

CORPORATE GOVERNANCE REPORT

Commitment to Corporate Governance

Since its establishment, the Group has been committed to enhancing its corporate governance structure. It complies strictly with the PRC Company Laws and other laws and regulations of relevant jurisdictions. In particular it has closely observed the rules and principles set out under the Code on Corporate Governance Practices as stated 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 Group continues to improve its corporate governance and believes that good corporate governance will bring long-term benefits to its shareholders.

Compliance with Model Code

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules as the code of conduct for directors in their dealings in the Company's securities. The Company made specific enquires with each director and each of them confirmed that he or she had complied with the Model Code during the financial year ended 31 December 2005.

Board of Directors

The board of directors (the "Board") of the Company consists of nine members, including four executive directors, Mr. Li Sze Lim, Mr. Zhang Li, Mr. Zhou Yaonan and Mr. Lu Jing; two non-executive directors, Ms. Zhang Lin and Ms. Li Helen; and three independent non-executive directors, Mr. Dai Feng, Mr. Huang Kaiwen and Mr. Lai Ming, Joseph. Save as disclosed, there is no business or other relationship amongst members of the Board, and in particular between the chairman and the president of the Company.

All non-executive directors and independent non-executive directors have offered sufficient time and efforts to serve the business affairs of the Company. They also possess appropriate academic and professional qualifications and related management experience and have contributed to the Board with their professional opinion. The Board believes that the ratio between executive directors and non-executive directors is reasonable and adequate. The Board also believes that the participation of non-executive directors and independent non-executive directors shall offer their independent judgment on issues relating to strategy, performance, conflict of interest and management process such that the interests of all shareholders are considered and safeguarded.

All directors of the Company have access to timely information in relation to the Group's business and make further enquires when necessary. The Board has also agreed that directors may seek independent professional advice on issues related to the Group's business at the Company's expenses. The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group, ensures the availability of resources as well as the effectiveness of its internal control including financial control.

The Company has arranged appropriate insurance cover on directors' and officers' liabilities in respect of legal actions against directors and senior management arising out of corporate activities.

Independence of Independent Non-executive Directors

Pursuant to the requirement of Rule 3.13 of the Listing Rules, the Company has appointed three independent non-executive directors, one of whom has appropriate professional qualification in accounting and financial management expertise. All independent non-executive directors have confirmed their independence to the Company.

Chairman and Chief Executive Officer

Mr. Li Sze Lim is the Chairman of the Board. He is responsible for ensuring that directors receive in

timely manner adequate information which are complete and reliable; and all directors are properly briefed on issues arising at the Board meeting. He should also ensure that the Board works effectively; all key issues are discussed in the Board in a timely manner; good corporate governance system and communication channels with shareholders are established.

Mr. Zhang Li, the Co-chairman, is the Chief Executive Officer of the Company. He is responsible for the execution of business policies, strategies, objectives and plans as adopted by the Board. The roles of the Chief Executive Officer are separate from those of the chairman.

Board Meeting

The Board met twice since the Company's listing. During these meetings, directors discussed and formulated the business policies and strategies, corporate governance, financial and internal control systems, reviewed the interim and final business results and other relevant important matters. All directors had participated in these Board meetings. For those directors who could not attend these meetings in person, they participated through electronic medium. Implementation and execution of Board policies and strategies and daily administrative matters are delegated to the management of the Company.

The notice of Board meeting will be given to all directors at least 14 days prior to the date of the meeting. All directors are given opportunities to include any matters to be discussed in the agenda.

The company secretary must ensure that all applicable rules and regulations are followed and prepare detailed minutes of each meeting. After the meeting, the draft minutes of the meeting shall be circulated to all directors for comments and approval as soon as practicable. All Board members shall be given a copy of the minutes.

Should a matter being considered which involve a potential conflict of interest of a director, the director involved in the transaction will be requested to leave the board room and abstain from voting. The matter will be discussed and resolved by other directors. Board committees including audit committee and remuneration committee all follow the applicable principle, practice and procedures used in the Board meeting.

Directors' Terms of Appointment

All directors, including non-executive directors, are appointed for a term of three years. All directors retire from their office by rotation and subject to re-election at an annual general meeting at least once every three year.

Supervisory Committee

The supervisory committee of the Company consists of three members, including two supervisors as representatives of shareholders, Mr. Zheng Ercheng and Ms. Liang Yingmei, and a representative of employees, Mr. Feng Xiangyang. Each of them has performed his or her supervising duties in respect of the operation of the Company.

Remuneration of Auditors

PricewaterhouseCoopers is the Company's external auditors. In order to maintain their independence, they have not been appointed for other non-audit related works during the year.

The audit committee has recommended to the Board of the Company, and the Board has proposed to re-appoint PricewaterhouseCoopers to be the external auditors of the Group, pending approval by shareholders in the forthcoming 2005 annual general meeting, until the date of the next annual general meeting. During the year, the total remuneration in respect of the audit services was HK\$2,500,000.

Audit Committee

The audit committee was established on 27 June 2005. It comprises three non-executive directors: a non-executive director, Ms. Li Helen and two

independent non-executive directors, Mr. Dai Feng and Mr. Lai Ming, Joseph. Mr. Lai Ming, Joseph, who has the appropriate professional accounting qualification and financial management expertise, was appointed as the chairman of the committee.

