

# Report on Corporate Governance

The Group fully acknowledges its obligations to its shareholders and investors. Since its listing in 2003, the Company has been in strict compliance with the applicable legal and regulatory requirements of domestic or foreign securities regulatory authorities and has devoted to improving the transparency of its corporate governance and the quality of information disclosures. The Group also attaches great importance on communication with its shareholders and strives to ensure the timeliness, completeness and accuracy of its information disclosure to its shareholders and investors and to protecting the interests of investors. The Board has strictly complied with the principles of corporate governance and dedicated to improving the management quality of the Company and the standard of corporate governance continually in order to protect and enhance value for shareholders. To this end, the Company adopted the principles in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules (the "Code") since 1 January 2005 with the aim of enhancing the quality of corporate governance of the Group. Such adoption was reflected in the Company's articles of association (the "Articles of Association"), internal rules and regulations and the corporate governance implementation practices.

The Board is pleased to confirm that save and except the directors' retirement by rotation as set out below the Company has complied with all the provisions of the Code for the period under review and none of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period under review in compliance with the provisions of the Code.

## Board

The Board consists of 12 Directors, of whom four are executive Directors including the chairman of the Board and five are non-executive Directors. The Company has increased the number of independent non-executive Directors to not less than three in accordance with the requirements of the Listing Rules. Profiles and particulars of the chairman of the Board and other Directors are set out under the section headed Profiles of Directors, Supervisors and Senior Management. As approved by an ordinary resolution of the annual general meeting on 8 June 2005, the second session of the Board was established and the term of service of each Director (including non-executive Directors) is 3 years, which will expire on the date of annual general meeting of the Company to be held in the year 2008. Corresponding to the Directors' term of service, the service contracts of all Directors were valid for a term of 3 years and renewable subject to the applicable laws. The names of Directors referred herein are members of the second session of the Board.

The principal responsibilities of the Board include:

- to formulate overall strategies, monitor operating and financial performance and determine proper policies to manage risks exposures arising in the course of achieving the Group's strategic goals;
- to oversee and review the Company's internal control system;

- to be ultimately responsible for the preparation of accounts of the Company and to assess the Company's performance, financial position and prospects in a balanced, clear and comprehensible way in respect of the quarterly, interim and annual reports of the Company, other price-sensitive announcements and disclosure of financial information pursuant to the Listing Rules, reports submitted to the regulatory authorities and information disclosures pursuant to legal requirements;
- the executive Directors/management in charge of various aspects of the operations of the Company are responsible for the management of daily operations of the Company. The Board is responsible for setting and handling policies, financial and shareholders' affairs affecting the overall strategy of the Company, which includes material financial statements, dividend policy, material changes to accounting policies, annual operating budget, material contracts, key finance arrangements, major investments and risk management policies;
- the management has received clear guidelines and instructions in respect of their authorities, especially on the circumstances which require reporting to the Board and seeking Board approval prior to making any decision or entering into any commitment on behalf of the Company; and
- to review the responsibilities and authorities delegated to the executive Directors/management on a regular basis and to ensure that such arrangements are appropriate.

The Board held four meetings during the year. Attendance record of the Directors (including attendance by proxy) is as follows:

<b>Executive Directors</b>		<b>4</b>
<b>Name</b>		<b>Attendance</b>

Mr. Wang Zong-nan (chairman)	4/4
Mr. Liang Wei	4/4
Ms. Xu Ling-ling	4/4
Ms. Cai Lan-ying	4/4

<b>Non-executive Directors</b>		<b>5</b>
<b>Name</b>		<b>Attendance</b>

Mr. Lu Ming-fang	4/4
Mr. Tsunao Kijima	4/4
Mr. Wong Tak Hung	4/4
Mr. Hua Guo-ping	3/4
Mr. Shi Zu-qi	4/4

<b>Independent Non-executive Directors</b>		<b>3</b>
<b>Name</b>		<b>Attendance</b>

Mr. Lee Kwok Ming, Don	4/4
Mr. Zhang Hui-ming	4/4
Mr. Xia Da-wei	4/4

Note:

Mr. Hua Guo-ping was appointed as a non-executive Director of the Company at the general meeting of the Company held on 8 June 2005. As such, he did not attend the 2004 Board meeting held on 18 April 2005 in his capacity as a Director.

In addition to the abovementioned regular Board meetings during the year, the Board also held meeting whenever Board decision on any specific matter is required. All Directors will receive the meeting notice, detailed agenda of each Board meeting and the relevant information within a reasonable period prior to the meeting.

