

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

Being a company registered and listed in Hong Kong, the Company has been dedicated in the enhancement of the level of its internal control. The Board and the management are responsible for setting up a good corporate governance structure and code of corporate governance, and strictly implementing the code, in order to improve the management system and transparency of the Company, protect shareholders' interests and create long-term values to shareholders. The terms of the Company's code on corporate governance practices are no less exacting than the provisions as set out in the "Code on Corporate Governance Practices" (the "Code") under Appendix 14 of the "Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Other than the deviation from Code Provision A.2.1 of the Code (Information regarding the above deviation is set out below under "Chairman and Chief Executive Officer"), the Company has complied with all the code provisions as set out in the code under Appendix 14 of the Listing Rules for the year ended 31 December 2006.

SECURITIES TRANSACTIONS BY DIRECTORS

On 26 August 2005, the Company adopted the securities transaction provisions as set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" under Appendix 10 of the Listing Rules.

Having made specific enquiry of all directors, the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code and the Company's Code of Conduct regarding Securities Transactions by the Directors.

THE BOARD OF DIRECTORS

As at 31 December 2006, the Board of the Company comprised four executive directors, two non-executive directors and three independent non-executive directors.

The Board members are as follows:

Chairman

Ms. Zhang Hongxia

Executive Directors

Ms. Zhang Yanhong

Mr. Qi Xingli

Ms. Zhao Suwen

Non-executive Directors

Mr. Zhang Shiping

Mr. Wang Zhaoting

Independent Non-executive Directors

Mr. Chan Wing Yau, George

Mr. Xu Wenying

Mr. Wang Naixin

The Board is accountable to the shareholders' general meeting. The responsibilities of the Board are to convene general meetings and to carry out the resolutions of such meetings; determine the business and investment plans of the Company; formulate the annual preliminary and final budgets of the Company; prepare the plan for profit distribution (including the plan for declaration and payment of year-end dividends) and plan for making up of the losses of the Company; formulate the plan for an increase or reduction in the registered capital and issuance of debentures of the Company; prepare the plan for merger, de-merger and dissolution of the Company;

Corporate Governance Report

decide on the establishment of the internal management organization of the Company; appoint or dismiss the General Manager, or appoint or dismiss Deputy General Manager or the Chief Financial Officer based on the General Manager's recommendation, and determine their remunerations; formulate the basic management systems of the Company; prepare the plan for amendments to the Articles of Association; determine the level of salaries, benefits and incentives of the Company in compliance with the relevant requirements in China; decide on other significant matters relating to the business and administration of the Company not required to be submitted to a general meeting for decision under the Articles of Association; formulate plans for material acquisitions and disposals and exercise other powers conferred under the Articles of Association.

The general management is accountable to the Board. Its responsibilities are to supervise the management of production and business operations and organise the implementation of the resolutions of the Board; supervise the implementation of the annual plans for operation and investment of the Company; formulate the plan for the establishment of the internal management organization of the Company; lay down the basic management systems of the Company; formulate the basic rules and regulations of the Company; recommend to appoint or dismiss the Deputy General Manager or Chief Financial Officer, or the management personnel other than those who are subject to appointment or dismissed by the Board; and exercise other powers conferred under the Articles of Association and by the Board.

The Company Secretary is accountable to the Board, assuring that the Board is in compliance with all applicable regulations and rules. The Company Secretary also keeps the minutes of meetings of the Board and its committees. The members of the Board held six meetings during the year.

The following is the record of attendance of Board meetings held during the year:

The Board of Directors	Attendance at Board meetings during 2006
Mr. Zhang Bo (<i>Note 1</i>)	4/6
Ms. Zhang Hongxia	6/6
Mr. Qi Xingli	6/6
Ms. Zhao Suwen	6/6
Ms. Zhang Yanhong (<i>Note 2</i>)	2/6
Mr. Zhang Shiping	6/6
Mr. Wang Zhaoting	6/6
Mr. Chan Wing Yau, George	5/6
Mr. Xu Wenyong	5/6
Mr. Wang Naixin	5/6

Note 1: Mr. Zhang Bo has resigned from his office as an executive Director and the Chairman with effect from 11 September 2006.

