

# Corporate Governance Report

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange of Hong Kong Limited introduced the draft of “Code on Corporate Governance Practices and Corporate Governance Report” on 11 December 2004, which became effective for the accounting periods commencing on or after 1 January 2005, save for code provision C.2 on internal control and the proposed disclosure requirements in the Corporate Governance Report relating to internal control. The Board noted the changes and intended to apply them to the Company (as appropriate).

Commencing from 1 January 2005, the Company adopted and met the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules. The Company has always insisted on the superiority, soundness and rationality of its corporate governance structure.

The Company has formulated its own code of corporate governance to indicate the commitment of the Board and the management to comply with the corporate governance standards, and the terms of the Company’s code on corporate governance practices are no less exacting than the provisions set out in the Code on Corporate Governance Practices under Appendix 14 of the Listing Rules, through which the interests of the shareholders are protected and enhanced. Along with its continuous development and growth, the Company will continue to monitor and refine its corporate governance policies in order to ensure that such policies can meet the general rules and standards required by the shareholders.

## SECURITIES TRANSACTIONS BY THE DIRECTORS

On 26 August 2005, the Company adopted the securities transaction provisions as set out in the “Model Code for Securities Transactions by Directors of Listed Issuers” under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Having made specific enquiry of all directors, the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code and the Company’s Code of Conduct regarding Securities Transactions by the Directors.

### THE BOARD OF DIRECTORS

As at 31 December 2005, the Board of the Company comprised of nine directors, including four executive directors, two non-executive directors and three independent non-executive directors.

The Board members are as follows:

#### Chairman

Mr. Zhang Bo

#### Executive Directors

Mr. Zhang Bo

Ms. Zhang Hongxia

Mr. Qi Xingli

Ms. Zhao Suwen

#### Non-executive Directors

Mr. Zhang Shiping

Mr. Wang Zhaoting

#### Independent Non-executive Directors

Mr. Chan Wing Yau, George

Mr. Xu Wenying

Mr. Wang Naixin

The Board is accountable to the shareholders' general meeting. The responsibilities of the Board are to convene general meetings and to carry out the resolutions of such meetings; determine the business and investment plans of the Company; formulate the annual preliminary and final budgets of the Company; prepare the plan for profit distribution (including the plan for declaration and payment of year-end dividends) and plan for making up of the losses of the Company; formulate the plan for an increase or reduction in the registered capital and issuance of debentures of the Company; prepare the plan for merger, de-merger and dissolution of the Company; decide on the establishment of the internal management organization of the Company; appoint or dismiss the General Manager, or appoint or dismiss Deputy General Manager or the Chief Financial Officer based on the General Manager's recommendation, and determine their remunerations; formulate the basic management systems of the Company; prepare the plan for amendments to the Articles of Association; determine the level of salaries, benefits and incentives of the Company in compliance with the relevant requirements in China; decide on other significant matters relating to the business and administration of the Company not required to be submitted to a general meeting for decision under the Articles of Association; formulate plans for material acquisitions and disposals and exercise other powers conferred under the Articles of Association.

The management is accountable to the Board. Its responsibilities are to supervise the management of production and business operations and organise the implementation of the resolutions of the Board; supervise the implementation of the annual plans for operation and investment of the Company; formulate the plan for the establishment of the internal management organization of the Company; lay down the basic management systems of the Company; formulate the basic rules and regulations of the Company; recommend to appoint or dismiss the Deputy General Manager or Chief Financial Officer, or the management personnel other than those who are subject to appointment or dismissed by the Board; and exercise other powers conferred under the Articles of Association and by the Board.

The Company Secretary is accountable to the Board, assuring that the Board is in compliance with all applicable regulations and rules. The Company Secretary also keeps the minutes of meetings of the Board and its committees. The members of the Board held 6 meetings during the year.

The following is the record of attendance of Board meetings held during the year:

<b>The Board of Directors</b>	<b>Attendance at Board meetings during 2005</b>
Mr. Zhang Bo	6/6
Ms. Zhang Hongxia	6/6
Mr. Qi Xingli	6/6
Ms. Zhao Suwen	6/6
Mr. Zhang Shiping	6/6
Mr. Wang Zhaoting	6/6
Mr. Chan Wing Yau, George	6/6
Mr. Xu Wenying	6/6
Mr. Wang Naixin	6/6

All the independent non-executive directors are separate and independent from the Company and its subsidiaries. The Company confirms that all the independent non-executive directors have met the independence requirements as set out in Rule 3.13 of the Listing Rules.

