



SOUND CORPORATE GOVERNANCE REGIME

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China Paradise endeavours to uphold the highest standard of corporate governance practices. The Group takes pride in its strong corporate governance regime and sound management structure. Strong emphasis is placed on integrity, transparency and interactive communication. Since its listing in October 2005, it has further strengthened its corporate governance to enhance its internal management and control to lay a solid foundation for future growth.

The Company has put in place corporate governance practices that comply with the "Code on Corporate Governance Practices" (the "**Corporate Governance Code**") as contained in Appendix 14 to the Listing Rules issued by the Stock Exchange of Hong Kong in November 2004 and came into effect on or after 1 January 2005.

The Company has complied with the Corporate Governance Code except that the role of Chairman and Chief Executive Officer is performed by the same individual Mr. Chen Xiao. The Board believes that vesting the roles of both Chairman and Chief Executive Officer (which is equivalent to the President) in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies.

During the first year as a listed company, the Group, with a broadened shareholder base, placed tremendous efforts on developing an interactive dialogue with shareholders and investors to enhance corporate transparency. At the same time, more stringent internal control was put in place to ensure operating efficiency and the optimal deployment of resources to the best interests of the Group's development and shareholders.

THE BOARD OF DIRECTORS

Principal of the Code

The company should be headed by an effective Board which should assume responsibility for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the issuer's affairs.

The Board of Directors is responsible for steering the Group's overall development. It is charged with the responsibility of formulating business strategies and direction for the Group and supervising the effectiveness of management strategies so as to protect and enhancing long-term shareholder value. Each Director has a duty to act in good faith, with due diligence and in the best interests of the Company and its shareholders, contributing to the successful performance of the Group.

Responsibility of the Board

The Board is charged with the following functions:

- Formulating long-term business strategies
- Approval of annual budget
- Reviewing operational and financial performance
- Discussion and approval of acquisition opportunities, investments and capital expenditure
- Approving appointments to the Board and of the Company Secretary
- Monitoring the performance of the management
- Overseeing the management's relationships with shareholders

Key Code Provisions	Compliance
Board Meetings	
• The Board should meet at least four times a year.	Yes
• Notice of at least 14 days given for regular Board meetings.	Yes
• Board papers should be sent to all directors at least three days before the date of Board meeting.	Yes
• All directors should be given an opportunity to include matters in the agenda for regular Board meetings.	Yes
• Directors are entitled to have access to Board papers.	Yes
• Directors are given access to advice and services of the company secretary.	Yes
• Draft and final minutes sent to all Directors for comments within a reasonable period of time.	Yes
• Minutes of meetings should be kept by the company secretary and open for inspection.	Yes
• Minutes of Board meetings should record in sufficient details matters considered and decisions reached.	Yes
• Holding of Board meetings instead of passing written resolutions in case of conflict of interest with a substantial shareholder or director considered to be of material importance by the Board.	Yes
Management	
• The Board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the Board.	Yes
• Formalise the functions reserved to the Board and those delegated to management.	Yes
• Management has the responsibility to provide explanation and information to enable the Board to make informed assessment of relevant matters.	Yes

BOARD COMPOSITION

Principal of the Code

The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. It should include a balanced composition of Executive and Non-Executive Directors (including Independent Non-Executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement. Non-Executive Directors should be of sufficient caliber and number for their views to carry weight.

During the year ended 31 December 2005, the Board consisted of 13 Directors, comprising 7 Executive Directors,

3 Non-Executive Directors and 3 Independent Non-Executive Directors. The biographical details of the Directors are set out on pages 33 to 34 of this annual report. The relationships (including financial, business, family or other material or relevant relationships) among members of the Board are also disclosed. Two of the Non-Executive Directors, namely, Mr. Liu Haifeng David and Mr. Jiao Shuge (alias Jiao Zhen), have resigned from the Board with effect from 13 March 2006.

The Board held 5 meetings in 2005. Details of Directors' attendance at the AGM, Board and Board Committee meetings held in 2005 are set out in the following table:

Directors	Board Meeting
Executive Directors	
Mr. Chen Xiao	5/5
Ms. Shu Wei	5/5
Mr. Liu Hui	4/5
Mr. Ma Yawei	5/5
Mr. Yuan Yashi	4/5
Mr. Zhou Meng	2/2, Date of appointment 31 August 2005
Mr. Shen Ping	2/2, Date of appointment 31 August 2005
Non-Executive Directors	
Mr. Liu Haifeng, David	5/5
Mr. Jiao Shuge	5/5
Mr. Julian Juul Wolhardt	2/2, Date of appointment 31 August 2005
Independent Non-Executive Directors	
Dr. Yu Zengbiao	2/4, Date of appointment 14 June 2005
Mr. Chu Cheng Chung	3/4, Date of appointment 14 June 2005
Mr. Wang Bing	3/4, Date of appointment 14 June 2005

Both Audit and Remuneration Committees were established on 14 September 2005. No matter was discussed since their establishment up to the end of 2005 thus no meeting of such committees was held.

