

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 been devoted to improving the transparency of its corporate governance and the quality of information disclosure. 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 the protection the interests of investors. The Board has strictly complied with the principles of corporate governance and is 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 set out 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, internal rules and regulations and the corporate governance implementation practices.

The Board is pleased to confirm that save and except Company's practice relating to the directors, retirement by rotation as set out below, the Company has complied with all 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 during 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 of whom are non-executive Directors. The Company has increased the number

of independent non-executive Directors to at least three in accordance with the requirements of the Listing Rules. Profiles and particulars of the chairman of the Company 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 three years, which will expire on the date of annual general meeting of the Company to be held in the year 2008. Corresponding to the term of service, all executive Directors have entered into service contracts, which are 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 disclosure 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 formulating affairs affecting the overall strategy of the Company, including financial statements, dividends 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 under all circumstances to report to the Board and to seek Board's 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 such arrangements are appropriate.

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

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

Non-executive Directors	5
Name	Attendance
Mr. Lu Ming-fang	4/4
Mr. Tsunao Kijima	3/4
Mr. Wong Tak Hung	4/4
Mr. Hua Guo-ping	4/4
Mr. Shi Zu-qi	4/4

Independent Non-executive Directors	3
Name	Attendance

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

Note: Mr. Koichi Narita was appointed as a non-executive Director of the Company at the general meeting of the Company held on 28 June 2006. As such, he did not attend the Board meeting held on 18 April 2006 in his capacity as a Director.

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

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 ensures that documents and information relating to the businesses of the Group are provided to Board members on a timely basis. The independent non-executive Directors perform their duties in compliance with relevant laws and regulations and safeguard the interests of the Company and its shareholders as a whole. The Company has received confirmation letters from each of the independent non-executive Director in respect of their independence pursuant to Rule 3.13 of the Listing Rules.

Provision A4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The Articles of Association of the Company provides that each Director shall be appointed at the general meeting of the Company and for a term of not more than 3 years, and subject to re-election. Having taken into account of the continuity of the implementation of the Company's operation and management policies, the Articles of Association contains no express provision for the mechanism of Directors' retirement by rotation and thus deviating from the aforementioned provision of the Code.

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Duties of the Board and the management of the Company

The positions of Chairman and Manager (equivalent to "chief executive" under the Listing Rules) of the Company are assumed by Mr. Wang Zong-nan and Mr. Liang Wei, respectively, which complies with the requirement of Provision A.2.1 of the Code 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 it under the Articles of Association and delegated by the Board.

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

- (1) oversees production, operation and management affairs and implementation of the resolutions of the Board;
- (2) oversees the implementation of the annual business plans and investment plans of the Company;
- (3) formulates the organisational structure plan of the Company;
- (4) formulates the basic management system of the Company;
- (5) formulates the basic rules of the Company;
- (6) makes recommendations in respect of the appointment or removal of deputy manager and financial controller;
- (7) handles the appointment or removal of management personnels except those required to be appointed or removed by the Board;

- (8) personally (or appoints a deputy manager to) convenes and chairs the management meetings to be attended by the manager, deputy manager and other members of senior management;
- (9) determine matters relating to the reward or punishment, promotion or demotion, pay-rise or pay-cut, recruitment, employment, removal and dismissal of staff; and
- (10) exercises 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 comprised Mr. Lee Kwok Ming, Don, Mr. Zhang Hui-ming, Mr. Xia Dawei 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 comprised 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 comprised 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 comprised 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 the committees had been formulated under the authorisation of the Board.

Audit Committee

The Board of the Company passed a resolution on 8 June 2005 to establish the second session of 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 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 external auditors, and approval of the relevant terms of engagement and reviewing the independence and objectivity of the auditors.

The Audit Committee of the Company held a meeting on 7 April 2006 to review and discuss on matters such as the internal controls of the Company, financial reports, remuneration and re-appointment of domestic and overseas auditing firms and continuing connected transactions for 2005, including the review of the Company's annual financial report 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 2005 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. The Audit Committee is of the view that its domestic and overseas auditing firms have carried out their work with professionalism and independence, and agrees to recommend to the Board their remuneration for 2005 and suggests to re-appoint its domestic and overseas auditing firms for 2006. The Audit Committee confirms that the continuing connected transactions of the Company in 2005 did not exceed the respective caps as approved by the waivers granted by the Stock Exchange of Hong Kong, and thus are not subject to the requirements in respect to reporting, announcement and approval by independent shareholders under the Listing Rules.