Note 2: Ms. Zhang Yanhong has been appointed as an executive director of the Company with effect from 6 November 2006.

Information in respect of the relationship among members of the Board is set out under the section entitled "Directors, supervisors and senior management".

All the independent non-executive directors are independent from the Company and its subsidiaries.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and the chief executive officer of the Company is Ms. Zhang Hongxia.

The Chairman is responsible for managing the Board and the CEO is responsible for managing the business activities of the Company. Both of them have definite terms of reference which are set out in the code of corporate governance of the Company.

Code Provision A.2.1 requires that the roles of the chairman and the chief executive officer shall be separated and not be performed by the same individual. Currently, Ms. Zhang Hongxia is the Chairman and chief executive officer of the Company. The Board is of the opinion that this arrangement will not affect the equilibrium of powers and functions between the Board and the management. The Board of the Company is comprised of the most experienced and talented members, and will regularly meet to discuss on matters that may affect the operations of the Company. The operations of the Board is sufficient to ensure the equilibrium of powers and functions. The Board believes that such arrangement will be helpful in establishing a steady and consistent leading power, which enables the Company to make and implement various decisions efficiently and effectively. The Board believes that the arrangement that Ms. Zhang Hongxia takes up the position of chairman and chief executive officer of the Company will be beneficial for the business development of the Company and better coordinates the Board and the administrative management personnel.

TERMS OF OFFICE OF NON-EXECUTIVE DIRECTORS

Each of the non-executive directors and independent non-executive directors of the Company has signed on appointment letter with the Company for a term of 3 years respectively during the year.

By reference to the guidelines as set out in Rule 3.13 of the Listing Rules, the Company confirms the independence of all the independent non-executive directors.

SUBORDINATE COMMITTEES OF THE BOARD

- Audit Committee
- Remuneration Committee

Each committee may decide upon all matters within its terms of reference and authority.

A. Audit Committee

The Audit Committee was established on 9 January 2003. At present, the Audit Committee is comprised of three independent non-executive directors.

The composition of the Audit Committee

Mr. Chan Wing Yau, George (Chairman)
Mr. Xu Wenyong
Mr. Wang Naixin

The following resolutions were passed on 4 April 2006 after due consideration by members of the Audit Committee:

1. The report of the Directors and the report of the Audit Committee of the Company for the year 2005;
2. Consolidated audited financial statements of the Company for the year ended 31 December 2005;
3. Profit distribution plan for 2005;
4. Appoint Ernst & Young Hua Ming as the Company's domestic auditors for the year ended 31 December 2006 and Ernst & Young as the Company's international auditors for the year ended 31 December 2006;
5. To consider and approve any matters relating to connected transactions of the Company.

Corporate Governance Report

On 8 September 2006, after due consideration, the following issues were reviewed by committee members present at the meeting:

- (1) The Audit Committee reviewed the information as set out in the accounts of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006 (the “Interim Accounts”), including financial statements, Report of Directors, Chairman’s Statement and Management Analysis and Discussion, and confirmed that the quality of the reviewed profit and such materials were complete, accurate and fair;
- (2) The accounting policy adopted in the financial statement for the six months ended 30 June 2006 was appropriate;
- (3) The financial statements for the six months ended 30 June 2006 have fully disclosed all the relevant issues, and such disclosure has fairly reflected the nature of the transactions without any misleading contents;
- (4) The Audit Committee has reviewed the Report of Directors, Chairman’s Statement and Management Discussion and Analysis, and confirmed that such materials have fairly reflected the performance and financial conditions of the Group and were consistent with the information reflected in the financial statements for the six months ended 30 June 2006 without misleading contents;

- (5) The Audit Committee has reviewed and confirmed that the interim financial report has been prepared in compliance with the HK GAAP and the financial reporting standards issued by HKICPA, and its principle accounting policies have been consistently implemented.

