



CORPORATE GOVERNANCE REPORT

As the Company was listed on 26 April 2007, the Company was not a listed company during the period 1 January 2007 to 25 April 2007. Nevertheless, as part of the preparation for the listing, the Company enhanced its corporate governance practices to comply with the Listing Rules requirements.

The Board of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2007.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "CG Code").

In the opinion of the directors, the Company has complied with the code provisions set out in the CG Code throughout the period from the Listing Date to the year ended 31 December 2007.

The Company reviews its corporate governance practices regularly to ensure compliance with the CG Code.

THE BOARD

During the year ended 31 December 2007, the Company held nine Board meetings in total for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Company's businesses, strategic decisions and performances. The senior management is delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Company. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their terms of reference respectively.

Every director carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

Board Composition

The Board currently comprises 11 members, consisting of 5 executive directors, 2 non-executive directors and 4 independent non-executive directors.

The list of all directors is set out under "Corporate Information" on pages 34 to 35 and the independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The Board of the Company comprises the following directors:

Executive directors:

Duan Yuxian, Chairman (who is also the chairman within the meaning of the CG Code)

Li Chaochun, Vice-chairman

Wu Wenjun, General Manager (who is also the chief executive officer within the meaning of the CG Code)

Li Faben

Wang Qinxu

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Non-executive directors:

Xu Jun, member of the remuneration committee

Zhang Yufeng, member of the audit committee

Independent non-executive directors:

Gao Dezhu, chairman of the remuneration committee and member of the audit committee

Zeng Shaojin, member of the remuneration committee

Gu Desheng, member of the audit committee and remuneration committee

Ng Ming Wah, Charles, chairman of the audit committee

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

During the year ended 31 December 2007, the Board, at all times, met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received a written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, supervising issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions that affect the direction of the Company.

CHAIRMAN AND GENERAL MANAGER

The roles and duties of the Chairman and the General Manager of the Company are carried out by different individuals and with roles that have been clearly defined in writing.

The Chairman of the Board is Mr. Duan Yuxian, who provides leadership for the Board and is also responsible for chairing the meetings, leading the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. The General Manager, Mr. Wu Wenjun, is responsible for running the Company's business operations and implementing the Group's strategic plans and business goals.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the non-executive directors of the Company is appointed for a term of 3 years and is subject to retirement by rotation once every three years.

In accordance with the Company's Articles of Association ("Articles of Association"), all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Articles of Association. The Board as a whole is responsible for reviewing the Board composition, monitoring the appointment, nomination and succession planning of directors and assessing the independence of independent non-executive directors.



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INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS

Each newly appointed director receives a comprehensive, formal and tailored induction on the first occasion of his appointment so as to ensure that he has an appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The directors regularly updated with legal and regulatory developments as well as business and market changes to facilitate the discharge of their responsibilities. Continual briefings and professional development for directors will be arranged whenever necessary.

BOARD MEETINGS

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agendas for each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company so as to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The senior management attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Articles of Association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions where such directors or any of their associates have a material interest.

Directors' Attendance Records

The attendance records of each director at the meetings of the Board, remuneration committee and audit committee during the year ended 31 December 2007 are set out below:

Name of Directors	Attendance/Number of Meetings		
	Board	Remuneration Committee	Audit Committee
Mr. Duan Yuxian	9/9	N/A	N/A
Mr. Li Chaochun	9/9	N/A	N/A
Mr. Wu Wenjun	9/9	N/A	N/A
Mr. Li Faben	9/9	N/A	N/A
Mr. Wang Qinxu	8/9	N/A	N/A
Mr. Xu Jun	9/9	4/4	N/A
Mr. Zhang Yufeng	8/9	N/A	2/3
Mr. Gao Dezhu	9/9	4/4	3/3
Mr. Zeng Shaojin	6/9	2/4	N/A
Mr. Gu Desheng	8/9	3/4	2/3
Mr. Ng Ming Wah, Charles	8/9	N/A	3/3

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MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. Specific enquiry has been made on all directors and they have confirmed that the Model Code has been complied with throughout the year ended 31 December 2007.

The Company has also established written guidelines equally stringent to the Model Code (the “Employees Written Guidelines”) for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees has been noted by the Company.

DELEGATION BY THE BOARD

The Board reserves for its decisions all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are complied with. In appropriate circumstances, directors may seek independent professional advice relating to such queries at the Company’s expense upon making such request to the Board.

The day-to-day management, administration and operations of the Company are delegated to the General Manager and the senior management. The delegated functions and work tasks are periodically reviewed. Prior to any significant transactions entered into by the abovementioned officers, approval has to be obtained from the Board.

