

Corporate Governance Report

The Company is committed to maintaining the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value.

In the opinion of the Board, the Company had complied with all code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year and up to the date of publication of this report, except for the one deviation disclosed hereinbelow.

BOARD OF DIRECTORS

Composition and role

The Board currently consists of sixteen directors: comprising eleven executive directors, namely, Mr. Zhang Honghai, Mr. Liu Kai, Mr. E Meng, Mr. Jiang Xinhao, Mr. Hu Xiaoyong, Mr. Zhou Min, Mr. Li Haifeng, Mr. Zhang Tiefu, Mr. Hou Feng, Ms. Qi Xiaohong, Mr. Ju Yadong; and five independent non-executive directors ("INED(s)"), namely, Mr. Shea Chun Lok, Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Ms. Hang Shijun and Mr. Wang Kaijun. One of the INEDs namely, Mr. Shea Chun Lok, Quadrant, has the professional and accounting qualifications required by the Listing Rules. The function of the Board is to formulate corporate strategy and business development. The Board has met regularly during the year to approve acquisition and disposal, connected transactions, open offer and monitoring the financial performance of the Group in pursuit of its strategic goals. Control and day to day operation of the Company is delegated to the chief executive officer and the management of the Company. There is no relationship among members of the Board in respect of financial, business, family or other material/relevant relationship.

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Board Meeting

Attendance records of the Board meetings for the year ended 31 December 2010 set out below:

Name of Director	Number of meetings attended/held
Mr. Zhang Honghai	7/7
Mr. Liu Kai	1/7
Mr. E Meng	3/7
Mr. Jiang Xinhao	7/7
Mr. Hu Xiaoyong	7/7
Mr. Wang Taoguang (resigned on 29 January 2010)	1/1
Mr. Zhou Min	6/7
Mr. Li Haifeng	7/7
Mr. Zhang Tiefu	6/7
Mr. Hou Feng (appointed on 27 September 2010)	1/1
Ms. Qi Xiaohong	7/7
Mr. Ju Yadong	6/7
Mr. Shea Chun Lok, Quadrant	4/7
Mr. Zhang Gaobo	4/7
Mr. Guo Rui	6/7
Ms. Hang Shijun	2/7
Mr. Wang Kaijun	2/7

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman of the Company is Mr. Zhang Honghai and the chief executive officer of the Company is Mr. Hu Xiaoyong. The Company has complied with code provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Code provision A.4.1 of CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company have not been appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company.

The Company has received, a written an annual confirmation from each of the INEDs confirming his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

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DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct in respect of securities transactions of the directors (the "Model Code"). Having made specific enquiry of all directors, the Company has confirmed that all directors have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions during the year.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year, in the opinion of the Board, the Company had complied with all code provisions set out in the CG Code, except for one code provision under the CG Code. The non-executive directors of the Company were not appointed for a specific term that was deviated from the requirement under code provision A.4.1. The deviation is appropriate as the board of directors of the Company considers that non-executive directors are subject to retirement by rotation and re-election at an annual general meeting in accordance with the Bye-laws of the Company and the requirements of the Bye-laws of the Company are no less exacting than those set out in the CG Code.

BOARD COMMITTEES

The Board has established two board committees to strengthen its functions and corporate governance practices, namely, Audit Committee and Remuneration Committee. The Audit Committee and the Remuneration Committee perform their specific roles in accordance with their respective written terms of reference.

The Board does not establish a nomination committee but will consider setting up one at an appropriate time. Currently all new appointments and re-appointments to the Board are subject to the approval of board members.

Audit Committee

The Company's Audit Committee is composed of three independent non-executive directors, currently, Mr. Shea Chun Lok, Quadrant (Chairman of the Audit Committee), Mr. Zhang Gaobo, and Mr. Guo Rui. The Audit Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules.

The Audit Committee is responsible for considering all relationships between the Company and the auditing firm (including the provision of non-audit services), monitoring the integrity of the Company's financial statements, any issues arising from the audit and any other auditors may wish to raise and review of the Company's internal control and risk management.

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Summary of work done during the year: Reviewed the financial statements for the period from 1 January 2010 to 30 June 2010 and for the year ended 31 December 2010, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company and the internal control system and risk management.

The Audit Committee held two meetings during the year with an attendance rate of 100%.

Remuneration Committee

The Company's Remuneration Committee was established in 2008. The Remuneration Committee comprises one executive director namely, Ms. Qi Xiaohong and two INEDs namely, Mr. Zhang Gaobo (Chairman of the Remuneration Committee) and Mr. Guo Rui. The Remuneration Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules.

The Remuneration Committee is responsible of developing remuneration policies and in overseeing remuneration packages of the directors whether the emoluments offered are appropriate to the duties and performance of the respective individuals concerned. It is the Company's policy to offer remuneration packages which are competitive and sufficient to retain such individuals and no director is involved in decision of his own remuneration. The Remuneration Committee held two meetings during the year with an attendance rate of 100%.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, auditors' remuneration for audit services was approximately HK\$5.1 million and for non-audit service assignments was approximately HK\$1.1 million, which represented an agreed-upon procedures engagement in connection with the Group's interim financial report and tax compliance service.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has delegated to the management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management functions within an established framework.

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The Board has conducted a review of the effectiveness of the system of internal control of the Company. In view of strengthening the internal control system to meet with the continuous corporate and business development of the Company, the Board will conduct an internal company-wide study to review and enhance the internal control system.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible of the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 31 December 2010, the directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.