Having been reviewed by the members of the Audit Committee present at the meeting, the following resolution was passed: to review and approve the Interim Accounts.

Roles and functions

The Audit Committee is mainly responsible for:

- (1) providing advice and recommendations to the Board on the appointment, re-appointment and dismissal of the external auditors, approving the remuneration and recruitment terms of the external auditors as well as dealing with issues relating to the resignation or dismissal of the external auditors (in case the Board disagrees with the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors, the Company should set out in the Corporate Governance Report the statement of the committee in which their opinions are clearly stated as well as the reasons for the Board’s disagreement with such opinions);
- (2) reviewing and overseeing the independence and objectiveness of the external auditors and the effectiveness of audit procedures as per appropriate standards; the Audit Committee should discuss with the external auditors before commencement of the audit, the nature and scope of the audit, and the reporting responsibilities and ensure the co-ordination between different firms of auditors if more than one auditing firms are engaged;

- (3) formulating and implementing policies on non-audit services provided by the external auditors;
- (4) overseeing the completeness of the financial statements, annual reports and accounts, and interim reports of the Company as well as reviewing significant opinions relating to financial reporting set out in those statements and reports. In reviewing the annual reports, accounts and interim reports to be presented to the Board, the Committee should pay special attention to the following matters:
 - (i) any changes in accounting policies and practices;
 - (ii) where significant judgment is involved;
 - (iii) significant adjustments arising as a result of audit;
 - (iv) any assumptions on the continuous operation of the company and any qualified opinions;
 - (v) whether the accounting standards and principles have been complied with; and
 - (vi) whether the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“the Listing Rules”) and other laws and regulations relating to financial reporting have been complied with;
- (5) In respect of (4) above:
 - (i) The members of the Committee should keep in contact with the Board, senior management and the person appointed as the qualified accountant of the Company. The Committee should meet at least once a year with the auditors of the Company; and
 - (ii) The Committee should consider any significant or extraordinary items reflected or should be reflected in those reports and accounts, and consider, if thought fit, any issues raised by the qualified accountant, compliance officer or auditors of the Company;
 - (6) reviewing the Company’s financial control, internal control and risk management systems;
 - (7) discussing with the management the internal control systems and ensuring the management has performed its responsibilities to establish effective internal control systems;
 - (8) conducting research actively, or according to the request of the Board, in respect of findings of major investigations of internal control matters and the management’s response;
 - (9) ensuring a smooth co-ordination between the internal audit department and the external auditors, and ensuring that sufficient internal resources are available to and proper status being given to the internal audit department, and reviewing and monitoring the effectiveness of the internal auditing function;
 - (10) reviewing the Group’s financial and accounting policies and practices;
 - (11) reviewing the external auditors’ auditing progress report, and any significant doubt raised by the auditors to the management in respect of accounting records, financial accounts or control systems and the management’s feedback in this respect;
 - (12) ensuring the Board’s timely response to the matters set out in the external auditors’ auditing progress report;

Corporate Governance Report

- (13) reporting to the Board in respect of the matters set out in code provisions of the Code on Corporate Governance Practices under Appendix 14 of the Listing Rules; and
- (14) reviewing the following arrangements made by the Company: employees of the Company can draw their attention on potential misconduct in respect of financial reporting, internal control or other aspects. The Audit Committee should ensure that appropriate arrangements are made which can enable the Company to conduct a fair and independent investigation and take proper measures; and
- (15) acting as a major channel between the Company and the external auditors, and monitoring their working relation; and
- (16) reporting to the Board in respect of the matters mentioned above.

