

### (A) Corporate Governance Practices

The Company and the Board of Directors of the Company (the “Board”) have applied the principles in the provisions of the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Ltd. (the “Stock Exchange”) by adopting the Code by way of Board resolutions.

During the year, the Board has adopted and complied with the Code with the exception that the roles of the Chairman and the Chief Executive Officer of the Company are performed by Mr. Han Jingyuan.

The Board believes that there is no need to segregate the roles of the Chairman and the Chief Executive Officer of the Company because the role of the chief executive officer/general manager of the Company’s major operating subsidiaries are performed by other persons and apart from acting as the listing vehicle of the Group, the Company has no real operating activities or business.

Depending on the future development of the operating activities or business of the Company, eventually the Board will actively consider the issue of replacing Mr. Han Jingyuan by an appropriate candidate as the Chief Executive Officer of the Company.

### (B) Directors’ Securities Transactions

The Company has adopted a code of conduct regarding Directors of the Company’s (the “Directors”) securities transactions on terms no less exacting than the required standard set out in the Model Code of Appendix 10 of the Listing Rules (the “Model Code”).

The Company has made specific enquiry of all Directors and all Directors have confirmed with the Company that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors’ securities transactions during the year.

### (C) Board Of Directors

The directors of the Company during the year were as follows:

#### **Executive directors**

Mr. Han Jingyuan (*Chairman and Chief Executive Officer*)

Ms. Chen Ningning (*Vice Chairman*)

Mr. Zhu Jun

Mr. Tang Chi Fai

Mr. Liu Lei

Mr. Shen Xiaoling (appointed on 1 July 2005)

**(C) Board Of Directors** *(Continued)***Independent non-executive directors**

Mr. Yu Tung Ho

Mr. Gao Qingju

Mr. Wong Man Chung, Francis

(with professional qualification in accordance with the Listing Rules)

A total of 13 Board meetings were held during the year. The individual attendance of each Director was as follows:

	<b>Number of Attendance</b>
Mr. Han Jingyuan	13
Ms. Chen Ningning	1
Mr. Zhu Jun	12
Mr. Tang Chi Fai	11
Mr. Liu Lei	13
Mr. Shen Xiaoling <i>(Note 1)</i>	6
Mr. Yu Tung Ho	11
Mr. Gao Qingju	13
Mr. Wong Man Chung, Francis	13

*Note 1:* Mr. Shen Xiaoling was appointed as Executive Director on 1 July 2005 and hence his attendance of the Board meetings after his appointment was 100% during the year.

The Board operates and exercises its power in accordance with the Bye-laws of the Company. In addition, the Board has also specifically resolved that all transactions/contracts/other matters of the Group that are subject to the disclosure requirement in accordance with the Listing Rules should be approved by the Board in advance.

The Board considers all the independent non-executive Directors are independent during the year.

Save as disclosed in the section of "Biographical Details of Directors and Senior Management" in the annual report of the Company, there are no relationships (including financial, business, family or other material/relevant relationships) among members of the Board.

**(D) Chairman and Chief Executive Officer**

During the year, the roles of the Chairman and the Chief Executive Officer of the Company are performed by Mr. Han Jingyuan.

**(E) Independent Non-executive Directors**

Mr. Gao Qingju and Mr. Yu Tung Ho have service contracts for a period of one year commencing from 23 December 2005. Mr. Wong Man Chung, Francis has service contract for a period of one year commencing from 25 August 2005.

The annual fee specified in each of Mr. Gao Qingju, Mr. Yu Tung Ho and Mr. Wong Man Chung, Francis's existing service contracts are HK\$200,000, HK\$250,000 and HK\$200,000 respectively.

**(F) Remuneration of Directors**

The role and function of the remuneration committee of the Company (the "Remuneration Committee") are as follows:

- (a) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- (b) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors;
- (c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (d) 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;
- (e) to review and approve 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; and
- (f) to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

**(F) Remuneration of Directors** *(Continued)*

The basis of the emolument payable to the Directors is determined with reference to the range of prevailing directors' fee for Directors of listed companies in Hong Kong and is subject to the approval of the Remuneration Committee. The Remuneration Committee will consider 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.

