

Corporate Governance

The Group strives to enhance its corporate governance standards for increasing the shareholders' value and in strengthening the operational efficiency of the Group.

CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices ("the Code") in Appendix 14 to the Listing Rules has become effective on 1 January 2005. The Company has complied with the code provisions set out in the Code for the year ended 31 December 2006, except for deviations as below:

- (a) Rule C.2.1: The Company has engaged an independent auditor (the "Independent Auditor") of the Group which cover all material controls, including financial, operational and compliance controls as well as risk management functions.
- (b) Rule E.1.2: The Chairman of the Board did not attend the annual general meeting of the Company held on 22 September 2006 because of another business engagement. The directors present thereat conducted the meeting in a duly constituted and proper manner.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Code of Conduct") on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Having made specific enquiry with all Directors, each of whom has confirmed compliance with the required standard set out in the Code of Conduct throughout the year ended 31 December 2006.

BOARD OF DIRECTORS

The Board currently consists of four executive directors and three independent non-executive directors ("INED(s)") as follows:-

Executive Directors

Mr. Xu Lian Guo (*Chairman*)
 Mr. Xu Lian Kuan (*Vice-chairman and Chief Executive Officer*)
 Mr. Zhang Yuqing (*Vice-chairman*)
 Mr. Kwok Ming Fai*

Independent Non-executive Directors

Mr Gu Yao Tian
 Mr Sun Ka Ziang Henry*
 Mr Li Xi Zhong

Corporate Governance

During the year ended 31 December 2006, the Board held 4 meetings:-

| Directors | Meetings Attended |
|---------------------------------|-------------------|
| Xu Lian Guo | 4/4 |
| Xu Lian Kuan | 4/4 |
| Zhang Yuqing | 4/4 |
| Kwok Ming Fai [#] | 1/4 |
| Gu Yao Tian | 3/4 |
| Li Xin Zhong | 3/4 |
| Sun Ka Ziang Henry [*] | 0/4 |
| Chan Wai Dune [§] | 4/4 |

Notes:

[#] Appointed as an independent non-executive director on 22 September 2006 and subsequently redesignated as executive director on 9 November 2006.

^{*} Appointed as an independent non-executive director on 9 November 2006.

[§] Resigned as an independent non-executive director on 22 September 2006.

The Board is responsible for the leadership and control of the Company and oversees the businesses, strategic planning and decision-making of the Group. The Board established the following committees in pertaining to effect the various function of the Group:-

- Executive Committee to focus on the formulation and review of the legal compliance and operational procedures compliance by the Group. The members of the Executive Committee are two executive directors, Mr. Xu Lian Kuan and Mr. Zhang Yuqing.
- Audit Committee to focus on the review and supervision of the financial reporting process and internal control system of the Group pursuant to the Listing Rules. The members of the Audit Committee are all the INEDs.
- Remuneration Committee to focus on the recommendation to the Board of the corporate policy and structure for all remuneration of the directors and senior management of the Group pursuant to the Listing Rules. The members of the Remuneration Committee are two INEDs namely Mr. Gu Yao Tian and Mr. Li Xin Zhong, and one executive director namely Mr. Zhang Yuqing.

Corporate Governance

Each INED has, pursuant to Rule 3.13 of the Listing Rules, confirmed that he is independent to the Company and the Company also considers that they are independent.

Save for Mr. Xu Lian Guo and Mr. Xu Lian Kuan are brothers, there is no other relationship (including financial, business, family or other material or relevant relationship) among the members of the Board.

NON-EXECUTIVE DIRECTORS

As at 31 December 2006, all the existing INEDs, Mr. Gu Yao Tian, Mr. Sun Ka Ziang Henry and Mr. Li Xin Zhong, were appointed with specific term and they are subject to retirement and rotation in accordance with the bye-laws of the Company.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company has been established with terms of reference on no less exacting than the required standard as set out in the code provisions of the Code. The Remuneration Committee held one meeting in 2006 which was attended by all members for reviewing the policies on the remuneration of the executive directors of the Company.

AUDITORS' REMUNERATION

The amounts paid to the external auditors of the Group for the year ended 31 December 2006 in respect of the services provided to the Group as follows:

| | 2006 |
|-------------------|-------------|
| | RMB'000 |
| Audit services | 928 |
| Advisory services | — |

AUDIT COMMITTEE

The Audit Committee of the Company has been established with written terms of reference on no less exacting than the required standard as set out in the code provisions of the Code.

Corporate Governance

During the year under review, the Audit Committee held four meetings:

| Members | Meetings Attended |
|----------------------------|--------------------------|
| Chan Wai Dune ¹ | 4/4 |
| Gu Yao Tian | 4/4 |
| Li Xin Zhong | 4/4 |

Notes:

1. Mr Chan Wai Dune resigned as independent non-executive director on 22 September 2006.
2. All meetings in 2006 were held prior to the appointment of Mr. Kwok Ming Fai and Mr. Sun Ka Ziang Henry as the then independent non-executive directors of the Company respectively.

During the meetings, the Audit Committee had considered, reviewed and discussed the auditing and financial reporting matters of the Group in regard to the final results of the Group for the year ended 31 December 2005 and the interim results of the Group for the six months ended 30 June 2006. The Audit Committee had further reviewed the engagement of the external auditors and the engagement of the Independent Auditor, details of which are disclosed in the section headed "Internal Controls" below.

INTERNAL CONTROLS

The Group has had since 2004 implemented an internal control system with a comprehensive set of guidelines for all operational staff of the Group at our headquarters in Yancheng, the PRC. The purpose of the guidelines is to support the operational staff in discharging their daily duties and responsibilities at a satisfactory level in regard to the rules and regulations in Hong Kong, especially to the Listing Rules aspects and the connected relationships among the Group in its normal course of business. The Group has been continuously monitoring the due compliance with the guidelines and that regular reportings on the connected transactions conducted by the Group are made to the Board quarterly and to the Audit Committee half-yearly respectively.

An independent auditor (the "Independent Auditor") has been engaged by the Company in 2006 to review the effectiveness of internal control system of the Group which cover all material controls, including financial, operational and compliance controls as well as risk management functions. The Independent Auditor has performed review of the internal control system of the Group for the year ended 31 December 2006 and the relevant review report has been submitted to the Audit Committee for review and consideration in April 2007. Effectiveness of the internal control system of the Group for the year ended 31 December 2006 has also been reviewed by the Audit Committee in April 2007. As such, the Board considers that the Group's internal control system has been implemented at a sufficient level.

Corporate Governance

DIRECTORS' RESPONSIBILITY FOR PREPARING ACCOUNTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group for the year ended 31 December 2006 and ensure that such financial statements are prepared in accordance with statutory requirements and applicable accounting standards.

AUDITORS' REPORTING RESPONSIBILITIES

The reporting responsibilities of SHINEWING (HK) CPA Limited, the auditors of the Company for the year under review, are stated in the Independent Auditor's Report on pages 24 to 25 of this annual report.