Minutes of meetings

The Audit Committee held four meetings during the year; the following is the minutes of meetings of the Audit Committee during the year ended 31 December 2006.

Committee Members	Attendance of audit committee meetings held in the year ended 31 December 2006
Chan Wing Yau, George	4/4
Xu Wenying	4/4
Wang Naixin	4/4

The Audit Committee had meetings with the external auditors during the year to discuss the review of interim and the auditing of annual financial statements.

In case the Audit Committee is in doubt about the financial statements and the control system of the Company, the management should provide the audit committee members with all details, analysis and supporting documents, so as to ensure that audit committee members can satisfy themselves with all relevant information and make advice appropriate recommendations to the Board.

B. Remuneration Committee

The Remuneration Committee was established on 28 February 2005. At present, the Remuneration Committee is comprised of an executive director and two independent non-executive directors.

The composition of the Remuneration Committee

Ms. Zhang Hongxia
(Chairman of the Remuneration Committee)
 Mr. Xu Wenying
 Mr. Wang Naixin

Two meetings were held by the Remuneration Committee for the year ended 31 December 2006.

	Attendance of meetings held by the Remuneration Committee in 2006
Mr. Zhang Bo	2/2
Mr. Xu Wenying	2/2
Mr. Wang Naixin	2/2

Note: Ms. Zhang Hongxia has been appointed as the Chairman of the Remuneration Committee with effect from 30 March 2007.

On 4 April 2006, the Remuneration Committee held a remuneration committee meeting at Hong Kong Shangri-La Hotel, Pacific Place, Supreme Court Road, Hong Kong. At the meeting, the following matters were passed:

The salary standard of the Company's executive Director is that the annual salary for each executive Director shall not be less than RMB300,000.

The salary standard of the Company's non-executive Director is that the annual salary for each non-executive Director shall not be less than RMB50,000.

Remuneration for the Company's Supervisors shall not be less than RMB30,000 annually for each Supervisor.

Subject to the granting of authorization to the Board at the annual general meeting, the actual amounts of the salaries for Directors and remuneration for Supervisors shall be determined by the Board.

On 8 September 2006, the Remuneration Committee held a telephone meeting of the Remuneration Committee at the Hong Kong Shangri-La Hotel. At the meeting, the following motion was passed:

The standard of salary for Ms. Zhang Yanhong as an executive Director of the Company to be RMB400,000, and to submit the motion for consideration by the Board.

Roles and Functions

The terms of reference of the Remuneration Committee should include the following specific duties:

- (1) to make recommendations to the Board on the overall remuneration policy and structure relating to directors and senior management of the Company, and provide advice in relation to the establishment of regular and transparent procedures for formulating such remuneration policy;

- (2) to be delegated by the Board to determine the specific remuneration package of all executive directors and senior management, including benefits in kind, pension rights and compensation payment (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board regarding the remuneration of non-executive directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and the desirability of performance-based remuneration;
- (3) to review and approve performance-based remuneration by reference to corporate goals and objectives set by the Board from time to time;
- (4) to review and approve the compensation payable to executive directors and senior management for any loss or termination of their office or appointment, and to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
- (5) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct and to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and
- (6) to ensure none of the directors nor any of their associates shall determine their own remuneration.

Corporate Governance Report

NOMINATION OF DIRECTORS

Currently, the Company has not set up a Nomination Committee. The Board, the Supervisory Committee or shareholders may select and recommend candidates for directors according to relevant standards, which include professional knowledge and experience in the industry, personal integrity, reliability and skills as well as and commitment on devotion of sufficient time to the affairs of the Company.

List of candidates for directors will be submitted to the shareholders general meeting in form of a proposal for consideration. Such proposal shall be made by Board, the Supervisory Committee or shareholders individually or jointly holding 5% or more of the shares of the Company with voting rights.

The third session of the Board of Directors of the Company was elected on the annual general meeting for the year of 2005 held on 6 June 2006.