The Chairman of the Remuneration Committee is Mr. Han Jingyuan. The remaining members are the three independent non-executive Directors, Mr. Gao Qingju, Mr. Yu Tung Ho and Mr. Wong Man Chung, Francis.

A total of 5 Remuneration Committee meetings were held during the year to discuss remuneration related matters. The individual attendance of each member was as follows:

	<b>Number of Attendance</b>
Mr. Han Jingyuan	5
Mr. Gao Qingju	5
Mr. Yu Tung Ho	5
Mr. Wong Man Chung, Francis	5

During the year, the work performed by the Remuneration Committee was as follows:

- assessed and approved the terms of reference of the Remuneration Committee;
- reviewed and updated the existing Directors' fee;
- reviewed and approved the fee of the newly appointed executive Director; and
- reviewed and approved the Directors and senior management's remuneration in a subsidiary of the Company.

**(G) Nomination of Directors**

The Company did not have a nomination committee. The candidates for directorship during the year were selected by the senior management of the Company subject to the review and approval of the Board in accordance with the Bye-laws of the Company. The criteria adopted by the Board in selecting and approving candidates for directorship are based on whether the candidates are appropriate in term of experience and the potential contribution to the Group associated with the candidates' appointment.

During the year, the Board has appointed Mr. Shen Xiaoling as the executive Director.

**(G) Nomination of Directors** *(Continued)*

A total of 1 Board meeting was held during the year in relation to the appointment of Directors. The individual attendance of each Director was as follows:

	<b>Number of Attendance</b>
Mr. Han Jingyuan	1
Ms. Chen Ningning	0
Mr. Zhu Jun	1
Mr. Tang Chi Fai	1
Mr. Liu Lei	1
Mr. Yu Tung Ho	1
Mr. Gao Qingju	1
Mr. Wong Man Chung, Francis	1

**(H) Auditors' Remuneration**

The audit fee of the Group for 2005 was approximately RMB3 million.

During the year, there were no significant non-audit service assignments being performed by the auditors of the Group.

**(I) Audit Committee**

The Company has set up an audit committee and the terms of reference adopted complied with the requirement of the Listing Rules.

The audit committee comprises all of the three independent non-executive Directors of the Company, Mr. Yu Tung Ho, Mr. Gao Qingju and Mr. Wong Man Chung, Francis. The chairman of the audit committee was elected by the members each time when it was held during the year.

The role and function of the audit committee are as follows:

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

**(I) Audit Committee** *(Continued)*

- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. The audit committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- (d) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them;
- (e) members of the committee must liaise with the Board, senior management and the qualified accountant and the committee must meet, at least once a year, with the Company's auditors and the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors;
- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- (h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
- (j) to review the Group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the Board on the matters set out in the above role and function; and
- (n) to consider other topics, as defined by the Board.

**(I) Audit Committee (Continued)**

A total of 2 audit committee meetings were held during the year. The individual attendance of each member was as follows:

	<b>Number of Attendance</b>	<b>Number of acting as chairman</b>
Mr. Gao Qingju	2	1
Mr. Yu Tung Ho	2	—
Mr. Wong Man Chung, Francis	2	1

During the year, the work performed by the audit committee was mainly as follows:

- discussed and reviewed the interim and annual financial statements and internal control matters of the Group with senior management of the Company and the external auditors;
- communicated with the external auditors concerning the auditing procedures of the Group; and
- made recommendation to the Board on the reappointment of the external auditor, and to review and approve the remuneration and terms of engagement of the external auditor.

**(J) Directors' Responsibility in Preparing the Accounts**

The Directors acknowledge that they are responsible for the preparation of accounts which give a true and fair view of the Company and the Group.

**(K) Annual Review of the Effectiveness of the Internal Control of the Group**

The Directors have conducted a review of the effectiveness of the system of internal control of the Group during the year and have resolved that the system of internal control of the Group was effective during the year.

On Behalf of the Board

**China Oriental Group Company Limited**

**Han Jingyuan**

*Chairman and Chief Executive Officer*

Hong Kong, 30 March 2006