

CORPORATE GOVERNANCE STRUCTURE

1. CORPORATE GOVERNANCE REPORT PREPARED ACCORDING TO CHINESE SECURITIES REGULATORY REQUIREMENTS

1. Status of Corporate Governance

Shareholders and general meetings: The Company has established a corporate governance structure to ensure that all shareholders can fully exercise their rights and enjoy equal status, in particular, for minority shareholders. Sufficient time should be provided at general meetings of shareholders, which are to be convened legally and validly, for the discussion of each proposal, to provide a good opportunity for communications between the Board and the shareholders. In addition, shareholders may contact the Company through its shareholder hotline during normal working hours or through its designated e-mail address for any enquiries.

Controlling shareholder and the listed company: the Company's controlling shareholder is Zhongxingxin. The controlling shareholder exercises its rights as an investor in strict compliance with the law, without adversely affecting the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with rules and regulations and the terms and procedures as set out in the Articles of Association. The staffing, assets, financial affairs, organisation and business of the controlling shareholder are independent to those of the listed company, with the controlling shareholder and listed company each carrying out independent auditing and assuming its own responsibilities and risks. The controlling shareholder has not directly or indirectly interfered with the decision-making and business activities of the Company beyond the general meeting.

Directors and Board of Directors: the Company appoints directors in strict compliance with the procedures set out in its Articles of Association, ensuring that the directors are appointed in an open, fair, just and independent manner. In order to fully reflect the opinions of minority shareholders, a cumulative voting scheme is adopted for the appointment of directors. The Board of Directors has a reasonable professional structure, acting in the best interests of the Company and in good faith. The Company has formulated a set of rules of procedure for Board of Directors meetings, and board meetings are convened and held in strict compliance with the Articles of Association and Rules of Procedure of the Board of Directors Meetings. To optimise the corporate governance structure, three specialist committees — the Nomination Committee, Audit Committee and Remuneration and Evaluation Committee — have been established by the Board of Directors in accordance with the Governance Standards for Listed Companies. The majority of members and the convenors in each of these committees are Independent Directors, providing scientific and professional opinions and reference for the decision-making by the Board of Directors.

Supervisors and Supervisory Committee: the Supervisors, who possess professional knowledge and work experience in legal, accounting and other areas, monitor the financial affairs and supervise the lawful and regulatory performance of duties by the Company's Directors, the President and other members of the senior management, and safeguard the legal rights and interests of the Company and shareholders. The Company has formulated a set of rules of procedure for the Supervisory Committee meetings. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles of Association and the Rules of Procedure for Supervisory Committee Meetings.

Results appraisal and incentive binding mechanism: during the reporting period, the Remuneration and Evaluation Committee of the Board of Directors has linked the salaries of the senior management with the results of the Company and personal performance of the individual, in accordance with the Proposal on the Management of Remuneration and Performance of the Senior Management. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of Association.

Stakeholders: the Company respects the legal rights and interests of banks and other stakeholders such as creditors, employees, consumers, suppliers, and the community, and actively work together with these stakeholders to promote the sustainable and healthy development of the Company.

Information disclosure and transparency: the secretary to the Board of Directors and relevant professional officers are responsible for the Company's information disclosure obligations and reception of visits by shareholders and handling of shareholder enquiries. The Company discloses relevant information in strict compliance with rules, regulations and the Articles of Association in a true, accurate, complete and timely manner, and ensures that all shareholders have an equal opportunity to obtain access to information.

2. Performance of Duties by Independent Non-executive Directors

During the reporting period, the Independent Directors' function in perfecting the corporate governance structure of the Company and protecting the interests of minority shareholders was particularly evident. During the reporting period, the Independent Directors of the Company raised no objections on the resolutions passed by the Board of Directors meetings and other matters of the Company. In relation to important matters for which they were required to give independent opinions (including connected transactions, third-party guarantees and the appointment of auditors), the Independent Directors have seriously considered the matters and have issued written independent opinions. The Independent Directors provided valuable and professional recommendations on major decisions by the Company, improving the rationality and objectiveness of the Company's decisions.