At the second meeting of the third session of the Board of Directors on 8 September 2006, the Board of Directors considered the proposal for change of director of the Company, approved Mr. Zhang Bo's resignation as the executive director and chairman of the Company due to work re-assignment and appointed Ms. Zhang Hongxia as the chairman. The Board also proposed to appoint Ms. Zhang Yanhong as an executive director of the Company and submit the proposal for shareholders' review and approval at the extraordinary general meeting. Mr. Zhang Bo presided the meeting as the chairman and all of the Directors presented at the meeting.

EXTERNAL AUDITORS

The Board is aware that it has the responsibility to prepare the accounts to reflect the true and fair financial conditions of the Group. In preparing the accounts for the year ended 31 December 2006, the Directors have selected appropriate accounting policies and applied consistently, and made prudent and reasonable judgments and estimations.

Statements made by the auditors of the Company in respect of their reporting obligations on the Group's financial statements are set out in the Auditors' Report.

The auditors are responsible for presenting independent opinions on the financial statements according to the results of auditing work, and reporting to the Company. Apart from providing annual auditing service, the external auditors of the Company also reviews the interim and annual results of the Company.

For the year ended 31 December 2006, Ernst & Young and Ernst & Young Hua Ming, the external auditors, have provided the Group with the following services:

	2006
	RMB'000
Interim review service	1,550
Annual audit service	4,890
Capital verification service	100

INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors is responsible for the effectiveness of the internal control system. Relevant procedures have been designed for safeguarding assets against unauthorised use or disposal; for controlling excessive capital expenditure; for maintaining proper accounting records; and for the reliability of financial information used in the operations or for publication. Qualified management personnel of the Company will maintain and monitor the internal control system on a going-concern basis.

In respect of the internal control system, the management shall make analysis on the control environment involved in various process/transactions and assess the risks in the operation and process. During this process, the management shall find out the principal risks and related control measures, and make regular testings. Basing on the results of the testings, the relevant person in charge may confirm whether the control measures are operating normally or amendment shall be made, so as to maintain the completeness of the financial statements.

The Board shall review the effectiveness of the Group's internal control system. The Audit Committee shall make annual review on the results and opinions on the investigations of the effectiveness of the Company's internal control system, and make annual reports to the Board on the results of their review. The Board considers that the internal control for the year ended 31 December 2006 is sufficient and effective and that there have been no significant issues that may affect the shareholders.

SHAREHOLDERS' RIGHTS

The Company is committed to ensure better protection of shareholders' interests. The Company maintains contact with its shareholders through annual general meetings or other general meetings, and encourages shareholders to attend those meetings.

Registered shareholders are reached by mail to receive the notice of general meeting. The meeting agenda and resolutions to be proposed and voting forms are set out on the notice.

A form of proxy for use at a general meeting is enclosed with the notice. Shareholders who do not intend or are unable to present at the meeting should fill out the form and return the same to the share registrar and transfer office of the Company, so as to appoint a representative, another shareholder or the chairman of the meeting as their proxy.

Shareholders or investors can make enquiry of our Company and give suggestion through the following:

Contact Person: Mr. Wang Donghua

Tel: (8621) 27072788

Postal Address: Room 36G, Block 2 Grand Gateway Garden, 2128 Huashan Road, Shanghai, China

INVESTORS RELATIONS

The Company maintains a two-way communication channel to report the performance of the Company to our shareholders and investors. Annual reports, accounts and interim reports containing full details of the Company's activities will be despatched to shareholders and investors. Announcements of the Company can be accessed on the website of the Hong Kong Stock Exchange. The Company also communicates and discloses its latest business development plan via road shows, seminars with institutional investors and analysts, and telephone conferences.

To ensure effective disclosures are made to shareholders and investors, and to ensure the same information is made available to the public at the same time, price-sensitive information will be released in the form of announcements in accordance with the regulations of the Listing Rules.