



The Company is committed to enhance its standard of corporate governance by improving its transparency, independence, accountability and fairness. The Code of Best Practice was replaced by the Code on Corporate Governance Practices (the "Code") in January 2005. The Company has adopted appropriate measures to comply with the Code. There was no non-compliance except that the Remuneration Committee was not established until 3 March 2006. The reason for such non-compliance was that, pursuant to the Director's Service Contracts and Supervisor's Service Contracts entered into between the Company and the directors and supervisors in November 2003, the remuneration of all directors and supervisors would remain unchanged for three years. As a result, the Remuneration Committee was not established during the Year. Set out below is a summary of the Corporate Governance Practices of the Company and non-compliance with the Code, if any.

PRINCIPAL CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES OF THE COMPANY

A. Board of Directors

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer.

- The Board of the Company is comprised by five executive directors, two non-executive directors and four independent non-executive directors.
- All independent non-executive directors complied with the guidelines on independence set out under Rule 3.13 of the Listing Rules and have not violated any provision thereunder throughout the year.
- There is no material relationship, whether financial, operational, family, etc, among members of the Board.
- The list of directors, their biographies and roles in the Board and various committees are set out in pages 19 to 25 and 47.

Non-compliance: NIL

The unique role of the chairman and the chief executive officer

- The positions of chairman and general manager were served by different individuals.
- The chairman is responsible for overseeing operations of the Board and formulating the strategies and policies of the Company, while the general manager for managing the businesses of the Company.
- Mr. Wei Jian Jun served as the chairman of the Board of the Company, which is equivalent to the post of chairman, responsible for leading the Board and the procedures and operation of the Board.
- Ms. Wang Feng Ying served as the general manager of the Company, which is equivalent to the post of chief executive officer, responsible for the daily operations of the Company and other matters authorized by the Board.

Non-compliance: NIL

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Non-executive directors should be appointed for a specific term, and all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

- Pursuant to the Articles of the Company, "the directors shall be elected in a general meeting for a term of three years. Upon expiry of his term of office, a director may offer himself for re-election". All directors of the Company, including non-executive directors, were re-elected on 10 May 2005 for a term of three years.

Non-compliance: NIL

The board should assume responsibility for leadership and control of the company and be collectively responsible for promoting the success of the company.

- Interim and final board meetings of the Board are held on a regular basis. The Board is responsible for formulating and reviewing the business direction and strategy for the relevant auditing period and for supervising the operating and financial performance of the Group. Where necessary, the Board will also convene ad hoc meeting to discuss matters requiring a decision by the Board. The management is authorized to exercise discretion on daily operation matters.
- The Board is accountable to the general meeting and entrusted with the following duties:
 - (1) to convene shareholders' general meetings and report to the general meeting on their work;
 - (2) to enforce resolutions of the general meetings;
 - (3) to formulate operating plans and investment proposals of the Company;
 - (4) to prepare financial budgets and reports of the Company;
 - (5) to prepare proposals for profit distribution and making up losses of the Company;
 - (6) to prepare proposals for the increase or decrease of registered share capital and issue of bonds of the Company;
 - (7) to prepare proposals for the mergers, segregation and dissolution of the Company;
 - (8) to determine the internal managing structure of the Company;

- (9) to appoint or remove the general manager of the Company and on the basis of nomination by the general manager, to appoint or remove the deputy general manager, financial controller and other senior management personnel of the Company and to determine their remunerations;
- (10) to set up the basic management systems of the Company;
- (11) to prepare proposals for amendments to the Articles of the Company; and
- (12) other authorisations from the general meetings.

The management is authorised at meetings of the Board to exercise power related to daily operations.

- The Articles of the Company clearly stipulate that the general manager of the Company is responsible for implementing various strategies and overseeing the daily operations of the Company and is required to report to the Board on a regular basis.
- The Board will formulate the development strategies of the Company within its scope of authorization. The management is authorized and entrusted by the Board to implement the strategies and oversee the daily operations of the Group.
- There are three committees under the Board. The Strategy Committee is responsible for assisting the Board in formulating strategies of the Company. The Audit Committee is responsible for supervising the financial conditions of the Company. The Remuneration Committee is responsible for formulating remuneration strategy of the Company and supervising its enforcement. The Strategy Committee will provide recommendations to the management from time to time in accordance with the prevailing market environment and changes in policies. The Audit Committee, Strategic Committee and Remuneration Committee report to the Board on a regular basis.

Non-compliance: NIL

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The board should meet regularly to discharge their duties. The board and its committees should be provided with sufficient information in a prompt manner.

