

The Company established the Audit Committee (the “**Committee**”) on 14 September 2005 pursuant to Rule 3.21 and Appendix 14 (Code of Corporate Governance Practices) of the Listing Rules for the Main Board in order to monitor the financial reporting procedures of the Group, to review its internal controls and its system of risk management and its relationship with the external auditors.

The Committee comprises three independent non-executive directors: Dr. Yu Zengbiao, Mr. Chu Cheng Chung and Mr Wang Bing and it is chaired by Dr. Yu Zengbiao. The Committee assists the Board of Directors mainly in providing independent assessment in respect of the completeness, accuracy and fairness of the Group's financial statements (including annual reports and interim reports), as well as the efficiency and effectiveness of the Group's operations and internal controls.

The Committee has the necessary resources for the performance of its duties, and is supported by our internal auditing department. The Committee is accountable to the Board of Directors. The minutes of meeting for all of its meetings held will be circulated to the Board of Directors

The Committee held its meetings on 6 January 2006 and 6 April 2006 respectively. All members of the Committee had attended these meetings. The meetings mainly reviewed and discussed the preparation and auditing of the financial report for the year ended 31 December 2005 and material matters relating to the Group's activities.

## REVIEWING OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2005

The Management is responsible for the preparation of the financial report, including the selection of an appropriate accounting policy. The external auditors are responsible for the auditing and verification of the Group's financial report and evaluating the Group's internal controls within the scope. The Committee monitors the work of the Management and the external auditors, and approves the procedures and safeguards adopted by the Management and the external auditors.

On 6 April 2006, the Committee together with the external auditors and internal auditors reviewed the consolidated financial statements for 2005, including the accounting principles and practices adopted by the Group. Based on the review and discussion with the Management and the external and internal auditors, the Committee agreed with the accounting treatment adopted by the Group and that best efforts had been made to ensure that the financial information disclosed in the report was consistent with the appropriate accounting principles and Appendix 16 (Disclosure of Financial Information) of the Main Board Listing Rules. Therefore, the Committee recommended that the Board of Directors should approve the release of the consolidated financial statements for the year ended 31 December 2005 to the public.

## INTERNAL CONTROLS

The Committee also reviewed the internal controls and procedures for risk management in respect of the Group's sales activities, and was satisfied with the effectiveness of these procedures.

## RE-APPOINTMENT OF EXTERNAL AUDITORS

The Committee reviewed and considered the terms of appointing the external auditors, including the independence and objectiveness of the auditors. Factors in the consideration include the rotating service of the chief auditing partner and the non-auditing services provided by the auditors. The Audit Committee recommended that the Board of directors should seek the approval of shareholders for the re-appointment of Ernst & Young as the external auditors of the Group for 2006.

The Committee confirms that it has been authorized by the Board of Directors to monitor the effectiveness of the internal controls (including financial and operational). As can be seen from these measures, the Committee has fully complied with and performed its duties pursuant to provision C.2 in respect of internal control matters and C.3 in respect of the duties inspecting committees of the Code of Corporate Governance Practices.

Members of the Audit Committee

**Yu Zengbiao** (*Chairman*)

**Chu Cheng Chung**

**Wang Bing**

Hong Kong, 21 April 2006