# Report on Corporate Governance

The members of the Board fully acknowledge their own duties and obligations in treating all shareholders on an equal basis and protecting the interests of all investors. The Company ensured that documents and information relating to the businesses of the Group were provided to Board members on a timely basis. The independent non-executive Directors performed their duties in compliance with relevant laws and regulations and safeguarded the interests of the Company and its shareholders as a whole. The Company had received confirmation letters from each independent non-executive Director in respect of independence pursuant to Rule 3.13 of the Listing Rules.

It has been provided for in provision A4.2 of the Code that every director (including those appointed for a specific term) of the listed issuer should be subject to retirement by rotation at least once every three years. The Articles of Association provides that each Director should be appointed at the general meeting of the Company and for a term of not more than 3 years, and the appointment could be renewed upon expiry. Having taken into account of the continuity of the implementation of the Company's operation and management policies, the Articles of Association does not provide for the mechanism of the Directors' retirement by rotation and thus deviates from the aforementioned provision of the Code.

## Duties of the Board and the management of the Company

The positions of chairman of the Board (the "Chairman") and Chief Executive Officer of the Company (the "Manager", which is equivalent to "chief executive" under the Listing Rules) are assumed by Mr. Wang Zong-nan and Mr. Liang Wei, respectively, which complies with the requirement of Rule A.2.1 of the Listing Rules that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Chairman leads the

Board and is responsible for overseeing and approving the policies and strategies of the Group, approving the annual budget and business plan, assessing the performance of the Company and overseeing the work of the management of the Company. The Manager is responsible for the day-to-day operations of the Group and leads the management of the Company to exercise the power conferred by the Articles of Association and delegated by the Board.

The Manager of the Company reports to the Board and performs the following duties:

- (1) oversee production, operation and management affairs and implementation of the resolutions of the Board;
- (2) oversee the implementation of the annual business plans and investment plans of the Company;
- (3) formulate the organisational structure plan of the Company;
- (4) formulate the management system of the Company;
- (5) formulate the basic rules of the Company;
- (6) make recommendations in respect of the appointment or removal of Deputy Manager and Financial Controller;
- (7) handle the appointment or removal of management personnel except those required to be appointed or removed by the Board;
- (8) personally (or appoint a Deputy Manager to) convene and chair over management meetings to be attended by the Manager, Deputy Manager and other members of senior management of the Company;

- (9) make decision on matters relating to the reward or punishment, promotion or demotion, pay-rise or pay-cut, recruitment, hiring, removal and dismissal of staff; and
- (10) exercise other powers conferred by the Articles of Association or delegated by the Board.

### Professional Committees

The Board established the first session of several professional committees in 2003, including (1) the Remuneration and Appraisal Committee to establish and determine the Company's reward and appraisal system; (2) the Strategic Committee to conduct consultation, survey, research and assessment on the Company's future investment strategies, and to enhance the Company's core competitiveness; (3) the Nomination Committee to optimise the composition of the Board and the management of the Company; and (4) the Audit Committee to review the financial reporting procedures, internal control system and the completeness of financial reports of the Company.

As approved by an ordinary resolution of the annual general meeting on 8 June 2005, the second session of the Board was established. On the same day, the Board established the second session of the four professional committees in accordance with the requirements of the Code. The second session of the Audit Committee is comprised of Mr. Lee Kwok Ming, Don, Mr. Zhang Hui-ming, Mr. Xia Da-wei and Mr. Hua Guo-ping and is chaired by Mr. Lee Kwok Ming, Don. The second session of the Remuneration and Appraisal Committee of the Company is comprised of Mr. Xia Da-wei, Mr. Zhang Hui-ming and Mr. Hua Guo-ping and is chaired by Mr. Xia Da-wei. The second session of the Strategic Committee of the Company is comprised of Mr. Wang Zong-nan, Mr. Lu Ming-fang, Mr. Tsunao Kijima and Mr. Zhang Hui-ming and is chaired by

Mr. Wang Zong-nan. The second session of the Nomination Committee of the Company is comprised of Mr. Xia Da-wei, Mr. Zhang Hui-ming and Mr. Hua Guo-ping and is chaired by Mr. Xia Da-wei. The Board has authorized the committees to formulate their respective work procedures.

To further enhance the independence of the professional committees, written terms of reference of each of them had been formulated under the authorisation of the Board.