Attendance of Independent Directors at Board of Directors meetings are as follows:

Name of Independent Director	No. of Board Meetings requiring attendance	Attendance in person	Attendance by proxy	Absent
Zhu Wuxiang	4	4	0	0
Chen Shaohua	4	3	1	0
Qiao Wenjun	4	3	1	0
Mi Zhengkun	4	4	0	0
Li Jin	4	3	1	0

3. "Five Separations"

The Company is independent of its controlling shareholder Zhongxingxin in respect of the staff, assets, finance, organisation and business. Each of the Company and Zhongxingxin is audited independently and assumes its own responsibilities and risks.

With respect to staffing, the Company is fully independent in matters including the management of labour, human resources and salaries. Members of the senior management receive their remuneration from the Company and do not receive any remuneration from the controlling shareholder or take up other major positions other than as directors.

With respect to assets, the Company's assets are fully independent and the Company has clear ownership of its assets. The Company has an independent production system, a supplementary production system and associated facilities. Intangible assets such as industrial property rights, trademarks, and other non-patentable technologies are owned by the Company. The Company's procurement and sales systems are independently owned by the Company.

With respect to finance, the Company has an independent financial and accounting department. It has established an independent accounting and auditing system and a financial management system, and maintains an independent bank account.

With respect to business, the Company's business is fully independent from the controlling shareholder. Neither the controlling shareholder nor its subsidiaries are engaged in any business identical or similar to that of the Company.

With respect to organisation, the Board of Directors, the Supervisory Committee and other internal organisations of the Company operate in complete independence from the controlling shareholder. There are no subordinate relationships between the controlling shareholder (and its functional departments) and the Company (and its functional departments).

4. Establishment and Implementation of the Appraisal and Incentive Mechanism for Senior Management

The Company has established a performance appraisal system for senior management and an incentive mechanism linking remuneration to the Company's results and the individual staff member's performance. The Remuneration and Evaluation Committee is mainly responsible for formulating and examining proposals for the management of remuneration and performance of the Directors and senior management of the Company, conducting annual performance appraisals for the senior management of the Company and determining the remuneration of the senior management based on the results of the appraisal.

2. CORPORATE GOVERNANCE REPORT PREPARED ACCORDING TO THE REQUIREMENTS OF THE HONG KONG STOCK EXCHANGE LISTING RULES

The Group is dedicated to raising the corporate governance standards and improving the accountability and transparency of the Group, with a view to creating the greatest value for its shareholders in the long term.

1. Corporate Governance Practices

Save as the deviations stated below, the Group had complied with all the code provisions of the Code on Corporate Governance Practices set out as Appendix 14 to the Hong Kong Stock Exchange Listing Rules:

A.1.3

Code Provision: Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given.

Deviation: The Articles of Association provides for notice to be given 10 days prior to a regular Board meeting.

Explanation: To ensure full compliance of our corporate governance practices with the provisions set out in the Code on Corporate Governance Practices, the Company has commenced giving notice of meeting 14 days before the commencement of a regular Board of Directors meeting in actual operation and proposed amendments have been made to relevant terms of the Articles of Association to be submitted to the 2005 Annual General Meeting for review.

A.5.4

Code Provision: The board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the issuer.

Deviation: Prior to 10 April 2005, the Board had not established any written guidelines for relevant employees in respect of their dealings in the securities of the Company.

Explanation: The resolution adopting the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules was considered and passed in the twelfth meeting of the third session of the Board of Directors of the Company on 10 April 2005 as written guidelines for the Directors and relevant employees of the Company in respect of their dealings in the securities of the Company.

B.1.3

Code Provision: The terms of reference of the remuneration committee should include, as a minimum, the following specific duties:

- (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. 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 desirability of performance-based remuneration;
- (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 issuer;
- (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.

Deviation: In light of the scope of responsibilities of the remuneration and evaluation committee provided for in the above code provision, the Remuneration and Evaluation Committee of the Company had not completely performed its duties in actual operation. While the performance management rules of the Company's senior management (including the President) have been reviewed and approved by the Remuneration and Evaluation Committee, the specific remuneration packages for other members of the senior management of the Company (other than the President) were not subject to review and approval by the Remuneration and Evaluation Committee before 10 April 2005.

