

# Corporate Governance Report

The Company is firmly committed to statutory and regulatory corporate governance standards and adheres to the principles of corporate governance emphasising transparency, independence, accountability, responsibility and fairness.

The Board of Directors (the “Board” or the “Directors”) believes that good corporate governance practices are an essential element in guiding the growth and management of the business of the Group. Therefore the Board reviews its corporate governance practices from time to time to ensure that they protect the shareholders’ interest, comply with legal and professional standards and reflect the latest local and international circumstances and development. The Board will continue to commit itself to achieving a high quality of corporate governance.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the year ended 31 December 2005 and up to the date of publication of this annual report, applied and complied with the principles in the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 of the “Listing Rules”, except for the deviation as stated in paragraph headed Chairman and Chief Executive Officer below.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the full set of Model Code set out in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by directors (the “Model Code”). The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group’s senior management and also persons who are privy to price sensitive information of the Group. The interests in the Company’s securities held by the Directors as at 31 December 2005 and the extent of applications of the Model Code are disclosed in this Corporate Governance Report. Based on specific inquiry made by the company secretary of the Company, all directors confirmed that they had complied with the Model Code regarding directors’ securities transactions during the year and up to the date of publication of the Annual Report.

## THE BOARD OF DIRECTORS

The Board of Directors represents shareholders in overseeing the Group’s business. The Directors recognise their responsibilities to enhance shareholders’ value and to conduct themselves in accordance with their duty of care and loyalty.

Throughout the financial year ended 31 December 2005, the Board had eight directors consisting of five Executive Directors and three Independent Non-executive Directors. Pursuant to the requirements of the Listing Rules, the Company has received written confirmation from each Independent Non-Executive Director of his independence to the Group. The Group considered all of Independent Non-Executive Directors to be independent. The names of the directors and their respective biographies are set out on pages 26 to 29 of this annual report. The information is also published on the Company’s websites.

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The Board oversees the Group's strategic development, and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. All Board members have access to appropriate business documents and information about the Group on a timely basis. All directors and board committees have access to external legal counsel and other professionals for independent advice at the Group's expense if they require it.

Two board committees, namely, the audit committee and the remuneration committee, have been established to oversee particular aspects of the Group's affairs. The Board has delegated the day-to-day management and operations of the Group's businesses to management of the Company and its subsidiaries. Major corporate matters that are specifically delegated by the Board to the management include the preparation of financial statements for board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The Board had met four times this year to review the financial performance of the Group, major issues (whether or not required by the Listing Rules) and also on other occasions when board decisions were required. The views of Independent Non-Executive Directors were actively solicited by the Group if they were unable to attend meetings of the Board.

The major issues which were brought before the Board for their decisions during the year include:

1. formulation of operational strategies and review of its financial performance and results and the internal control system;
2. policies relating to key business and financial objectives of the Group;
3. proposals related to potential acquisitions, investments, or any significant capital expenditures; and
4. the declaration of any interim dividend and recommendation to shareholders on final dividend.

The names of the directors and individual attendance of each director at each board meeting is as follows:

<b>Executive Directors</b>	<b>Attendance</b>
Mr. Li Zhenjiang ( <i>Chairman of the Board</i> )	4/4
Ms. Wang Zhihua	4/4
Ms. Xin Yunxia	4/4
Mr. Li Huimin	4/4
Mr. Hung Randy King Kuen (appointed on 7 June 2005)	3/3
Mr. Hou Jiangtao (resigned on 7 June 2005)	1/1
<b>Independent Non-executive Directors</b>	
Mr. Li Kung Man	4/4
Dr. Wang Jianping	4/4
Prof. Zhou Chaofan	4/4

The Directors acknowledged that they are responsible for the preparation of the accounts which give a true and fair view of the affairs of the Group. The auditors are responsible to form an independent opinion, based on their audits, on the Group's financial statements and express their opinions.

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The Board has the overall responsibility to ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investments and the Company's assets. The internal audit department has been conducting regular review of the system's effectiveness and reports to the Directors and the audit committee on its material findings.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code provision A.2.1 stipulated that the roles of chairman of the board (the "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 use the title "Chief Executive Officer". The duty of Chief Executive Officer has been assumed by the President of the Company.

Mr. Li Zhenjiang has been both the Chairman and President of the Company, his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and President in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

## NON-EXECUTIVE DIRECTORS

Each of the non-executive directors has entered into a service contract with the Company for a term of two years commencing from 10 November 2004 or till retirement by rotation in accordance with the Company's Articles of Association, if earlier.

## REMUNERATION OF DIRECTORS

The Company established a remuneration committee on 10 November 2004 with written terms of reference as disclosed on the Company's websites. The primary duties of the remuneration committee include the following:

1. To make recommendation to the Board on (a) the Company's policy and structure for all remuneration of directors and senior management, and (b) the Company's establishment of a formal and transparent procedure for developing policy on such remuneration;
2. To determine the specific remuneration packages of all Executive Directors, and senior management, including benefits in kind, pension right, compensation payment (including any compensation for loss or termination of office or appointment);
3. To make recommendation to the Board on the remuneration of Non-executive Directors;
4. To have due consideration of all relevant factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;
5. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
6. To review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

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7. To review and approve the compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
8. To ensure that no director or any of his associates is involved in deciding his own remuneration.