- During the Year, the Board held seven meetings. Pursuant to the Articles of the Company, "meetings or extraordinary meetings of the Board may be convened by means of telephone or similar telecommunication facilities".
- Regular meetings of the Board of the Company were held during the Year. Extra meetings were also held to cater for important matters arising from time to time. Directors may attend such meetings in person or through other electronic means of communication.
- Notice of 14 days was given to each director prior to a board meeting. Documents containing meeting agenda were sent to all directors 4 days before the date appointed for the relevant meetings.
- The company secretary assisted the chairman of the Board in preparing the meeting agenda. The directors are allowed to submit proposed agenda items to the secretary to the Board before the date appointed for the relevant meeting.
- Minutes of board meetings and meetings of committees are duly kept by the secretary to the Board and freely available for inspection by the directors. Such meeting minutes recorded opinions and suggestions raised by the directors in the meeting. The final versions of such minutes were sent to directors for signing and confirmation.
- Transactions in which directors are deemed to be involved in conflict of interests or deemed to be materially interested in will not be dealt with by written resolution. The relevant director will be allowed to attend the meeting but may not express any opinion and will be required to abstain from voting.
- The directors may seek independent professional advice on professional matters involved at the expense of the Company.

Set out below is the attendance record of all meetings of the Board in 2005:

Attendance of individual directors in meetings of the Board in 2005

No. of meetings	7	
	Attendance	Attendance rate
Chairman		
Wei Jian Jun	7	100%
Executive directors		
Liu Ping Fu	7	100%
Wang Feng Ying	7	100%
Liang He Nian	7	100%
Yang Zhi Juan	7	100%
Non-executive directors		
Niu Jun	7	100%
He Ping	6	86%
Independent non-executive directors		
Han Chuan Mo	7	100%
Zhao Yu Dong	7	100%
Zhang Ming Yu	7	100%
Wong Chi Keung	7	100%
Average attendance	98.7%	

Save for matters of significance for the Company to be determined by the Board, which are set out in the terms of reference of the Board, other issues of daily operation are subject to the decision of the management, which reports to the Board.

There is no material relationship, whether financial, operational, family, etc, among members of the Board.

Non-compliance: NIL

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Every director is required to keep abreast of his responsibilities as a director of the company and of the conduct, business activities and development of the company.

- The company secretary provides daily H share updates to the directors and committee members and keeps them abreast of the latest developments of the Group and business progress of the Company.
- The Company has not appointed any new director since listing.
- Pursuant to the "獨立董事工作制度" (Rules and Procedures of Independent Directors), non-executive directors are entitled to attend and convene Board meetings. All committees of the Company currently comprise of non-executive directors.

Non-compliance: NIL

Compliance with Model Code for Securities Transactions by Directors of Listed Companies

- The Group has complied with Model Code set out in Appendix 10 and has not adopted any separate code of conduct with requirements more exacting than the Model Code. The Company has made specific enquiry to each director in respect of securities transactions by directors. None of the directors of the Company violated any provisions of the Model Code or code of conduct.

Non-compliance: NIL

B. Remuneration of Directors and Senior Management

There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors.

- The Company set up Remuneration Committee on 3 March 2006 comprising two independent non-executive directors and one executive director.
- The Remuneration Committee is responsible for reviewing the remuneration policies for directors and senior management of the Company, and fixing the remuneration packages for directors and senior management, including benefits in kind, pension and compensation. The terms of reference of the Remuneration Committee include the specific duties set out under the Code.

Audit Committee

Han Chuan Mo (*Chairman*)
Zhaou Yu Dong
Zhang Ming Yu
Wong Chi Keung

Strategic Committee

Wei Jian Jun (*Chairman*)
Wang Feng Ying
Zhao Yu Dong
Zhang Ming Yu
He Ping

Remuneration Committee

Zhang Ming Yu (*Chairman*)
Zhao Yu Dong
Liang He Nian

- Since the Company and each of the directors entered into a director's service contract in November 2003 for a term of three years, under which the remuneration is fixed, there was no change in remuneration and performance policy for the directors and no discussion took place in respect of the directors' remuneration during the year.
- The Company has not set up any nomination committee. The Board is responsible for the recommendation, election and appointment of senior management personnel of the Company. At a Board meeting held on 15 March 2005, matters relating to the nomination of directors for re-election at the annual general meeting were discussed. The meeting was attended by Messrs Wei Jian Jun, Wang Feng Ying, Liu Ping Fu, Liang He Nian, Yang Zhi Juan, Niu Jun, He Ping, Han Chuan Mo, Zhang Ming Yu, Zhao Yu Dong and Wong Chi Keung. The criteria for nomination of directors for re-election include the past performance of the respective directors and the suitability of the nominee as a director of a listed company.

