

Corporate Governance

MAINTAINING HIGH STANDARD OF CORPORATE GOVERNANCE

Sound corporate governance are crucial to the smooth, effective and transparent operation of a company and its ability to attract investment, protect rights of shareholders and stakeholders, and enhance shareholder value. The Company has always attached great importance to corporate governance so as to ensure its sustainable development.

In 2004, the Company continued to comply with the Code of Best Practices as set out in Appendix 14 of the Listing Rules issued by the Stock Exchange. On 1 January, 2005, the Code of Best Practices was replaced by the Code on Corporate Governance Practices. Compliance with the New Code will be effective from 1 January, 2005.

BOARD OF DIRECTORS

The existing Board of the Company consists of nine directors, comprising six Executive Directors and three Independent Non-executive Directors. The Executive Directors of the Company comprises Mr. DUAN Yongji (Chairman), Mr. SHI Yuzhu (Chief Executive Officer), Mr. SHEN Guojun, Mr. CHEN Xiaotao, Mr. ZHANG Disheng and Ms. LIU Wei. The roles of the Chairman and the Chief Executive Officer are segregated. The Executive Directors meet regularly to review and discuss management reports on the performance of the Company, current plans and long term opportunities, and any other issue of immediate concern. They are responsible for the day to day management of the Company's operation. They conduct regular meetings with the senior management of the Company and its subsidiaries and associated companies, at which operational issues and financial performance are evaluated.

The Independent Non-executive Directors comprises Mr. NG Ming Wah, Charles, Mr. Andrew Y. YAN and Mr. LIU Ji. They are independent of the shareholders of the Company and do not assume any management position in the Company. They are appointed for a term of 3 years and subject to retirement pursuant to the Articles of Association. All of them satisfy the regulatory requirements for independence and are well-known specialists in financial and accounting fields.

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the Code of Conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code and its Code of Conduct regarding the directors' securities transactions.

At present, an audit committee and a remuneration committee have been set up under the Board.

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AUDIT COMMITTEE

The Company's Audit Committee is composed of three Independent Non-executive Directors. It reports directly to the Board and reviews matters within the scope of audit, such as financial statements and internal controls.

The Audit Committee met four times during the Period with the Company's external auditors to discuss the audit process and accounting issues, and reviews the effectiveness of internal controls. The written terms of reference which describes the authority and duties of the Audit Committee are regularly reviewed and updated by the Board.

REMUNERATION COMMITTEE

The Company's Remuneration Committee was established on 21 March, 2005 and is composed of all of the three Independent Non-executive Directors and two Executive Directors, namely, Mr. ZHANG Disheng and Ms. LIU Wei. The Remuneration Committee's responsibilities include the review of the Company's policy for remuneration of directors and senior management and determination the remuneration packages of Executive Directors and senior management including benefits in kind, pension rights and compensation payments.

INTERNAL CONTROL

The Board places great importance on internal control and risk management and responsible for establishing and maintaining adequate internal control over financial reporting for the Company and assessing the overall effectiveness of those internal controls.

The results of the implementation of its internal control mechanism are reviewed by the Executive Directors on a regular basis in order to ensure that internal monitoring and control mechanism operates soundly, stably and effectively.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so they can exercise their rights in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include the annual general meeting, the annual report, various notices, announcements and circulars.