

CORPORATE GOVERNANCE REPORT

Maintaining a good, solid and sensible framework of corporate governance has been and remains one of the Company's top priorities.

Corporate Governance Practice

The Company has complied with all the code provisions of "Code on Corporate Governance Practices" (the "Code"), as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31st December 2005, except with deviation from code provision A.2.1 in respect of the requirement for the segregation of the roles of the chairman and chief executive officer ("CEO").

With respect to the compliance with paragraph A of the Code, the Company has carried out the following corporate governance practices:

The Company has held twelve Board meetings in the year of 2005 of approximately monthly intervals. Directors have been consulted to advise the agenda of the Board meeting. Sufficient notice of the Board meeting has been given to the Directors. Minutes of the Board and the Board Committees are recorded in sufficient details and kept by the Board secretaries for inspection at any reasonable time on reasonable notice by any Director. The composition of the Board is shown on page 32 of this report. Non-executive Directors of the Company has been appointed for a specific term, subject to re-election. At every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office. A Director appointed by the Board fill a casual vacancy or as an addition shall hold office until the next general meeting or the next annual general meeting. The Company has established a nomination committee with specific written terms of reference, details of which are set out in section "Board Committees" below.

Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company. Most of the Directors have satisfactory attendance rates at both Board meetings and Committee meetings, details of which are set out to the attendance form as shown below. For other details of the responsibilities of Directors, please refer to the section "Board of Directors". All Directors are entitled to have access to the minutes and other relevant documents.

With respect to the compliance with paragraph B of the Code, the Company has established a remuneration committee with specific written terms of reference, details of which are set out in page 39 of this report.

With respect to the compliance with paragraph C of the Code, the Company has carried out the following corporate governance practices:

Management has provided sufficient explanation and information to the Board as will enable the Board to make an informed assessment of financial and other information put before the Board for approval. The Company has announced the quarterly report on 13 May 2005 and the interim report of 2005 on 15 September 2005, respectively. A statement by the auditors about their reporting responsibilities is included in the Report of the Auditors on page 43 of this report. The details of the internal controls of the Company and the audit committee are set out under the section "Internal Control" and "Board Committees".

With respect to the compliance with paragraph D of the Code, the Company has carried out the following corporate governance practices:

When the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstance where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The Company has set up four committees, for details, please refer to the section "Board Committees" below.

With respect to the compliance with paragraph E of the Code, the procedures for demanding a poll by the shareholders were incorporated in every circular issued during the financial year ended 31st December 2005.

With respect to the deviation, Code provision A.2.1 provides that the roles of chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

During the period under review, Xu Shao Chun was the chairman and CEO of the Company. The Board considers that although Xu Shao Chun is both the Chairman and CEO, he is able to differentiate his responsibilities under each role and act accordingly. In addition, Xu Shao Chun is proficient in IT knowledge and the fast and myriad changes in the business that he could lead the Company to react swiftly to any market change, make timely decision in this fast-moving IT industry and ensure sustainable development of the Company. The arrangement under which the roles of chairman and CEO are performed by the same individual has been considered to be beneficial to the Company at the present stage as it helps to maintain the continuity of the Company's policies and the stability of the Company's operations, as well as to enhance the efficiency of the Company's management. Notwithstanding the above, the Board will review the current organization structure from time to time and will make appropriate changes when necessary.

To ensure strict adherence to the Code, the Company has perfected the Board structure and standardized the rules of procedure of board of directors (the "Board Rules").

Board of Directors

The responsibilities of the Board set out in the Board Rules are as follows:

- (a) To convene the shareholder meeting, report to the shareholders and implement the resolution of the meeting.
- (b) To review and approve mid & long-term strategic plan and management strategies of the Group.
- (c) To review and approve the critical investment and purchase, repurchase securities, consolidation, and dismiss plan.
- (d) To review and approve the projects of budget and final accounting, profit distribution and loss remedy of the Group.
- (e) To draw out the amendments to the articles of association, alteration of registered capitals and the issue of bond and listing rules.
- (f) To be authorized by shareholders and approve the remuneration plan of directors.
- (g) To appoint and dismiss senior managers and decide the salaries of management team.
- (h) To hear the working report of the CEO, and audit the work of CEO.
- (i) Other obligations to be drafted by laws and regulations, Articles of Association or be authorized by Shareholders.

Board Committees

The Board has set up four specialized committees, namely the Audit Committee, Remuneration Committee, Nomination Committee and Strategic Committee to oversee particular aspects of the Company's affairs. The terms of reference of these committees are set out in the Board Rules. These committees are mainly consisted of the independent non-executive Directors and non-executive Directors.