Non-compliance: NIL

C. **Accountability and Audit**

The board should present a balanced, clear and comprehensive assessment of the company's performance, position and prospects.

- The directors are responsible for supervising the preparation of accounts for each financial period, which is required to give a true and fair view of the operating conditions, results and cash flow of the Group during the relevant period. When preparing the accounts dated 31 December 2005, the directors have:
 1. selected and consistently applied appropriate accounting policies, made prudent and reasonable judgements and estimations and adopted an on-going concern basis; and
 2. announced interim and final results of the Group for every year in accordance with the Listing Rules of The Stock Exchange of Hong Kong Limited and disclosed other financial information as required by the Listing Rules.

Non-compliance: NIL

Report on Corporate Governance Practices

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

- The directors are fully responsible for overseeing the internal control system and evaluating its efficiency.
- The Audit Committee is responsible for overseeing the financial affairs of the Group.
- The management is responsible for overseeing the daily operations of the Group and regularly evaluating operational efficiency.
- The financial control centre and secretariat to the Board of the Company is responsible for monitoring compliance affairs of the Group and organising regular training.
- The Board is responsible for risk management and regular risk reviews.

Non-compliance: NIL

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

- Ernst & Young Hua Ming and Ernst & Young ("Ernst & Young") are the auditors of the Company, providing audit and other services. Auditing fees in respect of annual audit service and interim review service provided by Ernst and Young amounted to RMB2,280,000 and RMB600,000 respectively. For 2005, there was no charge payable for non-audit services by Ernst & Young.
- The Group set up an Audit Committee in February 2004 comprising all Independent Non-executive Directors of the Company, including Messrs Han Chuan Mo (as chairman), Zhang Yu Ming, Zhao Yu Dong and Wong Chi Keung.
- The terms of reference of the Audit Committee conformed with the recommendations set out in A Guide for Effective Audit Committee issued by the Hong Kong Institute of Certified Public Accountants stipulating the following specific functions: (1) to make recommendation on the engagement or change of external auditors; (2) to supervise the internal audit system of the Company and its implementation; (3) to coordinate communication between internal and external audit functions; (4) to review financial information of the Company and its disclosure; (5) to review the internal control system and material connected transactions of the Company; and (6) to exercise other powers delegated by the Board of the Company.
- The principal work of the Audit Committee include reviewing and supervising the financial reporting procedures and internal control system of the Group.
- The Audit Committee holds at least two meetings each year to review the annual accounts and unaudited interim accounts. The principal duties of the Audit Committee include reviewing the financial reporting procedures of the Group, auditors' advice on internal control and compliance matters and financial risk management.

Attendance of Meetings of Audit Committee in 2005

No. of meetings	2	
Time and Business	14 March 2005	To review the annual financial report for 2004
	16 August 2005	To review the interim financial report for 2005
	Attendance	Attendance rate
Han Chuan Mo	2	100%
Zhang Ming Yu	2	100%
Zhao Yu Dong	2	100%
Wong Chi Keung	2	100%
Average attendance	100%	

- The Audit Committee held a meeting on 27 March 2006 to review the audited results and annual financial report for the year ended 31 December 2005.
- The terms of reference of the Audit Committee covered all duties set out in the Code.
- The minutes of meetings of the Audit Committee are duly kept by the secretary to the Board. Such meeting minutes recorded opinions and suggestions raised by the committee members in the meeting. The minutes are filed for record upon signing and confirmation by the committee members.
- All members of the Audit Committee are independent non-executive directors of the Company.
- Ernst & Young has been engaged as the auditors of the Company since its listing and there was no reappointment, resignation or removal.

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D. Corporate Communications

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings to communicate with shareholders.

- The Company establishes communication with shareholders by announcing annual and interim reports and the latest resolutions of the Board on newspapers. Contact details of secretary to the Board are contained in the "Investor Relation" channel of the Company's website. The Company also responds to queries raised by investors.
- At general meetings, the chairmen of the meeting raises separate resolutions for each effectively independent matter.
- The chairman of the Board is available at the annual general meeting to answer questions with proper explanations from shareholders, their representatives and members of the Audit Committee.
- The detailed procedures for poll and for demanding a poll are set out in the circulars to shareholders.

Non-compliance: NIL