

CORPORATE GOVERNANCE REPORT

Introduction

The Board of Directors (the “Board” or the “Directors”) believes that good corporate governance practices are an essential element in guiding the growth and management of the business of the Group. Since the listing of the shares of the Company on 28 February 2005 and subject to the deviations disclosed in this report, the Company has complied with all the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules (the “Code”) by establishing a formal and transparent procedure to protect and maximize the interests of shareholders.

Directors’ Securities Transactions

The Company has adopted a code of conduct regarding securities transactions of Directors no less exacting than the required standard set out in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by directors (the “Model Code”). To ensure the Directors’ dealings in the securities of the Company are conducted in accordance with the Model Code, a committee (the “Securities Committee”) of the Board comprising Mr. Hung Wei-Pi, John as chairman and Ms. Hung Ying-Lien was set up to deal with such transactions. Prior to any dealing in the securities of the Company, a Director is required to notify the chairman of the Securities Committee or in the case of dealings by Mr. Hung Wei-Pi, John himself, notify Ms. Hung Ying-Lien in writing and obtain a written acknowledgement from the Securities Committee. Having made specific enquiry of all Directors by the Securities Committee of the Company, all Directors confirmed that they had complied with the Model Code regarding directors’ securities transactions since the date of listing of shares of the Company and up to the date of publication of this annual report.

Board of Directors

The Board currently comprises six executive Directors and four non-executive Directors, of which three of them are independent:

Executive Directors

Mr. Hung Wei-Pi, John
Mr. Wu Kwan-Hong
Ms. Hung Ying-Lien
Mr. Lu Yuan Cheng
Mr. Douglas Charles Stuart Fresco
Mr. Norman L. Matthew

Non-executive Director

Mr. Low Hsiao-Ping

Independent non-executive Directors

Mr. Du Haibo
Mr. Zhou Tai-Ming
Mr. Uang Chii-Maw

Matters which are reserved to be discussed and approved by the Board include the following:

- corporate strategy
- annual and interim results
- risk management
- major acquisitions disposals and capital transactions
- other significant operational and financial matters

Under A.2.1 of the Code, “the roles of chairman and chief executive officer should be separate and should not be performed by the same individual”. Mr. Hung Wei-Pi, John concurrently takes up the posts of chairman and chief executive officer of the Company. Such deviation is due to the fact that the day-to-day management of the Group is led by Mr. Hung. The Board considers that this arrangement provides the Group with strong and consistent leadership and allows for effective and efficient planning and implementation of business strategies and decisions.

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Major corporate matters that are specifically delegated by the Board 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. Each executive Director is delegated individual responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The independent non-executive Directors will bring independent views to the Board and share their knowledge and experience with the other members of the Board. Apart from the letters of appointment appointing the non-executive Directors each for a term of three years, none of them has any form of service contract with the Company or any of its subsidiaries.

The Board has implemented appropriate measures and internal control procedures to ensure that the Company runs its business in compliance with all legal and regulatory requirements with prudence and integrity. The senior management personnel are obliged to supply the Board with adequate information in a timely manner to enable the Board to make informed decisions. Each of the Directors has a right to obtain such records of the Company as are necessary to enable them to make informed decisions. Biographical details of the Directors as well as relationships among members of the Board are set out under the section headed "Profiles of the Directors and senior management" in this annual report.

The names of the directors and individual attendance of each director at each regular board meeting during the Year are as follows:

Executive Directors	Attendance
Mr. Hung Wei-Pi, John (Chairman and Chief executive officer)	4/4
Mr. Wu Kwan-Hong	4/4
Ms. Hung Ying-Lien	4/4
Mr. Lu Yuan Cheng	4/4
Mr. Douglas Charles Stuart Fresco	4/4
Mr. Norman L. Matthew	4/4
Mr. Liao Jung-Chun (resigned on 30 June 2005)	2/2
Ms. Jin Xiao-Yan (resigned on 6 September 2005)	3/3
Non-executive Director	
Mr. Horng Jian-Bie (resigned on 21 April 2006)	4/4
Independent Non-executive Directors	
Dr. Du Haibo	4/4
Mr. Zhou Tai-Ming	4/4
Mr. Uang Chii-Maw	4/4
Mr. Ma Fei (resigned on 30 June 2005)	2/2

Apart from the regular board meetings during the Year, the Board will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items in advance of each of the board meetings and minutes of meetings afterwards.