The Group's financial controller, auditors and internal auditors were present at the meeting to address queries raised by the Audit Committee.

The Audit Committee of the Company held a meeting on 10 August 2006 and with the management, to review and discuss about matters such as internal controls, interim financial statements and continuing connected transactions up to 30 June 2006, including review of the Company's condensed interim accounts prepared in accordance with the HKFRSs. The Audit Committee is of the view that the Group's annual interim financial reports comply with applicable accounting standards, requirements of the Stock Exchange and legal requirements, and has provided adequate disclosure. In relation to its review of the Company's internal controls, the Audit Committee concluded that the Company's internal control system is efficient.

The Audit committee has reviewed the annual results of the Company for the year ended 31 December 2006 and confirmed that they are prepared in accordance with applicable accounting standards, laws and regulations and appropriate disclosures have been made.

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The Group's financial controller, auditors and internal auditors were present at the meeting to address queries raised by the Audit Committee.

Set out below is the attendance record of the meetings of the Audit Committee in 2006:

Name	7 April 2006	10 August 2006
Independent Non-executive Directors		
Mr. Lee Kwok Ming, Don (<i>chairman</i>)	Present	Present
Mr. Zhang Hui-ming	Present	Present
Mr. Xia Dawei	Present	Present
Non-executive Director		
Mr. Hua Guo-ping	Present	Present

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 advises the Board on the overall remuneration policy and framework of the Directors and senior management and makes recommendations for a set of proper and transparent procedures for formulating such policy. The Remuneration and Appraisal Committee ensures that none of the Directors or any of their associates is involved in the determination of the Directors' remuneration. The Remuneration and Appraisal Committee also ensures that effective policies and procedures are followed in respect of incentives provided to the Directors and senior management of the Company. The Remuneration and Appraisal Committee comprises three members, including two independent non-executive Directors (including the Chairman) and one non-executive Director.

The Remuneration and Appraisal Committee held a meeting on 18 April 2006. 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 duties, 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 and one Supervisor for 2005. At the same time, the Remuneration and Appraisal Committee, by reference to the remuneration and rewards of executive Directors and Supervisors, agreed to the remuneration packages of the management of the Company for 2005 and authorized the general manager to formulate and implement the remuneration packages for other operating and management staff other than senior management for 2005, as well as to report to the Remuneration and Appraisal Committee and the Board. It also agreed to the implementation of remuneration package to the senior management of the Company in 2005, and implemented the remuneration reward to the senior management of the Company in 2006 according to remuneration policies in 2005.

Set out below is the attendance record of the Remuneration and Appraisal Committee meeting in 2006:

Name	18 April 2006
Independent Non-executive Directors	
Mr. Xia Da-wei (<i>Chairman</i>)	Present
Mr. Zhang Hui-ming	Present
Non-executive Director	
Mr. Hua Guo-ping	Present

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 approval of the Board. The Nomination Committee comprises three members, including two independent non-executive Directors (including the Chairman) and one non-executive Director.

The Nomination Committee of the Company held a meeting on 16 March 2006. Since Mr. Tsunao Kijima was appointed as regional coordinator of Europe by Mitsubishi Corporation as from 1 April 2006, and ceased to be a non-executive director of the Company. According to the proposal by Mitsubishi Corporation, the Company nominated Mr. Koichi Narita to act as non-executive director.

The Nomination Committee of the Company held a meeting on 10 August 2006. Since Mr. Tsunao Kijima ceased to be a Non-executive Director from the conclusion of the annual general meeting of 2005, the Company recommended to the Nomination Committee to nominate Mr. Koichi Narita to act as member of the Company's second session of the Nomination Committee.

Set out below is the attendance record of the Nomination Committee meeting in 2006:

Name	16 March 2006	10 August 2006
Independent Non-executive Directors		
Mr. Xia Da-wei (<i>Chairman</i>)	Present	Present
Mr. Zhang Hui-ming	Present	Present
Non-executive Director		
Mr. Hua Guo-ping	Present	Present

Directors' and auditors' responsibilities for the accounts

The Directors hereby confirm their responsibilities 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 responsibilities of external auditors to the shareholders are set out on page 58.