During the year under review, the members of remuneration committee comprised Dr. Wang Jianping, Mr. Li Kung Man and Ms. Xin Yunxia, all being Independent Non-Executive Directors. Dr. Wang Jianping is the Chairman of the remuneration committee. The remuneration committee met on two occasions during the year to consider and approve the service contract of a newly appointed executive director, review the long term incentive scheme of the Group, and assess the performance of executive directors.

Individual attendance of each remuneration committee member is as follows:

	<b>Attendance</b>
Dr. Wang Jianping (Chairman)	2/2
Mr. Li Kung Man	2/2
Ms. Xin Yunxia	2/2

The emolument policy of the employees of the Group was set up by the Remuneration Committee on the basis of their merit, qualification and competence.

The emolument of the directors of the Company are determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Further details on the emolument policy and basis of determining the emolument payable to the Directors are disclosed on page 39 of this annual report.

The Group's stock option scheme as described on page 36 of this annual report is adopted as the Group's long term incentive scheme.

## NOMINATION OF DIRECTORS

The Directors are aware of their collective and individual responsibilities to its shareholders for the well-being and success of the Company. During the year under review, the Executive Directors are charged with the responsibility to consider and to assess candidates for directorships on the Board based on their characters, qualifications and experience appropriate for the businesses of the Group. The recommendations of the Executive Directors are then put forward for consideration and adoption by the board as a whole, including Independent Non-Executive Directors.

During the year, the Executive Directors, along with Independent Non-Executive Directors, had considered and accepted the resignation of one Executive Director and nomination of one Executive Director who joined the Group in June 2005.

All Directors are appointed for a fixed term. The articles of association of the Company required that one-third of the Directors (including Executive and Non-Executive Directors) shall retire each year. The Directors to retire each year shall be those appointed by the Board during the year and those who have been longest in office since their election or re-election. A retiring director is eligible for re-election.

## AUDITORS' REMUNERATION

Annually since 2004, Deloitte Touche Tohmatsu has been appointed as the Group's external auditors by shareholders. During the year, the fees charged to the accounts of the Company and its subsidiaries for Deloitte Touche Tohmatsu's statutory audit services amounted to HK\$1,350,000 (2004: HK\$1,200,000 million), and in addition to a total of HK\$400,000 for other services, including the review of interim financial statements for HK\$360,000.

## AUDIT COMMITTEE

The audit committee members comprise of Mr. Li Kung Man, Dr. Wang Jianping and Prof. Zhou Chaofan. All of the members of the audit committee are Independent Non-Executive Directors. Mr. Li Kung Man, who has appropriate professional qualifications or accounting or related financial management expertise, is the Chairman of the audit committee. No member of this committee is a member of the former or external auditors of the Company. The committee members possess diversified industry experience.

The audit committee's primary responsibilities include overseeing the relationship with the Company's external auditors, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted a term of reference of the audit committee on which complies with the provisions of the Code. The terms of reference of the audit committee is available on the Company's website.

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Individual attendance of each audit committee member during the year is as follows:

	<b>Attendance</b>
Mr. Li Kung Man	2/2
Dr. Wang Jianping	2/2
Prof. Zhou Chaofan	2/2

The report on the work performed by the audit committee can be found on page 48 of this annual report.

## **COMMUNICATION WITH SHAREHOLDERS**

The Group attaches great priority to communicate with shareholders and Investors. Since our listing on the Main Board of the Exchange in December 2004, the Group has regularly met with investors to increase corporate transparency. During the year, the Group met and/or held telephone conferences with a number of investors and participated in institutional investor conferences. We issued two voluntary announcements. We held a number of site visits for investors. Since June of this year, we have distributed "Shineway Newsflash" to investors on a monthly basis.

To foster effective communications, the Company provides extensive information in its annual report, Interim report, press releases and also disseminates information relating to the Group and its business electronically through its websites.

In October 2005, to enable the shareholders to better evaluate the operations and performance of the Group, the Group released quarterly financial Information on turnover in due course after the relevant period ended.

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The followings list out institutional investor conferences and roadshows participated by the Company during the year:

Month	Event	Locations	Primary sponsor
January	Investor Conference	Shanghai, China	UBS
March	2004 annual result overseas roadshow	Singapore	Cazenove
April	2004 annual result overseas roadshow	UK, Germany	Cazenove
May	Investor Conference	Beijing, China	CLSA
August	Overseas roadshow	Singapore	Cazenove
September	Interim result announcement overseas roadshow	UK, Germany and USA	Cazenove
October	China Corporate Day Conference	USA	Macquaries
November	China Conference	Beijing, China	J. P. Morgan
December	Overseas roadshow Greater China Conference	Singapore Shanghai, China	CIMB UBS

The Company regards the Annual General Meeting (“AGM”) as an important event as it provides an important opportunity for direct communication between the Board and shareholders. Directors and senior management will make effort to attend. The Chairman of the Board, as well as the Chairmen of audit committee and remuneration committee and external auditors will be available at the AGM to address shareholders’ queries. All shareholders are given at least 21 days’ notice of the AGM and they are encouraged to attend the AGM and other shareholders’ meetings. Questioning by the shareholders at such meetings are encouraged and welcomed.

## CODE OF CONDUCT

Employees of the Group have maintained high level of ethical standards. The Group published an employee handbook, setting out standards of professional and ethical conduct for all employees of the Group. Trainings on the contents of the Employee Handbook have been held regularly. The employees at all levels are expected to act in an honest, diligent and responsible manner.