code Provision A.2.1 which stipulates that the chairman and chief executive officer should be separate and should not be performed by the same individual. However, due to the fact that Mr Song is a founder of the business of the Group and possesses substantial experience that is valuable to the Group's operations, the Board of Directors considered that it is in the best interests of the Company and its shareholders currently to have Mr Song to serve these roles. The Company therefore does not currently intend to separate Mr Song's roles as the chairman and the chief executive officer.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by Directors. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code regarding securities transactions by Directors throughout the year ended 31 December 2006.

The Company has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers the Independent Non-executive Directors to be independent.

## INTERNAL CONTROL

The Board has overall responsibility for the internal control system of the Company. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company. During the year under review, the Board has conducted reviews of the internal control system of the Company and considered the internal control system of the Company has implemented effectively.

## COMMUNICATION WITH SHAREHOLDERS

The annual general meeting and extraordinary general meeting provide useful forum for shareholders to exchange views with the Board. At the 2005 Annual General Meeting and the Extraordinary General Meeting held in 2006, the Chairman of the Board as well as the Chairman of the Audit Committee and the Remuneration Committee were present to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Details of the poll voting procedures and the rights of shareholders to demand a poll were included in the circulars to shareholders. The said circulars also contained relevant details of the proposed resolutions, including biography of each Directors standing for re-election.

At the 2005 Annual General Meeting and the Extraordinary General Meeting held in 2006, all the resolutions were dealt with on a show of hands and were passed by shareholders.

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The following statement, which sets out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Auditor's Report on pages 36 to 37 which acknowledges the reporting responsibilities of the Group's auditor.

### Accounts

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

### Going Concern

The Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

## AUDITOR

The Audit Committee has received a letter from PricewaterhouseCoopers confirming their independence and objectivity. Details of fees paid or payable to PricewaterhouseCoopers for the year ended 31 December 2006 are as follows:

	RMB'000
2006 interim review	429
2006 annual audit	1,680
<b>Total</b>	<b>2,109</b>