

## CODE ON CORPORATE GOVERNANCE

The Company has, throughout the year ended 31st December 2005 and up to the date of publication of the annual report, applied and complied with the Code Provisions in the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 of the Listing Rules, except for the deviation below.

The Code provision A.2.1 the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Board of Directors (the “Board”) of the Company shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arises.

## BOARD OF DIRECTORS

The Board serving the important function of guiding the management, currently comprises four executive directors, namely Mr Wang Zhiqiang, Mr Wang Xubing, Dr Shi Chongming and Mr Siu Kwok Leung, one non-executive director Mr Wang Nengguang, and three independent non-executive directors (“INED”) (collectively the “Directors”) required under Rule 3.10(1) of the Listing Rules, namely Mr Pang Chor Fu, Professor Li Weian and Mr Lee Kit Wah which represent approximately 40% of the Board and include one with appropriate professional qualifications and accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations.

Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company and each of the INEDs has made annual confirmation that he complied with the independence criteria set out in Rule 3.3 of the Listing Rules. The Directors consider that all the three INEDs independent under these independence criteria and are capable to effectively exercise independent judgment.

The Directors as aforesaid, accompanied by their respective biographical details, are listed in the section of “Biographies of Directors” in this annual report and that the INEDs are expressly identified in all of the Company’s publication such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed.

The principal functions of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and

shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organization of the Company for implementing the Board's decision. During the year under review, the Board has reviewed, inter alia, the performance of the Group and formulated business strategy of the Group; reviewed and approved the interim and annual results of the Group for the year ended 31st December, 2005; approved the acquisitions of the Group; approved the change of principal place of address of the Company in Hong Kong; reviewed and approved the grant of share option; reviewed internal controls taken by the Group; and reviewed the amendments to the articles of the Memorandum and Articles of the Company.

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Articles of the Company allows board meetings to be conducted by way of telephone or video conference and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has conflict of interest. The Board held totally more than four (4) Board meetings during the year under review.

In the said Board Meetings, sufficient notices for regular board meetings and reasonable days for non-regular board meetings were given to all directors so as to ensure that each of the them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner before the appointed date of the Board meetings. Sufficient information was also supplied by the management to the Board to enable it to make decisions, which are made in the best interests of the Company.

## APPOINTMENTS AND RE-ELECTION OF DIRECTORS

In compliance with the code provision A.4.2 in the Code, the amendments to the Company's Articles were passed in the 2005 annual general meeting of the Company held on 12th May 2005. The Company's Articles were amended to the effect that at each annual general meeting one-third (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) of the Directors should be subject to retirement and re-election. Every non-executive (including independent non-executive) director of the Company is appointed for a specific term.

In considering the nomination of a new director, the Board will take into account the qualification, in particular as required in the Listing Rules, ability, working experience, leadership and professional ethics of the candidates. The Board considers that the existing human resource policy in recruitment of new senior staff is also applicable to nomination of a new director. Furthermore, as the Board is responsible for selection and approval of candidates for appointment as directors to the Board, the Company has not established a nomination Committee for the time being.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code provision A.2.1 stipulated the roles of 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.

Mr Wang Zhiqiang has been both the Chairman and Chief Executive Officer 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 Chief Executive Officer 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 arises.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to Listing Rule. Having made specific enquiry to all directors, all directors confirmed they have complied with the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

## DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31st December 2005 have been reviewed by the Audit Committee and audited by the external auditors, Messrs Deloitte Touche Tohmatsu. The Directors acknowledge their responsibility for preparing the financial statement of the Group and presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group in a timely manner.

## REMUNERATION COMMITTEE

The Board has established a Remuneration Committee comprising Mr Wang Zhiqiang, Mr Wang Nengguang and three INEDS, namely Mr Pang Chor Fu, Professor Li Weian, and Mr Lee Kit Wah. The Remuneration Committee is chaired by Mr Pang Chor Fu and meets at least once a year.

The principal duties of Remuneration Committee, inter alia, include formulation of the remuneration policy; review and recommending to the Board the annual remuneration policy; make recommendation to the Board of the remuneration of non-executive Directors; and determination of the remuneration of the executive Director and members of the Senior Management. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

The Remuneration Committee proposes the remuneration of each executive Director and has access to professional advice where necessary. No Directors and executives can determine their own remuneration. During the year under review, the Remuneration Committee has held one meeting for review and approval. Minutes of Remuneration Committee meeting are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meeting are sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

## AUDIT COMMITTEE

The Audit Committee has three members comprising three INEDs, namely, Mr Lee Kit Wah, Mr Pang Chor Fu, and Professor Li Weian, appointed by the Board who have extensive experience in financial matters, meets at least two times a year. Chairman of the Audit Committee, Mr Lee Kit Wah, is a qualified accountant. None of the Audit Committee members are members of the former or existing auditors of the Company.

The primary duties of the Audit Committee are, inter alia, to review and supervise the financial reporting process and internal control procedures of the Group; to ensure continuing auditors objectivity and to safeguard independence of the Company's auditors; to meet the external auditors to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditors suggest discussing; to review the Group's internal control system; to review the annual and interim report prior to approval by the Board in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements; to serve as a focal point for communication between other Directors and the external auditors in respect of the duties relating to financial and other reporting, internal controls, external audit, and such other matters as the board determines from time to time; to consider major findings of internal review and management's response and ensure proper arrangement in pace for the fair and independent review of such concerns and appropriate follow up action; to devise a framework of the type and authorization of non-audit services provided by the external auditors.

During the year under review, the Audit Committee had held two meetings for reviewing interim and annual reports respectively before submission to the Board in accordance with the accounting policies and practices, relevant accounting standards, the Listing Rules and the legal requirements; reviewing the external auditors' engagement letter; discussing issues during the audits of the external auditors. The external auditors and the senior executives are invited to attend the meeting for interim and annual financial statements. Minutes of Audit Committee are kept by a duly appointed secretary of the meetings. Draft and final versions of minutes of the meeting are sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meetings. The Audit Committee has reviewed the Group's 2005 audited financial statements with the management and external auditors and recommended its adoption.

The Audit Committee discharged their duties in accordance with their terms of reference.

## INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures.

## INVESTOR RELATIONS

During the year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its mandatory interim and final reports. Through the timely distribution of press releases, the Group has also kept the public abreast of its latest developments. Regular meetings and plant visits have been organised to enhance the investor's understanding of the Group's business and operations.

## COMMUNICATION WITH SHAREHOLDERS

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The Chairman as well as Chairman of the Audit Committee and Chairman of the Remuneration Committee are pleased to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. The circular also includes relevant details of proposed resolutions, including biographies of each candidates standing for re-election.

In compliance with the code provision E.2.1 in the Code and rule 13.39(3), the amendments to the Company's Articles were passed in the 2005 annual general meeting of the Company held on 12 May 2005. The Company's Articles were amended to the effect that the chairman of a meeting and/or director(s) who individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at such meeting shall be qualified to demand for a poll.