### Chairman and CEO

The Chairman and the CEO of the Company are Mr. Zhang Bo and Ms. Zhang Hongxia respectively. The Chairman is responsible for managing the Board and the CEO is responsible for managing the business activities of the Company. Both of them have definite terms of reference which are set out in the code of corporate governance of the Company.

### TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS

The non-executive directors of the Company, Mr. Zhang Shiping, Mr. Wang Zhaoting, Mr. Chan Wing Yau, George and Mr. Wang Naixin signed a service agreement with the Company on 17 March 2003 for a term of 3 years respectively, and Mr. Xu Wenying signed a service agreement with the Company on 27 June 2003 for a term of 3 years.

### SUBORDINATE COMMITTEES OF THE BOARD

- Audit Committee
- Remuneration Committee

Each committee may decide upon all matters within its terms of reference and authority.

#### A. Audit Committee

The Audit Committee was established on 9 January 2003. At present, the Audit Committee is comprised of three independent non-executive directors.

##### ***The composition of the Audit Committee***

Mr. Chan Wing Yau, George  
Mr. Xu Wenying  
Mr. Wang Naixin

The following resolutions were passed on 28 February 2005 after due consideration by members of the Audit Committee:

1. The report of the directors and the international auditors' report of the Company for the year 2004;
2. Audited consolidated financial statements of the Company for the year ended 31 December 2004;
3. Profit distribution plan for 2004;
4. Appoint Ernst & Young Hua Ming as the Company's domestic auditors and Ernst & Young as the Company's international auditors for the year ended 31 December 2005;

5. To consider and approve the resolution regarding the amendments to the Audit Committee's terms of reference; and
6. To consider and approve any matters relating to connected transactions of the Company.

On 26 August 2005, the resolutions of not paying any interim dividend to the shareholders and the review and approval of the interim accounts were passed by committee members present at the meeting after due consideration.

### ***Roles and functions***

The Audit Committee is mainly responsible for:

- (1) providing advice and recommendations to the Board on the appointment, re-appointment and dismissal of the external auditors, approving the remuneration and recruitment terms of the external auditors as well as dealing with issues relating to the resignation or dismissal of the external auditors (in case the Board disagrees with the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors, the Company should set out in the Corporate Governance Report the statement of the committee in which their opinions are clearly stated as well as the reasons for the Board's disagreement with such opinions);
- (2) reviewing and overseeing the independence and objectiveness of the external auditors and the effectiveness of audit procedures as per appropriate standards; the Audit Committee should discuss with the external auditors before commencement of the audit, the nature and scope of the audit, and the reporting responsibilities and ensure the co-ordination between different firms of auditors if more than one auditing firms are engaged;
- (3) formulating and implementing policies on non-audit services provided by the external auditors;
- (4) overseeing the completeness of the financial statements, annual reports and accounts, and interim reports of the Company as well as reviewing significant opinions relating to financial reporting set out in those statements and reports. In reviewing the annual reports, accounts and interim reports to be presented to the Board, the Committee should pay special attention to the following matters:
  - (i) any changes in accounting policies and practices;
  - (ii) where significant judgment is involved;

- (iii) significant adjustments arising as a result of audit;
  - (iv) any assumptions on the continuous operation of the company and any qualified opinions;
  - (v) whether the accounting standards and principles have been complied with; and
  - (vi) whether the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") and other laws and regulations relating to financial reporting have been complied with;
- (5) In respect of (4) above:
- (i) The members of the Committee should keep in contact with the Board, senior management and the person appointed as the qualified accountant of the Company. The Committee should meet at least once a year with the auditors of the Company; and
  - (ii) The Committee should consider any significant or extraordinary items reflected or should be reflected in those reports and accounts, and consider, if thought fit, any issues raised by the qualified accountant, compliance officer or auditors of the Company;
- (6) reviewing the Company's financial control, internal control and risk management systems;
  - (7) discussing with the management the internal control systems and ensuring the management has performed its responsibilities to establish effective internal control systems;
  - (8) conducting research actively, or according to the request of the Board, in respect of findings of major investigations of internal control matters and the management's response;
  - (9) ensuring a smooth co-ordination between the internal audit department and the external auditors, and ensuring that sufficient internal resources are available to and proper status being given to the internal audit department, and reviewing and monitoring the effectiveness of the internal auditing function;
  - (10) reviewing the Group's financial and accounting policies and practices;

- (11) reviewing the external auditor's auditing progress report, and any significant doubt raised by the auditors to the management in respect of accounting records, financial accounts or control systems and the management's feedback in this respect;
- (12) ensuring the Board's timely response to the matters set out in the external auditor's auditing progress report;
- (13) reporting to the Board in respect of the matters set out in code provisions of the Code on Corporate Governance Practices under Appendix 14 of the Listing Rules;
- (14) reviewing the following arrangements made by the Company: employees of the Company can draw their attention on potential misconduct in respect of financial reporting, internal control or other aspects. The Audit Committee should ensure that appropriate arrangements are made which can enable the Company to conduct a fair and independent investigation and take proper measures;
- (15) acting as a major channel between the Company and the external auditor, and monitoring their working relation; and
- (16) reporting to the Board in respect of the matters mentioned above.

