

CORPORATE GOVERNANCE REPORT

Introduction

During the year ended 31 December 2006, the Company is committed to adherence to the regulatory standards of the Stock Exchange, improving the corporate governance structure and performing the obligations as set out in the Code on Corporate Governance Practices. The daily activities were carried out fully pursuant to the established governance policies. The Company has complied, saved for the deviation discussed below, with the principles and provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 of Rule Governing the Listing Securities on the Stock Exchange (the "Listing Rules") by establishing formal and transparent procedures to protect and maximise the interests of shareholders of the Company during the period under review.

Model Code of Securities Transactions

The Board has adopted the Model Code of Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings throughout the year ended 31 December 2006.

Board of Directors and Board Meeting

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the section headed "Directors and Senior Management" in the Directors' Report.

The Board held two board meetings during the year under review. The attendance record of each members of the Board is set out below:

| Directors | Attendance/ Number of Board Meeting |
|---|--|
| <i>Executive Directors</i> | |
| Mr. Gao Liang (<i>Chairman</i>) | 2/2 |
| Mr. Liang Yi (<i>Vice Chairman</i>) | 2/2 |
| Mr. You Yong (<i>Vice General Manager</i>) | 2/2 |
| Ms. Zhu Fang (<i>Chief Financial Officer</i>) | 2/2 |

| Directors | Attendance/ Number of Board Meeting |
|--|--|
| <i>Non-executive Directors</i> | |
| Ms. Joyce I-Yin Hsu (resigned on 16 February 2006) | 0/2 |
| Ms. Liu Yi Lan, Katherine (appointed on 25 April 2006 and resigned on 3 June 2006) | 1/2 |
| <i>Independent non-executive Directors</i> | |
| Mr. Zhao Boxiang | 2/2 |
| Mr. Xu Yulin (resigned on 19 January 2007) | 1/2 |
| Mr. Yim Hing Wah | 2/2 |
| Mr. Li Yuanrui (appointed on 19 January 2007) | 0/2 |

Ms. Joyce I-Yin Hsu has resigned as non-executive Director on 16 February 2006 due to personal reasons. Ms. Liu Yi Lan, Katherine was appointed as non-executive Director on 25 April 2006 and has resigned from the position on 3 June 2006 due to personal reasons. Mr. Xu Yulin resigned as an independent non-executive Director, a member of the audit committee and a member and the chairman of the remuneration committee of the Company with effect from 19 January 2007 due to his personal reasons. Mr. Li Yuanrui was appointed as an independent non-executive Director, a member of the audit committee and a member of the remuneration committee of the Company with effect from 19 January 2007.

The Board, which currently comprises seven Directors, is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

At present the Company does not have the competent candidate for the position of Chief Executive Officer. Mr. Gao Liang, therefore, acts as the Chairman and Chief Executive Officer of the Company. The Company is recruiting for the competent and suitable person to take the position of Chief Executive Officer.

Under the Company's articles of association ("Articles of Association"), at each 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 less than one third) will retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years at the general meeting. There are no provisions relating to retirement of Directors upon reaching any age limit.

Under the Articles of Association, the Directors, including the non-executive Directors, are subject to retirement, rotation and re-election at each annual general meeting.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and hence still considers the independent non-executive Directors to be independent.

Remuneration of Directors

The remuneration committee was established in October 2005. The Chairman of the committee is Mr. Zhao Boxiang and other members include Mr. Li Yuanrui and Mr. Yim Hing Wah. All of them are independent non-executive Directors. Mr. Xu Yulin resigned as the chairman of the remuneration committee of the Company with effect from 19 January 2007 due to his personal reasons. Mr. Li Yuanrui was appointed as a member of the remuneration committee of the Company with effect from 19 January 2007. Ms. Liu Yi Lan, Katherine was appointed as a member of the remuneration committee on 25 April 2006 and has resigned from the position on 3 June 2006.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and making recommendations to the board of 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 desirability of performance-based remuneration.

A meeting of the remuneration committee was held to review the terms of employment of the executive Directors and the term of appointment of the non-executive Director and the independent non-executive Directors. Details of the attendance of the remuneration committee meeting are as follows:

| Members | Attendance/ Number of Meetings |
|--|--------------------------------------|
| Mr. Li Yuanrui (<i>Chairman</i>) (appointed on 19 January 2007) | 0/2 |
| Mr. Yim Hing Wah | 2/2 |
| Mr. Zhao Boxiang | 2/2 |
| Mr. Xu Yulin (resigned on 19 January 2007) | 1/2 |
| Ms. Liu Yi Lan, Katherine (appointed on 25 April 2006 and resigned from the position on 3 June 2006) | 1/2 |

The remuneration committee of the Company considers that the existing terms of employment of the executive Directors and appointment of the non-executive Director and the independent non-executive Directors are fair and reasonable.

Nomination of Directors

The Board has held a board meeting to consider the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship.

All the executive Directors and independent non-executive Directors (except for Mr. Xu Yulin) have attended the meeting.

During the meeting, the Board considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Articles of Association, Mr. You Yong, Ms. Zhu Fang, Mr. Li Yuanrui and Mr. Yim Hing Wah will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Auditors' Remuneration

During the year under review, the Company has paid to the external auditors approximately RMB1,150,000 for audit service fee. The auditors did not provide any non-audit service.

Audit Committee

The Company established an audit committee with written terms of reference in compliance with the Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr. Yim Hing Wah, Mr. Zhao Boxiang and Mr. Li Yuanrui. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Yim Hing Wah. Mr. Xu Yulin resigned as a member of the audit committee of the Company with effect from 19 January 2007 due to his personal reasons. Mr. Li Yuanrui was appointed as a member of the audit committee of the Company with effect from 19 January 2007.

The audit committee held two meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

| Members | Attendance/ Number of Meetings |
|---|--------------------------------------|
| Mr. Yim Hing Wah (<i>Chairman</i>) | 2/2 |
| Mr. Xu Yulin (resigned on 19 January 2007) | 1/2 |
| Mr. Zhao Boxiang | 2/2 |
| Mr. Li Yuanrui (appointed on 19 January 2007) | 0/2 |

The Group's annual audited results during the year ended 31 December 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

Directors and Auditors Responsibilities for Accounts

The responsibilities of the Directors for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 26.

Internal Control

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control.

Communication with shareholders

The Company attaches great priority to establishing effective communications with its shareholders and investors. In an effort to enhance such communications, the Company provides information relating to the Company and its business in its annual report and also disseminates such information electronically through its web site at www.chinahaisheng.com.

The Company regards the annual general meeting as an important event as it provides an opportunity for direct communications between the Board and its shareholders. All Directors, senior management and external auditors make an effort to attend the annual general meeting of the Company to address shareholders' queries. All the shareholders of the Company are given a minimum of 21 days' notice of the date and venue of the annual general meeting of the Company. The Company supports the Code's principle to encourage shareholders' participation.