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.

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Remuneration of auditors

The Audit Committee is responsible for considering the appointment of external auditors and reviewing their remuneration. For the year under review, RMB4,446,000 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 external international auditors had not provided any non-auditing service to the Company.

Internal control

The Board is solely responsible for ensuring that the internal control system of the Group is stable and efficient. The Group's internal control system comprises defined management structure and related authorizations, so as to facilitate the Group to achieve its business objectives, to safeguard its assets against any unauthorized usage of handling, to ensure proper keeping of accounting records and to provide reliable financial information for internal use or external distribution, as well as to ensure compliance with relevant laws and regulations. The purpose of the afore-mentioned internal control system is to provide reasonable, but not absolute, assurance that there are no material misrepresentations or omissions, and to manage, but not extinguish, operating malfunctions and risks that the Group may not achieve its goals.

The Board, through the Company's Audit Committee, reviews the internal control systems of the Company and its subsidiaries on an annual basis to ensure its effectiveness. Discussions cover all material control aspects, including financial controls, operating controls and risk management.

Organisational Structure

The Group has established an organizational structure, which sets out the relevant operating policies and procedures, duties and authorizations.

Authorizations and Controls

Executive directors and senior management have been delegated the relevant authorizations in respect of corporate strategies, policies and contracting liabilities. Budget controls and financial reporting systems are formulated by relevant departments and are subject to review by directors in charge. The Group has formulated relevant procedures to assess, review and approve significant capital and recurrent expenses, while operating results will be compared against the budgets and reported to executive directors on a regular basis.

Training on Internal Controls

Directors and senior managements participate in internal control training programmes provided by the Group, which are designed to equip them with proper and full knowledge on internal controls, and provide guidance to them to apply internal control systems on a consistent basis.

Accounting System Management

The Group has put place a comprehensive accounting management system, so as to provide the management with indicators to evaluate its financial and operating performance and financial information for reporting and disclosure purposes. Any deviation from expectation will be analysed and explained, and appropriate steps will be carried out to address issues where necessary.

The Group has set up appropriate internal control procedures to ensure full, proper and timely record of accounting and management information, which will be reviewed and inspected on a regular basis to ensure the financial statements are prepared in accordance with generally accepted accounting principles, accounting policies of the Group and applicable laws and regulations.

Internal Audit

In order to more effectively assess the efficiency of the internal control system, the Company has an internal audit department to inspect, supervise and evaluate the disclosure of financial information, operations and internal controls of the Company and its associated companies on a regular basis and whenever required based on the potential risks and significance of the internal control systems of various business and procedures of the Company, with an aim to ensure the transparency of the Company in respect of information disclosure, operating efficiency and the effectiveness of its corporate control mechanisms, as well as to provide an objective opinion and advice in the form of an audit report. Internal audit staff shall be entitled full access to all information of the Company and to make enquiries with relevant staff. Audit manager shall directly report to the Chairman on the results and advice of such work.

The Company has put place systems and procedures to identify, measure, manage and control risks, including legal, credit, market, concentration, operation and management, environment, issues and other risks which may affect the development of the Company.

Continuing operation

During the relevant year, there are no uncertain events or conditions that may materially affect the continuing operation of Group on an ongoing concern.

Investor relations

The Company reports to the shareholders regarding corporate information of the Group on a timely and accurate basis. Printed copies of the 2005 annual report and 2006 interim report have been sent to all shareholders.

The Company places great emphasis on communication with shareholders and investors of the Company and 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 year under review, the Company received a total of 150 fund managers and analysts and answered their inquiries. Site visits to stores, distribution centres, etc, were arranged for them so as to enhance their understanding of the Company's operation and also its 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 places 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 to access updates on the Company's particulars, statutory announcements, management and recent operating affairs. All published annual reports, interim reports, circulars and announcements since listing are included in the "Investors Relations" section of the website. The Company persistently adheres to its disclosure principle of honesty and integrity and actively initiates 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 decisions to major investments. The Company also participates in a series of investor relation activities and conducts one-on-one communication with investors on a regular basis.