### Audit Committee

The Board confirms that each member of the Audit Committee has extensive business experience and the Audit Committee has a desirable mix of operational, accounting and/or financial expertise. The primary duties of the Audit Committee are to review the financial reporting procedures, internal control system and completeness of financial reports of the Company. The Audit Committee holds meetings on a regular basis to review the financial and other information to be reported to the shareholders, internal control system, risk management and the effectiveness and objectivity of the audit procedures. The Audit Committee is also responsible for the relationship between the Board and the auditors of the Company and for making recommendations regarding the appointment, re-appointment and removal of such auditors, and the relevant terms of engagement and reviewing the independence and objectivity of the auditors.

In June 2003, the Board adopted a resolution for the establishment of the first session of Audit Committee. The first session of the Audit Committee was comprised of two independent non-executive Directors, namely Mr. Lee Kwok Ming, Don, and Mr. Zhang Hui-ming, and non-executive Director Mr. Zhu Jia-liu. The composition of the Audit Committee and its members complied with

# Report on Corporate Governance

the requirements of Rule 3.21 of the Listing Rules. All members of the Audit Committee and the management held a meeting on 11 April 2005, at which they reviewed the accounting principles and methods adopted for the preparation of annual report of the Group for the year 2004, and discussed matters relating to internal control and financial report, etc, including a review of the annual financial report of the Company prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS"). The Audit Committee was of the view that the annual financial report of the Group for the year 2004 complied with the accounting standards and requirements of the Stock Exchange and the relevant laws and contained sufficient disclosures. The Audit Committee also conducted a review on the internal control system of the Company and its subsidiaries and was of the view that the Company had an effective internal control system.

Set out below is the attendance record of the Audit Committee meeting on 11 April 2005:

<b>Independent</b>	
<b>Non-executive Directors</b>	
<b>2</b>	
<b>Name</b>	<b>Attendance</b>
Mr. Lee Kwok Ming, Don (chairman)	1/1
Mr. Zhang Hui-ming	1/1
<b>Non-executive Director</b>	
<b>1</b>	
<b>Name</b>	<b>Attendance</b>
Mr. Zhu Jia-liu	1/1

On 8 June 2005, the Board adopted a resolution for the election and establishment of the second session of the Audit Committee, which is comprised of three independent non-executive Directors, namely Mr. Lee Kwok-ming, Don, Mr. Zhang Hui-ming and Mr. Xia Da-wei, and non-executive

Director Mr. Hua Guo-ping. All members of the Audit Committee and the management held a meeting on 11 August 2005, at which they reviewed the accounting principles and methods adopted by the Group, and discussed matters relating to internal control system and interim financial report, including a review of the summary of interim accounts of the Company prepared under the HKFRS. The Audit Committee was of the view that the interim report of the Group for the year complied with the accounting standards and requirements of the Stock Exchange and the relevant laws and contained sufficient disclosures. The Audit Committee also conducted a review on the internal control system of the Company and its subsidiaries and was of the view that the Company had an effective internal control system.

Set out below is the attendance record of the Audit Committee meeting on 11 August 2005:

<b>Independent</b>	
<b>Non-executive Directors</b>	
<b>3</b>	
<b>Name</b>	<b>Attendance</b>
Mr. Xia Da-wei (chairman)	1/1
Mr. Zhang Hui-ming	1/1
Mr. Lee Kwok Ming, Don	1/1
<b>Non-executive Director</b>	
<b>1</b>	
<b>Name</b>	<b>Attendance</b>
Mr. Hua Guo-ping	1/1

The Group's chief financial officer, auditors and internal auditors attended the meeting and answered queries raised by the Audit Committee.

## Remuneration and Appraisal Committee

On 8 June 2005, the Board adopted a resolution for the election and establishment of the second session of the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee advised the Board on the overall remuneration policy and framework of the Directors and senior management and made recommendations for a set of proper and transparent procedures for formulating such policy. The Remuneration and Appraisal Committee ensured that none of the Directors or any of their associates was involved in the determination of the Directors' remuneration. The Remuneration and Appraisal Committee also ensured that effective policies and procedures were followed in respect of incentives provided to the Directors and senior management of the Company. The Remuneration and Appraisal Committee is comprised by four members, three of which were independent non-executive Directors (including the Chairman) and one was non-executive Director.

The Remuneration and Appraisal Committee held a meeting on 25 December 2005. Having taken into account factors including, but not limited to, the remuneration level paid by similar companies, amount of time required to be spent by the Director and the Director's duty, remuneration packages of other positions within the Group and individual performance, the Committee determined the remuneration package of all executive Directors and approved the remuneration to three executive Directors, one Supervisor and five senior management members for 2005.