The Board has established 3 committees, namely, the remuneration committee, audit committee and strategic committee for overseeing particular aspects of the Company’s affairs. All Board committees of the Company are established with defined written terms of reference.



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REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies regarding remuneration of directors and senior management of the Company. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2007 are set out in the note 11 to the consolidated financial statements.

REMUNERATION COMMITTEE

The remuneration committee comprises 4 members, namely Mr. Gao Dezhu (chairman), Mr. Zeng Shaojin, Mr. Gu Desheng and Mr. Xu Jun. The majority of them are independent non-executive directors.

The roles and functions of the remuneration committee are set out in its terms of reference. Its primary functions include: making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration; and facilitating the determination of remuneration by reference to the performance of the individual and the Company as well as market practice and conditions.

The remuneration committee has reviewed the remuneration policy and structure of the Company and the remuneration packages of the executive directors and the senior management for the year ended 31 December 2007.

The remuneration committee held 4 meetings during the year ended 31 December 2007 and the attendance records are set out under "Directors' Attendance Records" on page 18.

AUDIT COMMITTEE

Written terms of reference of the audit committee based primarily on "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants have been adopted by the Board.

The audit committee provides an important link between the Board and the Company's auditor in matters falling within the Group's scope of the audit.

The audit committee will review the effectiveness of the external audit and internal controls and evaluate risks to provide comments and advice to the Board. The audit committee comprises three independent non-executive directors, namely Messrs. Ng Ming Wah, Charles, Gao Dezhu and Gu Desheng, and one non-executive director, namely Mr. Zhang Yufeng, with Mr. Ng Ming Wah, Charles as the chairman of the committee. The audit committee has reviewed the Group's annual results with the auditor for the year ended 31 December 2007.

The main duties of the audit committee include the following:

- to review the consolidated financial statements and reports and consider any significant or unusual items raised by the qualified accountant, internal auditor or external auditors before submission to the Board;
- to acquaint with the work performed by the auditor, their fees and terms of engagement to review the relationship between the Company and the external auditor, and to make recommendations to the Board on the appointment, re-appointment and removal of external auditors; and
- to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.



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The audit committee provides supervision on the internal controls system of the Group, report to the Board on any material issues and makes recommendations to the Board.

During the year ended 31 December 2007, the audit committee reviewed, the interim results for the six months ended 30 June 2007 and, the annual results for the year ended 31 December 2007. The audit committee also reviewed the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management and processes and the re-appointment of the external auditors.

The audit committee held 3 meetings during the year ended 31 December 2007 and the attendance records are set out under "Directors' Attendance Records" on page 18.

STRATEGIC COMMITTEE

The strategic committee is responsible for formulating the overall development plans and investment decision-making procedures of the Group. The strategic committee comprises five executive directors, namely Messrs. Duan Yuxian, Li Chaochun, Wu Wenjun, Li Faben and Wang Qinxi and three independent non-executive directors, namely Messrs. Gao Dezhu, Gu Desheng and Zeng Shaojin, with Mr. Duan Yuxian serving as the chairman of the committee.

SUPERVISORY COMMITTEE

The supervisory committee of the Company comprises three members, namely Mr. Shu Hedong (chairman), Mr. Yin Dongfang and Mr. Deng Jiaoyun. The supervisory committee is responsible for exercising supervision over the Board and its members and senior management; and preventing them from abusing their power and authorities and jeopardizing the legal interests of the shareholders, the Company and its employees. During the year ended 31 December 2007, the committee held two meetings to review the financial positions of the Company and launched various activities endeavors by adhering to the principle of good faith.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2007.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management provides explanations and information to the Board for approval so as to enable the Board to make an informed assessment of the financial information and position of the Company.



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INTERNAL CONTROLS

During the year ended 31 December 2007, the Board has conducted a review of the effectiveness of the internal control system of the Company.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and for reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor and senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the audit committee on any findings and measures to address the variances and identified risks.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on page 36.

During the year ended 31 December 2007, the remuneration paid to the Company's auditor, Messrs Deloitte Touche Tohmatsu, is set out below:

Category of services	Fee paid/payable <i>HK\$'000</i>
Annual audit service	2,700
Special interim audit services	3,900
Non-audit service	
— Listing service as reporting accountants	2,950
Total	9,550

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The chairman of the Board as well as chairmen of the audit committee, remuneration committee and strategic committee or their representatives shall attend the forthcoming annual general meeting to answer questions of the shareholders.

SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings at which voting is taken on a poll are contained in the Articles of Association. Details of such rights to demand a poll will be included in all circulars to shareholders and will be explained during the proceedings of meetings.