The Board has the responsibility to present a clear and balanced assessment in respect of the performance, result and prospects of the Group. It is also responsible for preparing financial statements of accounts that give a true and fair view. The audit committee is delegated by the Board to assess matters related to the financial statements of accounts and to provide recommendations and advices, including but not limited to the followings:

- 1. Relationship with external auditors of the Group**

To be responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors; to consider the remuneration and terms of engagement of the external auditors; to review and assess the independence of the external auditors; to discuss with the external auditors on the scope of audit and reporting obligations prior to commencement of the audit; to develop and implement policies on the engagement of external auditors for other non-audit services.
- 2. Review of financial information of the Group**

To review and monitor integrity of financial statements of accounts, annual reports, interim reports and auditors' reports, based on the relevant existing and current accounting standards, and in compliance with the Listing Rules and other legal requirements in relation to financial reporting.
- 3. Oversight of the Company's internal control procedures and risk management**

To ensure the management of the Company has established effective internal control procedures and risk management system; and to discuss with the management the effectiveness of the internal control procedures and risk management system; to review the management letter of external auditors, and follow up on any material queries raised by external auditors as contained in the management letter in respect of the financial and accounting matters of the Group as well as responses from the management.
- 4. Other duties as authorized by the Board to audit committee in relation to financial and internal control matters**

The audit committee held one meeting during the year. All members of the committee attended the meeting with full minutes kept by the company secretary. Following the Board practice, minutes of the meetings are circulated to all members for comments, approval and record as soon as practicable after the meeting. The audit committee reported that there is no material uncertainty that cast doubt on Company's going concern ability. There was no disagreement between the Board and the audit committee on the selection and appointment of the external auditors.

Remuneration Committee

The remuneration committee was established on 27 June 2005. It comprises three directors, an executive director, Mr. Li Sze Lim and two independent non-executive directors, Mr. Dai Feng and Mr. Huang Kaiwen. Mr. Li Sze Lim was appointed as the chairman of the committee.

The remuneration committee is responsible for formulating and recommending policy to the Board and determining the remuneration package of executive directors and members of senior management, as well as bonus structure, provident fund and other remuneration related issues. The remuneration committee presents its recommendation to the Board for final decision.

The remuneration committee held one meeting during the year. All members of the committee attended the meeting with full minutes kept by the company secretary. The remuneration committee has reviewed the remuneration policies, the terms of service contracts and the performance of executive directors and senior managers of the Company. The remuneration committee reported that the compensation payable to each director and senior manager is in accordance with the contractual terms and that such compensation is fair and not excessive to the Company.

Internal Control

The Board has the responsibility to maintain an effective internal control system in order to protect the Group's assets and shareholders' interests. The board shall also conduct periodic reviews to ensure the effectiveness of the Company's internal control system.

The internal control system includes a well established corporate structure and organization with clearly defined lines of responsibility and authority. Each department is responsible for its daily operations, and is also required to implement and monitor the strategies and policies adopted by the

Board and effective employment of the resources of the Company, in order to avoid misappropriation of resources and damages made to the Company's assets, and prevent against errors and fraud.

The Board assesses the effectiveness of the internal control system and procedures based on information derived from discussions with the management of the Company and its external auditors, as well as reviews conducted by the audit committee. The Board believes that the existing internal control system is adequate and effective.

The Board has established a clearly defined scope of activities, responsibility and authority for each department and its management staff within the Group. The Group has a defined goal for each department to accomplish; these goals were discussed in the broad meeting and pass on to the management through the executive directors. These goals will be implemented and closely monitored by the executive directors who shall review the operational and financial results from time to time, and to take any necessary actions for the improvement of its business activities.

The Company is in the preparation of setting up an internal audit department which is responsible for the review and assessment of the operational activities and internal control of the Company including the

conduct of operational audits on practices, procedures, financial control and risk management.

The internal audit department, once established, will maintain a close working relationship with the external auditors and to report to the audit committee periodically.

Authorization of Directors

The Board formulates the strategies of the Company. The responsibility for execution of the Board's strategies and the Company's daily operations are delegated to the management.

Disclosure of Information

The Company intends to maintain amicable relationship with its shareholders and investors and to enhance the transparency of its business operation. After the Company has been successfully listed, it has disseminated information in respect of its business operation through various channels and methods to its investors. Apart from the interim and annual reports, the Company has occasionally met with analysts and conducted press conferences. All enquiries or suggestions from shareholders, investors, press media and the general public will be handled by executive directors or appropriate management staff.

The Company has taken every cautious measures in handling the price-sensitive information. During the period of one month prior to the release of financial results, the directors and senior management staff of the Company are prohibited from dealing in the Company's shares. Also, interviews with financial analysts and press media are refrained.

Shareholder Relations

The Company has adopted a policy of disclosing information to its shareholders in a timely manner. The annual general meeting shall also serve as a communication channel between directors and shareholders. The chairman will personally chair the annual general meeting to ensure the shareholders' views are communicated to the Board. During the annual general meeting, chairman of the Board and its committees will all be present to answer any queries that shareholders may have. The chairman will also propose separate resolutions for each issue to be considered at the annual general meeting.

The annual general meeting proceedings are reviewed periodically to ensure that the shareholders' rights are preserved. The notice of annual general meeting shall be sent to all shareholders at least 45 days prior to the date of meeting, setting out details of each proposed resolution, voting procedures and other relevant information. The chairman will again explain the procedures for demanding a poll, at the beginning of the meeting.