Explanation: The amended Terms of Reference of the Remuneration and Evaluation Committee, revised in accordance with the Code of Corporate Governance Practices to comply with code provision B.1.3, were considered and approved by the Board of Directors at its meeting on 10 April 2005. Since 10 April 2005, the Company has strictly complied with the new requirements of the Code on Corporate Governance Practices.

C.3.3

Code Provision: The terms of reference of the audit committee should include at least the following duties:-

- (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;
- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. 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;
- (f) to review the issuer'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.

Deviation: In respect of the scope of responsibilities of the Audit Committee stipulated in the above code provisions, the Audit Committee of the Company had not fully performed its duties in actual operation.

Explanation: The amended Terms of Reference for the Audit Committee, revised in accordance with the Code of Corporate Governance Practices to comply with code provision C.3.3, were considered and approved by the Board of Directors at its meeting on 10 April 2005. Since 10 April 2005, the Company has strictly complied with the new requirements of the Code on Corporate Governance Practices.

2. The Board of Directors

(1) *Functions of the Board of Directors*

The Board of Directors is responsible for convening general meetings of shareholders, reporting its work to the general meeting, implementing resolutions of the general meeting in a timely manner, monitoring the development of the overall operational strategy of the Company, deciding on the operational direction and investment plans of the Company, as well as supervising and guiding the management of the Company. The Board of Directors should also monitor the business and financial performance and formulate the annual financial budgets and final accounts of the Company.

(2) *Board composition*

The Board of the Company comprises 14 Directors, including 3 Executive Directors, 6 Non-executive Directors and 5 Independent Non-executive Directors, in compliance with the requirement of Rule 3.10(1) of the Hong Kong Stock Exchange Listing Rules. There is one Chairman and 2 Vice Chairmen of the Board of Directors. The profile and terms of office of the Directors are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 25 to 30 of this annual report.

(3) *Appointment and removal of Directors*

The term of office of each Director is 3 years for each session, which may be extended upon expiry, and the term of office of each Independent Non-executive Director must not be longer than 6 years. Each of the Directors has entered into a Director's Service Contract with the Company for a term of three years (the term of office of a Director appointed during a session would be less than 3 years). The appointment and removal of Directors is subject to the approval of the general meeting of shareholders of the Company. Details of the appointment and removal of the Directors during 2005 are set out in the section headed "Changes in Directors, Supervisors and Senior Management During the Reporting Period" on pages 33 to 34 of this annual report.

(4) *Qualifications and Independence of Independent Non-executive Directors*

There are 5 Independent Non-executive Directors in the Company who have substantial experience and possess academic and professional qualifications in the telecommunications, financial, legal and banking areas, in compliance with Rule 3.10(2) of the Hong Kong Stock Exchange Listing Rules, and assist in ensuring that the interests of shareholders as a whole are safeguarded by the Board of Directors. During the reporting period, the Independent Non-executive Directors' functions of perfecting the corporate governance structure of the Company and protecting the interests of minority shareholders were particularly evident.

The Company confirms that it has received written confirmations from all the Independent Non-executive Directors regarding their independence in accordance with Rule 3.13 of the Hong Kong Stock Exchange Listing Rules. The Company considers that all the Independent Non-executive Directors are independent based on the guidelines set out in Rule 3.13 of the Hong Kong Stock Exchange Listing Rules.