The attendance of individual Directors at Board meeting and Board Committee meeting for the year ended 31st December 2005 are as follows:

Directors during the year	Attendance/Number of Meetings					
	Board		Board Committees			
	Board	INED	Audit Committee	Remuneration Committee	Nomination Committee	Strategic Committee
Executive Directors						
Mr. Xu Shao Chun	12/12	N/A	N/A	N/A	N/A	1/1
Mr. Chen Deng Kun (appointed on 4th November 2005)	1/12	N/A	N/A	N/A	N/A	1/1
Mr. Luo Ming Xing (resigned on 15th September 2005)	7/12	N/A	–	1/1	–	–
Non-executive Directors						
Mr. James Ming King	11/12	N/A	N/A	N/A	N/A	1/1
Mr. Zhao Yong	11/12	N/A	3/3	N/A	N/A	1/1
Mr. Hugo Shong	6/12	N/A	N/A	N/A	1/1	N/A
Independent Non-executive Directors (“INED”)						
Ms. Yang Zhou Nan	9/12	1/1	3/3	1/1	N/A	N/A
Mr. Wu Cheng	8/12	1/1	3/3	N/A	N/A	1/1
Mr. Yeung Kwok On	10/12	1/1	N/A	1/1	1/1	N/A
Mr. Gary Clark Biddle	7/12	1/1	3/3	N/A	1/1	N/A

Audit Committee

The Audit Committee of the Company ("Audit Committee"), which comprises three independent non-executive Directors and one non-executive Director, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The members of the Audit Committee are Ms. Yang Zhou Nan, Mr. Zhao Yong, Mr. Wu Cheng and Mr. Gary Clark Biddle. Ms. Yang Zhou Nan is the chairman of the Audit Committee. In particular, the Board Rules set out the scope of official duties of the Audit Committee, which include making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditors, and resignation or dismissal of the auditors, reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, reviewing financial information of the Company, reviewing the financial report system and internal control procedures, in order to check the Company's financial statements and the procedures which the auditors audited independently and accounting policy, and supervise the Company's financial reporting system and internal control procedures. The Audit Committee would hold its meetings on a regular basis before the Company announced its interim and annual financial statements. The Audit Committee has held three meetings during the year of 2005.

The Audit Committee has reviewed the Company's audited annual financial report for the year ended 31st December 2005.

Remuneration Committee

The Remuneration Committee of the Company ("Remuneration Committee") comprises two independent non-executive Directors and one executive Director. The Committee has adopted the terms of reference which are in line with the Code. The members of the Remuneration Committee are Mr. Yeung Kwok On, Ms. Yang Zhou Nan and Mr. Chen Deng Kun. Mr. Yeung Kwok On is the chairman of the Remuneration Committee.

The responsibilities of the Remuneration Committee set out in the Board Rules are as follows:

- (a) To make suggestions to the board on the remuneration structures of directors of board and management and to establish formal and transparent remuneration policies;
- (b) To have the delegated responsibility to draft the specific remuneration packages of all executive directors and senior management and make suggestions on the remuneration of the non-executive directors to the board;
- (c) To review and approve the performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;
- (d) To ensure that no director or any of his associates is involved in deciding his own remuneration;
- (e) A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

The Remuneration Committee held its first meeting on 11 April 2005, for determining the responsibilities of the members of Remuneration Committee and establishing remuneration of different levels of staff and approving the administration and supervisory personnel's remuneration policy in the year of 2005. The Remuneration Committee has held one meeting during the year of 2005.

Nomination Committee

The Nomination Committee of the Company ("Nomination Committee") comprises two independent non-executive Directors and one non-executive Director. The members of the Nomination Committee are Mr. Yeung Kwok On, Mr. Hugo Shong and Mr. Gary Clark Biddle, and the chairman of the Committee has not been appointed. The Committee has adopted the terms of reference, which are in line with the Code.

The responsibilities of Nomination Committee set out in the Board Rules are as follows:

- (a) To review the structure, size and composition of the board on a regular basis and make recommendation to the board;
- (b) Identify individuals suitably qualified to become board members;
- (c) To assess the independence of the independent directors;
- (d) To make recommendation to the board on relevant matters to the appointment or re-appointment of directors and succession planning for directors;
- (e) To audit and make recommendation on the appointment of other senior management.

In considering the appointment of Directors, the Nomination Committee applies the criteria set out in the Listing Rules and the Board Rules, notably the ability of potential appointees to contribute to the Board.

The Nomination Committee held its first meeting on 12 December 2005, in which the Nomination Committee provided constructive suggestions for the proposed appointment of the new Chief Financial Officer of the Company, and considering and interviewing the potential candidates. The Nomination Committee has held one meeting during the year of 2005.