### ***Minutes of meetings***

The Audit Committee held two meetings during the year; the following is the minutes of meetings of the Audit Committee during the year ended 31 December 2005.

<b>Committee Members</b>	<b>Attendance of board meetings held in the year ended 31 December 2005</b>
Chan Wing Yau, George	2/2
Xu Wenying	2/2
Wang Naixin	2/2

The Audit Committee had meetings with the external auditors during the year to discuss the review of interim and the auditing of annual financial statements.

In case the Audit Committee is in doubt about the financial statements and the control system of the Company, the management should provide the audit committee members with all details, analysis and supporting documents, so as to ensure that audit committee members can satisfy themselves with all relevant information and make advice appropriate recommendations to the Board.

### **B. Remuneration Committee**

The Remuneration Committee was established on 28 February 2005. At present, the Remuneration Committee is comprised of an executive director and two independent non-executive directors.

#### ***The composition of the Remuneration Committee***

Zhang Bo (*Chairman of the Remuneration Committee*)

Xu Wenying

Wang Naixin

#### ***Roles and Functions***

The terms of reference of the Remuneration Committee should include the following specific duties:

- (1) to make recommendations to the Board on the overall remuneration policy and structure relating to directors and senior management of the Company, and provide advice in relation to the establishment of regular and transparent procedures for formulating such remuneration policy;
- (2) to be delegated by the Board to determine the specific remuneration package of all executive directors and senior management, including benefits in kind, pension rights and compensation payment (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board regarding the remuneration of non-executive directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and the desirability of performance-based remuneration;
- (3) to review and approve performance-based remuneration by reference to corporate goals and objectives set by the Board from time to time;



- (4) to review and approve the compensation payable to executive directors and senior management for any loss or termination of their office or appointment, and 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;
- (5) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct and to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and
- (6) to ensure none of the directors nor any of their associates shall determine their own remuneration.

### External Auditor

The auditor is responsible for presenting independent opinions on the financial statements according to the results of auditing work, and reporting to the Company. Apart from providing annual auditing service, the external auditor of the Company also reviews the interim results of the Company.

The Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, the Directors have selected and applied appropriate accounting policies consistently.

For the year ended 31 December 2005, Ernst & Young, the external auditor, has provided the Group with the following services:

	<b>2005</b> <b>RMB'000</b>
Interim review service	<b>1,050</b>
Annual audit service	<b>4,250</b>

### INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors is responsible for the effectiveness of the internal control system. Relevant procedures have been designed for safeguarding assets against unauthorised use or disposal; for controlling excessive capital expenditure; for maintaining proper accounting records; and for the reliability of financial information used in the operations or for publication. Qualified management personnel of the Company will maintain and monitor the internal control system on a going-concern basis.

### Shareholders' Rights

The Company is committed to ensure better protection of shareholders' interests. The Company maintains contact with its shareholders through annual general meetings or other general meetings, and encourages shareholders to attend those meetings.

Registered shareholders are reached by mail to receive the notice of general meeting. The meeting agenda and resolutions to be proposed are set out on the notice.

A form of proxy for use at a general meeting is enclosed with the notice. Shareholders who do not intend or are unable to present at the meeting should fill out the form and return the same to the share registrar and transfer office of the Company, so as to appoint a representative, another shareholder or the chairman of the meeting as their proxy.

Shareholders or investors can make enquiry of our Company and give suggestion through the following:

Contact Person: Mr. Wang Donghua

Tel: (8621) 27072788

Fax: (8621) 27072588

Email: wangdonghua@wqfz.com

Postal Address: Room 1E Grand Gateway Garden, 2118 Huashan Road, Shanghai, China

### Investors Relations

The Company maintains a two-way communication channel to report the performance of the Company to our shareholders and investors. Annual reports, accounts and interim reports containing full details of the Company's activities will be despatched to shareholders and investors. Announcements of the Company can be accessed on the website of the Hong Kong Stock Exchange. The Company also communicates and discloses its latest business development plan via road shows, seminars with institutional investors and analysts, and telephone conferences.

To ensure effective disclosures are made to shareholders and investors, and to ensure the same information is made available to the public at the same time, price-sensitive information will be released in the form of announcements in accordance with the regulations of the Listing Rules.