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 13 February 2005 with written terms of reference as suggested under the code provisions of the Code. The Remuneration Committee consists of three members, namely Mr. Du Haibo, Mr. Zhou Tai-Ming and Mr. Uang Chii-Maw, all of whom are independent non-executive Directors. The chairman of the Remuneration Committee is Mr. Du Haibo.

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The principal duties of the Remuneration Committee include the evaluation of the performance and making of recommendations on the remuneration package of the Directors and the senior management and the evaluation and making of recommendations on the Share Option Scheme and other employee benefit arrangements.

Details of the attendance of the Remuneration Committee meetings since the date of listing of the shares of the Company up to 31 December 2005 are as follows:

Members	Attendance
Mr. Du Haibo	3/3
Mr. Zhou Tai-Ming	3/3
Mr. Uang Chii-Maw	3/3
Mr. Ma Fei	3/3
(resigned on 30 June 2005)	

The Remuneration Committee had considered and reviewed the existing terms of service contracts of the executive Directors and appointment letters of the non-executive Directors. The Remuneration Committee considers that the existing terms of service contracts of the executive Directors and appointment letters of the non-executive Directors and independent non-executive Directors are fair and reasonable. The Remuneration Committee had also considered and approved the granting of share options pursuant to the Share Option Scheme to certain Directors during the Year.

Nomination of Directors

No nomination committee was established by the Company.

The Directors are aware of their collective and individual responsibilities to its shareholders for the well-being and success of the Company. During the period from the date of listing of the shares of the Company up to 31 December 2005, the executive Directors are charged with the

responsibility to consider and to assess candidates for directorships on the Board based on their characters, qualifications and experience appropriate for the businesses of the Group. The recommendations of the executive Directors will then put forward for consideration and adoption by the Board as a whole, including the independent non-executive Directors. The Board had also reviewed and made recommendations in respect of the reappointment of the retiring Directors to be approved at the annual general meeting.

All Directors are appointed for a fixed term. The articles of association of the Company required that one-third of the Directors (including executive and non-executive Directors) shall retire each year. The Directors to retire each year shall be those appointed by the Board during that year and those who have been longest in office since their election or re-election. A retiring director is eligible for re-election.

Auditors' remuneration

PricewaterhouseCoopers (the "Auditors") has been appointed as the Group's external auditors by the shareholders for the Year. During the Year, the fees charged by the Auditors in respect of their audit services amounted to RMB1,080,000. The Company did not engage the Auditors to perform any non-audit services during the Year.

Audit Committee

The audit committee (the "Audit Committee") has three members, namely Mr. Du Haibo, Mr. Zhou Tai-Ming and Mr. Uang Chii-Maw. Mr. Du Haibo has been appointed as the chairman of the Audit Committee. The duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

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The Audit Committee meets at least twice a year. A special meeting may be called at the discretion of the Audit Committee or the request of the Board to review significant internal control or financial issues. The functions of Audit Committee are reviewing important accounting policies and supervising the preparation of financial reports of the Group, monitoring the performance of both the internal and external auditors, reviewing and examining the effectiveness of the Group's financial reporting procedure and internal controls, ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, and internal rules and procedures approved by the Board.

Details of the attendance of the Audit Committee meetings since the listing of the shares of the Company and up to 31 December 2005 are as follows:

Members	Attendance
Mr. Du Haibo	3/3
Mr. Zhou Tai-Ming	3/3
Mr. Uang Chii-Maw	3/3
Mr. Ma Fei (resigned on 30 June 2005)	3/3

The Group's unaudited interim results for the six months ended 30 June 2005 and the annual audited results for the twelve months ended 31 December 2004 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 disclosures had been made.

The Group's annual results for the Year have been reviewed by the Audit Committee.

Directors' and Auditors' Responsibilities for the Consolidated Financial Statements

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 41.

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 meetings periodically to discuss financial, operational and risk management control.

Investors Relations

The Company has disclosed all necessary information to the shareholders in compliance with Listing Rules. Meetings are held with media and investors periodically. The Company also replied the enquires from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

Auditors

During the Year, the performance of the Auditors has been reviewed and the Company has proposed to reappoint the Auditors.