At the Forthcoming AGM, four Directors will retire by rotation and present themselves for re-election by shareholders of the Company. The independence the independent non-executive Directors will be reviewed by the Nomination Committee.

Strategic Committee

The Strategic Committee of the Company ("Strategic Committee") comprises two executive Directors, two non-executive Directors and one independent non-executive Director. The members of the Strategic Committee are Mr. Xu Shao Chun, Mr. James Ming King, Mr. Zhao Yong, Mr. Wu Cheng and Mr. Chen Deng Kun. Mr. Xu Shao Chun is the chairman of the Strategic Committee. The Committee has adopted the terms of reference, which are in line with the Code.

The Responsibilities of Strategy Committee set out in the Board Rules are as follows:

- (a) To consider and draw out mid-term and long-term strategies of the Company;
- (b) To assess the effect of the implementation of the strategy;
- (c) To make recommendation on the critical issues prescribed in the articles of association and issues must get the permission of the board, which includes investment, finance and etc.

In late December of 2005, the Strategic Committee held its first meeting to discuss and establish the Company's development strategies of 2006 in the areas of products, R&D, marketing, distribution, etc., and examine and assess the performance and execution of the Company's strategies in 2005. The Strategic Committee held one meeting during the year of 2005.

Internal Control

The Board places great importance on internal control and risk management and is responsible for the purposes of establishing and maintaining adequate internal control over financial reporting for the Company and assessing the overall effectiveness of those internal controls.

The Company has taken many steps to enhance the internal controls of the Company, such as having internal control inspection, setting up a receipt mechanism and strengthening the management of the contracts.

The Board members, Senior Management and the relevant staff of the Company has been given one month notice prior to any Board meeting held for approval of results to ensure they will not deal in any of the securities of the Company before the announcement of the results.

The Company has an Internal Audit Department which plays a major role in monitoring the internal governance of the Company. The major tasks of the Internal Audit Department are reviewing the financial condition and management of the Company and conducting comprehensive audits of the practices, procedures, expenditure and internal controls of all branches and subsidiaries of the Company on a regular basis. During the year of 2005, the Internal Audit Department issued reports to the Senior Management covering various operational and financial units of the Company and also conducted reviews of major projects and contracts as well as areas of concern identified by the Management.

With respect to procedures and internal controls for handling and dissemination of price-sensitive information, the Company is aware of its obligations under the Listing Rules and the overriding principle that information which is expected to be price-sensitive should be announced immediately.

The Company has always complied with the “Guide on disclosure of price-sensitive information” issued by the Stock Exchange.

Communication

The Company has a policy of open communication and fair disclosure. Disclosure is a key means to enhance our corporate governance standards. The Company provides its shareholders and other stakeholders with the information necessary for them to form their own judgment and to provide feedback. The Company understands that full and frank disclosure does not only increase transparency of the Company, but also essential for building market confidence.

Adoption of Code of Conduct Regarding Director’s Securities Transactions

The Company has adopted a code of conduct regarding Directors’ securities transaction on terms no less exacting than the required standard set out in Appendix 10 “Model Code for Securities Transactions by Directors of Listed Companies” under the Listing Rules. The Directors have complied with such code of conduct throughout the accounting period covered by this annual report.

External Auditors

PricewaterhouseCoopers was appointed as the external auditors of the Company for the year. During the year of 2005, the external auditors provided the following audit and permissible non-audit services to the Company:

	2005 RMB'000	2004 RMB'000
Audit		
– annual audit	1,230	1,200
– other	1,000	–
Permissible non-audit services		
– Due diligence and accounting advisory services relating to business developments	100	–

A resolution for re-appointment of PricewaterhouseCoopers as the auditors of the Company will be proposed at the Forthcoming AGM.

Improving Corporate Governance

This year, evolving corporate governance practices and, most notably, the issue of the Code, have led to a significant review and revision of the Company's corporate governance practices and the manner in which we reported. This has been reflected in the issue of the Board Rules and in this section of the Annual Report.

We will continue to review and, where appropriate, improve those practices in light of continuing experience, regulatory changes, international trends and developments and the views of our shareholders.

Appreciation

The Board would like to express its sincere appreciation to its shareholders, customers, suppliers and bankers for their continued support to the Group. The Board also wishes to thank the Group's management and staff for achieving major progress in the Group's business and their dedication and commitment for improving the Group's product quality.

On behalf of the Board

Xu Shao Chun

Chairman

Shenzhen, the People's Republic of China, 28 March 2006