THE DIRECTORS

Principal of the Code

Directors should take decisions objectively in the interests of the Company.

The Directors acknowledge that they are responsible for the preparation of the accounts for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Directors are responsible for keeping proper accounting records, which disclose the financial position of the Group with reasonable accuracy at any time.

Pursuant to the requirement in the Listing Rules, the Company has received a written confirmation from each Independent Non-Executive Director of his independence to the Company.

The Company considers all the Independent Non-Executive Directors to be independent.

Directors have full access to accurate, relevant and timely information of the Group through management and are able to obtain independent professional advices on issues whenever deemed necessary by the Directors.

The Directors serve in staggered terms of three years each with one-third of the Board retiring at each annual general meeting provided that every Director should be subject to retirement by rotation at least once every three years. However, the retiring directors are eligible for re-election.

During the year ended 31 December 2005, the Board at all times met the minimum requirements of the Listing Rules relating to the appointment of at least three Independent Non-Executive Directors, and complied with the requirement that these should include one such director with appropriate professional qualifications or accounting or related financial management expertise.

Key Code Provisions	Compliance
<i>Independence</i>	
• Identify the Independent Non-Executive Directors in all corporate communications.	Yes
• Each Director should have separate and independent access to senior management.	Yes
• Agreed procedure for Directors to seek independent professional advice at the company's expense.	Yes
<i>Appointment</i>	
• Every newly appointed Director should receive a comprehensive, formal induction.	Yes
• Every Director should ensure that he can give sufficient time and attention to the affairs of the Company.	Yes
• Every Director should be subject to rotation at least once every three years.	Yes
• Non-Executive Directors should be appointed for a specific term, subject to re-election.	Yes
• All Directors appointed to fill a casual vacancy should be subject to election at the first and subsequent general meeting.	Yes

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principal of the Code

The roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

The Company does not have a separate Chairman and Chief Executive Officer (which is equivalent to the role of the President). Mr. Chen Xiao currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies.

The Board has laid down a sound corporate governance framework that ensures effective supervision of management. Although the positions of Chairman and Chief Executive Officer are held by the same individual, the Board believes that there is sufficient check-and-balances. The Board will continually review the effectiveness of the Group's corporate governance structure to assess whether any changes, including the separation of the positions of Chairman and Chief Executive Officer, are necessary.

REMUNERATION

Principal of the Code

Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be Independent Non-Executive Directors.

A Remuneration Committee was established on 14 September 2005. The Remuneration Committee consists of three members, two of whom are Independent Non-Executive Directors:

Mr. Chen Xiao (Chairman of
the Remuneration Committee)
Mr. Chu Cheng Chung
Mr. Wang Bing

The principal responsibilities of the Remuneration Committee include:

- Making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration
- Reviewing and approving performance-based remuneration package by reference to corporate goals and objectives resolved by the Directors from time to time

- Reviewing from time to time the Company's remuneration package by reference to market conditions, performance of the Group as well as individual performance
- Reviewing the performance of individual director and senior management member
- Determining the terms of the specific remuneration package of each Executive Director and senior management
- Considering and approving the grant of share options to eligible participants pursuant to the share option scheme adopted by the Company
- Reviewing and approving fair compensation payable to Executive Directors and senior management upon loss or termination of office
- Reviewing and approving reasonable and appropriate compensation arrangements relating to dismissal or removal of Directors for misconduct
- Ensuring no Director or his associate is involved in deciding his own remuneration

The above responsibilities of the Remuneration Committee are made available upon request.

Key Code Provisions	Compliance
<ul style="list-style-type: none"> • A majority of the members of the remuneration committee shall be Independent Non-Executive Directors. 	Yes
<ul style="list-style-type: none"> • The remuneration committee should consult with the Chairman or Chief Executive Officer about its proposal relating to the other Executive Directors. 	Yes
<ul style="list-style-type: none"> • The remuneration committee should have access to professional advice if considered necessary. 	Yes
Recommended Best Practice	
<ul style="list-style-type: none"> • A significant proportion of Executive Director's remuneration should be linked to corporate and individual performance. 	Yes

NOMINATION

Principal of the Code

There should be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There should be plans in place for orderly succession for appointments to the Board. All Directors should be subject to re-election at regular intervals. The Company must explain the reasons for the resignation or removal of any Director.

The Company has not established any nomination committee for the purpose of nominating Directors to the Board.

The duties of the nomination committee will be assumed by the Board. In determining whether to recommend any candidate to the Board for directorship, the Board will take into account the background of the candidate including the academic history, caliber and most importantly the experience of the candidate especially in the retail industry.

Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 of the Listing Rules as the code of conduct regarding the Directors and relevant employees' transactions in securities of the Group.

All Directors have confirmed, following specific enquiry by the Group, that throughout year 2005 they complied with the required standard set out in the Model Code for securities transactions.

The Directors' interests in shares of the Group as at 31 December 2005 are set out on pages 46 to 47 of this Annual Report.

