

Corporate Governance Report

The Company's goal has always been to enhance its corporate value, focusing on the stable and positive long-term growth of shareholders' returns, to ensure the sustainable long-term development of the Company and to generate greater returns for shareholders. In order to achieve the above goal and implement good corporate governance, we have been taking numerous measures to achieve an effective board of Directors, including establishing four principal board committees, namely, the audit committee, the strategic development and investment committee, the remuneration committee and the nomination committee. We have maintained and refined our internal controls and procedures on information disclosure to ensure that all material information is made known to the board of directors promptly and disclosed fairly, truthfully and in a timely manner. We will conduct periodic reviews of our corporate governance procedures and practices so as to ensure the long-term sustainable development of the Company.

THE BOARD OF DIRECTORS

The key responsibilities of the board include, among other things, formulating the Company's overall strategies, setting management targets, regulating internal controls and financial management, and supervising the management's performance while the day-to-day operations and management are delegated by the Board to the executives of the Company.

The Board currently comprises 15 directors, whose details are given on page 16 to page 19 of this annual report. The Board includes four Executive Directors, eight Non-executive Directors and three Independent Non-executive Directors. Namely, Mr. Tan Xuguang (Chairman and CEO), Mr. Xu Xinyu, Mr. Sun Shaojun, Mr. Zhang Quan as executive Directors. Mr. Yeung Sai Hong, Mr. Chen Xuejian, Mr. Yao Yu, Mr. Li San Yim, Mr. Tong Jingen, Ms. Zhang Fusheng, Mr. Julius G. Kiss, Ms. Han Xiaoqun as Non-executive Directors and Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu and Mr. Fang Zhong Chang as Independent Non-executive Directors. Currently, the role of Chairman and Chief Executive Officer of the Company are performed by Mr. Tan Xuguang. Mr. Tan is responsible for the overall management of the Company. The Company considers that the combination of the roles of the Chairman and Chief Executive Officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Company to seize business opportunities efficiently and promptly.

The Company has received from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rule and considers each of the Independent Non-executive Directors to be independent.

The Board of the Company has notified each of the Directors and Supervisors of the Company in advance that they should not trade in the securities of the Company within the period as stipulated under the Listing Rules. All Directors and Supervisors confirmed that they were in compliance with the Listing Rules in this respect.

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The Company held six board meetings in 2005 for discussion and approval of important items such as interim results and annual results, dividends and investment projects etc. There was 100% attendance rate (including attendance by appointing another Director as his representative to attend and vote at the meeting on his behalf was treated as attended the meeting in person) for all Board meetings in 2005, details of which are set out on page 38 of this annual report.

AUDIT COMMITTEE

The Audit Committee comprises all the Independent Non-executive Directors, they are Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu and Mr. Fang Zhong Chang, with Mr. Koo Fook Sun, Louis, acts as the Chairman of the Audit Committee, having appropriate professional qualifications and experience in financial matters. The terms of reference of the Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee held two meetings during 2005, presided over by Mr. Koo Fook Sun, Louis. Details of the attendance are set out on page 38 of this annual report.

Major jobs accomplished by the Audit Committee during the year as follows:

- Review the annual, interim financial statements of the Company, as well as management recommendations furnished by the external auditors and responses from the Company's management;
- Review the accounting policies and practices adopted by the Company and related matters;
- Review the revised terms for certain existing continuing connected transactions and recommended to independent shareholders to vote in favour of the ordinary resolutions at the EGM held on 5th December, 2005 to approve the new terms for such continuing connected transactions.
- Recommending the setting up a supervisory committee to ensure that all connected transactions of the Company are fair, impartial and transparency, offering full protection to the interests of minority shareholders.
- Assisting the Board to monitor the Company's internal audit.

Throughout the year under review, the Audit Committee discharged its responsibilities, reviewed and discussed the financial results and internal control system of the Company.

In accordance with the requirements of Appendix 16 of the Listing Rules, the Audit Committee has reviewed the consolidated financial statements for the year ended 31st December, 2005. The non-PRC auditors of the Company have audited the consolidated financial statements and have issued an unqualified auditors' report.

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STRATEGIC DEVELOPMENT AND INVESTMENT COMMITTEE

Established in April 2005, the Strategic Development and Investment Committee (the “Committee”) is principally responsible for examining and reviewing the Company’s strategic plans, monitoring the implementation of strategic planning, and facilitating timely adjustments to the Company’s strategies and governance structure.

The Committee currently comprises Mr. Tan Xuguang (Chairman of the Board and the Committee), Mr. Sun Shao Jun, Mr. Tong Jingen, Mr. Chen Xue Jian, Mr. Zhang Quan, Mr. Li San Yim, Mr. Zhang Xiaoyu and Mr. Julius G. Kiss.

REMUNERATION COMMITTEE

The Company founded the Remuneration Committee (the “Committee”) in April 2005. The Committee is responsible for recommendation to the Board on the remuneration packages and terms of employment for Directors, Supervisors and senior management. The Committee also determines relevant remuneration policy for Directors, Supervisors and senior management and their participation in incentive schemes operated by the Company.