Set out below is the attendance record of the Remuneration and Appraisal Committee meeting on 25 December 2005:

<b>Independent</b>	
<b>Non-executive Directors</b>	<b>3</b>
<b>Name</b>	<b>Attendance</b>
Mr. Xia Da-wei (chairman)	1/1
Mr. Lee Kwok Ming, Don	1/1
Mr. Zhang Hui-ming	1/1
<b>Non-executive Director</b>	
<b>Name</b>	<b>Attendance</b>
Mr. Hua Guo-ping	1/1

## Nomination Committee

As approved by an ordinary resolution of the annual general meeting on 8 June 2005, the second session of the Nomination Committee was elected and established. The primary duties of the Nomination Committee are to advise the Board on the size and composition of the Board with regard to the operating positions, scale of assets and shareholding structure of the Company, to study and advise the Board on the selection criteria and procedures of Directors and managers, to extensively seek qualified candidates for directorship and managerial positions, and to review and advise on the candidates for directorship, managerial position or other senior management posts subject to Board approval.

# Report on Corporate Governance

The Nomination Committee of the Company held a meeting on 26 December 2005, at which recommendation was made to appoint Mr. Liu Fusheng as the Deputy General Manager of the Company in order to strengthen the operations in respect of logistics and fresh produce of the Company in light of the changing market environment. The members of such Committee had also reviewed the nomination policy of the Company during the aforementioned meeting.

Set out below is the attendance record of the Nomination Committee meeting on 26 December 2006:

<b>Independent Non-executive Directors</b>		<b>3</b>
<b>Name</b>	<b>Attendance</b>	
Mr. Xia Da-wei (chairman)	1/1	
Mr. Lee Kwok Ming, Don	1/1	
Mr. Zhang Hui-ming	1/1	

<b>Non-executive Director</b>		<b>1</b>
<b>Name</b>	<b>Attendance</b>	
Mr. Hua Guo-ping	1/1	

## Directors' and auditors' responsibility for the accounts

The Directors hereby confirm their responsibility for preparing the accounts of the Company. The Directors confirm that the preparation of the financial statements of the Company complied with the relevant laws and accounting standards and that the Company would publish the financial statements of the Company at the appropriate time. The responsibility of external auditors to the shareholders is set out on page 64.

## Compliance with Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions of the Directors of the Company.

After specific enquiries to the Directors, the Board is pleased to confirm that all the Directors have fully complied with the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules during the period under review.

## Remuneration of auditors

The Audit Committee is responsible for considering the appointment of external auditors and reviewing their remuneration. For the year under review, RMB4,408,000 was payable by the Company to the external auditors (including the PRC and international auditors) as service charge for their audit and due diligence consultancy services. For the year under review, the international auditors had not provided any non-auditing service to the Company.

## Internal control

The Company reviews its internal control system on a regular basis to ensure its effectiveness and sufficiency. The Company regularly convenes meetings to discuss the control of financial and operational matters and risk management.

### Continuing operation

As at 31 December 2005, so far as the Directors are aware, there are no events or conditions that would materially affect the continuing operation of Company as a going concern.

### Investor relations

The Company reported to the shareholders regarding corporate information of the Group on a timely and accurate basis. Printed copies of the 2004 annual report and 2005 interim report have been sent to all shareholders.

The Company places much emphasis on communication with shareholders and investors of the Company and on improving the Company's transparency of information disclosure. As such, a dedicated department has been set up and designated officers are assigned to handle relations with investors and analysts. During the period under review, the Company received more than 150 fund managers and analysts and answered their inquiries. Site visits to stores, distribution centres and so on, were arranged for them so as to enhance their understanding of the Company's operation and also the latest business developments. The Company made disclosures in a faithful, true, accurate, complete and timely manner in strict accordance with the applicable laws and regulations, Articles of Association and Listing Rules. At the same time, the Company placed great importance in collecting and analysing various comments and recommendations of analysts and investors on the Company's operations, which would be compiled into reports regularly and adopted selectively in its operations. The Company has set up a website, allowing investors access to updates on the Company's particulars, statutory announcements, management and recent operating affairs. All published annual reports, interim reports, circulars

and announcements since their listings were included in the "Investors Relations" section of the website. The Company persistently adhered to its disclosure principle of honesty and integrity and actively initiated communications with various parties. In particular, it held corporate presentations, press conferences and one-on-one investor meetings following the announcement of interim and annual results and major investments. The Company also participated in a series of investor relation activities and made one-on-one contact with investors on a regular basis.