AUDIT COMMITTEE

Principal of the Code

The Board should ensure that the Company maintains sound and effective financial reporting and internal control system to safeguard the shareholders' investment and the issuer's assets. The Committee should also maintain an appropriate relationship with the auditor.

An audit committee was established on 14 September 2005. The Audit Committee comprises three independent non-executive directors, including:

- Dr. Yu Zengbiao (Chairman of the Audit Committee with professional qualification in accountancy)
- Mr. Chu Cheng Chung
- Mr. Wang Bing

The primary duties of the audit committee include:

- Assisting the Board to provide an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group
- Overseeing the audit process and to perform other duties and responsibilities as assigned by the Board
- Reviewing the interim and annual financial statements before recommending them to the Board for approval
- Reviewing the accounting policies adopted by the Group
- Discussing annual audit plans for the external and internal auditors
- Discussing internal controls and risk management

The Audit Committee reports to the Board on the audits undertaken by external and internal auditors, the adequacy of disclosure of information, as well as the appropriateness and quality of the internal control systems. The Audit Committee meets at least twice a year.

Key Code Provisions	Compliance
• Minutes be kept by a duly appointed secretary; and should be sent to all committee members within a reasonable time.	Yes
• A former partner of the existing auditors should not sit on the Audit Committee.	Yes
• The terms of reference of audit committee (containing the minimum prescribed duties) are made available on request and on the website.	Yes
• Disclosure – statement from the audit committee explaining its recommendation on the appointment, resignation or dismissal of external auditors; express disclosure where the Board disagree with the committee's view.	Yes
• The audit committee should be provided with sufficient resources to discharge its duties.	Yes

External Auditors

The Group's external auditor is Ernst & Young. For the year ended 31 December 2005, the total remuneration paid to the external auditor was RMB3.7 million.

The Audit Committee is responsible for considering the appointment, re-appointment and removal of external auditors subject to endorsement by the Board and final approval by the shareholders of the Group in general meetings.

The Audit Committee assesses the external auditor, taking into account factors such as the performance and quality of the audit and the objectivity and independence of auditor.

Internal Control

A sound internal control system allows the Board to monitor the Group's overall financial position, balance business and financial risks, and protect its assets. The Board has the

responsibility of overseeing the internal control system and reviewing its effectiveness.

The Internal Audit Department of the Company plays an important role in monitoring the internal governance of the Group. The Department has unrestricted access to review all aspects of the Group's activities and internal controls. It also conducts special audits of areas of concern identified by Management or the Audit Committee. The Internal Audit Department has completed the internal audit on 70 on-going projects during the year ended 31 December 2005 and reduced the project expenses by over RMB 6.5 million. The Group adopted over 170 management recommendations made by the Department, out of which 90% has been applied and completed in 2005.

The Directors have conducted review during the year ended 31 December 2005 on the effectiveness of the Group's system of financial and non-financial controls regularly, including operational and compliance controls and risk management.

Key Code Provisions	Compliance
<ul style="list-style-type: none"> The Directors should at least annually conduct a review of the effectiveness of the system of internal controls. 	Yes

SHAREHOLDERS

Principal of the Code

The Board and the management should ensure shareholders' rights and all shareholders are treated equitably and fairly. The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

The Board considers shareholder meetings to be a good opportunity to establish two-way dialogues with shareholders. We encourage shareholders to take the opportunity to put questions to members of the Board on matters relating to the Group's operation and performance at the upcoming first AGM after the Company's listing.

Investor Relations

The Group believes that timely and effective communication with investors and media is crucial for investors and shareholders to understand the business and assess the investment value of the Group. The Group endeavors to maintain a high level of corporate transparency and frequent interactions with shareholders, investors and media through different channels.

As the internet has become an increasingly important medium for investors and shareholders to obtain information, the Group, soon after listing on the Main Board of Stock Exchange of Hong Kong, has enhanced the content of its corporate website (www.china-paradise.com) and developed a dedicated IR website (www.irasia.com/listco/hk/chinaparadise) on which latest corporate developments, announcements, press releases, etc are available.

Headed by the Chief Financial Officer of the Company, the investor relations team of the Group is committed to maintaining frequent dialogues with investors and shareholders. The Group proactively attended investor forums and participated in roadshow with institutional investors and financial analysts in the PRC, Hong Kong and other countries to keep investors abreast of the Group's development in a timely manner.

Since the listing of the Company on 14 October 2005 to 31 December 2005, the investor relations team participated in the following activities:

Activities	No. of Meetings
One-on-one investor meetings	49
Investor Teleconferences	90
Corporate Presentations and Media Conferences	2

At the time when the Group announced its annual results, briefings with analysts and the press were conducted to apprise them of the Group's operating results as well as business strategies and outlook. Webcast of the events as well as relevant presentation materials could be viewed and downloaded from the Company's corporate websites.

Looking forward, the Group will continue to enhance its corporate governance by communicating with shareholders more frequently, increasing corporate transparency and safeguarding shareholders' interests. With a commitment to be outstanding, the Board of Directors and all members at China Paradise will endeavor to create value for shareholders and customers and contribute to the society.