The Committee currently comprises all the Independent Non-executive Directors and two Non-executive Directors, they are Mr. Koo Fook Sun, Louis (Chairman), Mr. Zhang Xiaoyu, Mr. Fang Zhong Chang, Ms. Zhang Fusheng and Mr. Yao Yu.

NOMINATION COMMITTEE

The Nomination Committee was founded in April 2005. It comprises all the Independent Non-executive Directors and two Executive Directors, they are Mr. Fang Zhong Chang, (Chairman), Mr. Koo Fook Sun, Louis, Mr. Zhang Xiaoyu, Mr. Xu Xinyu and Mr. Zhang Quan. The meeting of the Nomination Committee will be arranged and held on an as-needed basis. The Nomination Committee will identify qualified candidates to fill the Board membership whenever such vacancy arises, it will nominate such candidates for the Board to consider, and regularly review the composition of the Board as well as make suggestions as to any change that may be required.

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Attendance at meetings of the Board/Supervisory Committee and specialised committees (attendance in person/number of meetings) during the year is as follows:

| Name | Board/ Supervisory Committee | Audit Committee |
|--|------------------------------------|--------------------|
| Directors | | |
| Tan Xuguang | 6/6 | |
| Xu Xinyu | 6/6 | |
| Zhang Quan | 6/6 | |
| Sun Shaojun | 6/6 | |
| Yeung Sai Hong | 6/6 | |
| Chen Xue Jian | 6/6 | |
| Yao Yu | 6/6 | |
| Li San Yim | 6/6 | |
| Tong Jingen | 6/6 | |
| Zhang Fusheng | 6/6 | |
| Feng Gang | 4/4 | |
| Han Xiaoqun | 2/2 | |
| Julius G. Kiss | 6/6 | |
| Independent Non-executive Directors | | |
| Koo Fook Sun, Louis | 6/6 | 2/2 |
| Zhang Xiaoyu | 6/6 | 2/2 |
| Fang Zhong Chang | 6/6 | |
| Supervisors | | |
| Sun Chengping | 2/2 | |
| Wang Yong | 2/2 | |
| Jiang Jianfang | 2/2 | |

The Directors and Supervisors, who were unable to attend any meeting in person, had appointed another Director or Supervisor (as the case may be), as his representative to attend and vote at the meeting on his behalf and was treated as having attended the meeting in person.

CONTROL MECHANISMS

Supervisory Committee

The Supervisory Committee consists of three members, with one Supervisor being elected from the staff as a representative of employees and the other two elected by the shareholders of the Company. The Supervisory Committee is responsible for supervision over the Board and its members and senior management, so as to prevent them from abusing their authorities and violating the legal interests of

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shareholders, the Company and its staff. The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations of the PRC. The Supervisory Committee held two meetings during the year to carry out supervision on behalf of the shareholders in respect of the Company's financial matters and the lawfulness and compliance on the discharge of duties by the Directors and senior management. The Supervisory Committee members attended all Board meetings and Shareholders' meetings and diligently performed its supervisory duties.

INTERNAL CONTROL AND AUDIT

Internal control systems have been designated to allow the Board to monitor the Company's overall financial position, to protect its assets and to assure against material financial misstatement or loss. The Company Internal Audit Department plays a major role in monitoring the internal governance of the Company. Key tasks of the department include:

- unrestricted access to and review of all aspects of the Company's activities and internal controls;
- comprehensive audits of the practices, procedures and internal controls of all business and support units and subsidiaries on a regular basis;
- liaison with external auditors on the quality and effectiveness of internal controls, systems and procedures;
- investigation of business ethics, conflicts of interest and other Company policy violations; and
- special reviews of areas of concern identified by management.

SHAREHOLDERS MEETING AND INVESTOR RELATIONS

Shareholders' Meeting is the highest authority of the Company. It provides a good opportunity for direct communications and to building a sound relationship between the Board and the shareholders of the Company. Therefore, the Company attaches great importance to such meetings. In 2005, the Company convened two General Meetings. Matters reviewed and approved at the meetings include the following:

- the Report of the Directors, Report of Supervisory Committee and Financial Report for 2004;
- the profit distribution and final dividend distribution proposals for 2004;
- re-appointment of members of the Board and the Supervisory Committee;
- approval of revised terms of continuing connected transactions.

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The Chairman of the Board chaired such general meetings and explained matters concerning the procedures for voting for shareholders' consideration and the shareholders voted on each resolution, members of the Audit Committee and the Supervisory Committee had been notified to attend the general meetings.

The Company has established a designated securities department for investor relations, which is responsible for matters concerning relations with the investors. The Company's management maintains close communications with investors, analysts and the media by various means including roadshows, individual interviews, meetings and investors' visits to the Company, thereby further increasing investors' recognition of the Company. In 2005, the Company arranged designated senior management to visit investors in two global roadshows, arranged several corporate visits for investors, participated in investors' meetings arranged by investment banks. In addition, our investor relations department is also responsible for answering investors' enquiries and mails on a timely basis.