(5) *Measures taken to ensure the Directors perform their duties*

The Company has adopted the following measures in order to ensure that the Directors perform their duties:

1. The Company would supply the Director with all the relevant and necessary information when the Director takes up his post. The Company subsequently provide the Directors with all the newly promulgated laws and regulations as well as information and development concerning the Company, such as its internal publications, and arrange for the Directors to attend relevant continuing professional training courses, in order to assist them in understanding their duties as a director under the requirements of relevant laws and regulations, such as the Hong Kong Stock Exchange Listing Rules, and the Company's operation in a timely manner.
2. Whenever the Directors of the Company are required to provide an opinion in relation to matters including provision of third-party guarantees, use of capital by connected persons and connected transactions, the Company would engage relevant independent professional bodies, such as auditors, sponsors and lawyers, to provide independent and professional advice so as to assist the Directors in performing their duties.
3. The Company has purchased liability insurance for Directors, Supervisors and senior management from AIU Insurance Company Shenzhen Branch in respect of potential legal actions arising from the performance of duties by the Directors and the policy was considered and approved at the first Extraordinary General Meeting in 2005. Please refer to the announcement published in China Securities Journal, Securities Times, Shanghai Securities News, South China Morning Post and Hong Kong Economic Times on 13 October 2005.

(6) *Board Meetings*

1. The Articles of Association requires that the Directors should convene regular meetings at least twice a year. The Company will amend the Articles of Association to specify that the Board of Directors shall convene at least four meetings each year and will submit such amendment to the 2005 Annual General Meeting for review. The Chairman, as the convener of the Board of Directors Meeting, is responsible for determining the agenda. In 2005, the Board of Directors convened four meetings, details of which are set out in the section headed "Operation of the Board of Directors" on pages 63 to 64 of this annual report. Attendance of Directors at Board of Directors meetings in 2005 were as follows:

Member of Board of Directors	Attendance in person	Attendance by proxy
Hou Weigui	2/4	2/4
Wang Zongyin	4/4	—
Xie Weiliang	4/4	—
Zhang Junchao	3/4	1/4
Li Juping	4/4	—
Dong Lianbo	4/4	—
Yin Yimin	4/4	—
Shi Lirong	3/4	1/4
He Shiyong	4/4	—
Zhu Wuxiang	4/4	—
Chen Shaohua	3/4	1/4
Qiao Wenjun	3/4	1/4
Mi Zhengkun	4/4	—
Li Jin	3/4	1/4

2. As required by the Articles of Association, all Directors should be given 10 days' notice prior to the commencement of a regular Board of Directors meeting, while 5 days' notice should be applied to extraordinary Board of Directors meetings. Since April 2005, the Company has been in strict compliance with the requirement set out in code provision A.1.3 of Appendix 14 to the Listing Rules, by giving notice of 14 days prior to a regular Board meeting.

The secretary to the Board of Directors should provide details of a regular Board of Directors meeting (including information in relation to each of the specialist Board committees) not later than 3 days prior to the commencement of the meeting to ensure all Directors are briefed on matters to be considered in the meeting in advance.

As for extraordinary Board of Directors meetings which are convened by means of telephone or video conference as requested by the Company's management, information about the meeting would be provided simultaneously to all Directors via e-mail and facsimile and sufficient time would be given to the Directors to consider the matters. The secretary to the Board of Directors would respond to any questions raised by the Directors and take appropriate action in a timely manner to assist Directors to ensure that the procedures of the Board of Directors is in compliance with the applicable regulations, such as Company Law of the People's Republic of China, the Articles of Association and the Hong Kong Stock Exchange Listing Rules.

3. Minutes of each Board of Directors meeting should be signed by the attending Directors and person taking the minutes, and be kept for a term of 10 years, during which the minutes are available for Directors' inspection from time to time upon their request.
4. When the Board of Directors considers any matters, including connected transactions, that are considered by the Board of Directors as a material conflict of interest, any Directors who are by any means connected would abstain from voting.

(7) *The Division of Responsibilities between the Board of Directors and management*

The responsibilities and duties of the Board of Directors and the management have been clearly defined. Duties of the Board of Directors are set forth in Article 143 of the Articles of Association, while the management should be accountable to the Board of Directors by furnishing adequate information to the Board of Directors and the specialist committees to enable them to make informed decisions. Each Director is entitled to obtain further information from the management of the Group.

(8) *Chairman and Chief Executive Officer*

The Chairman of the Company is Mr. Hou Weigui, Non-executive Director, and the President of the Company is Mr. Yin Yimin, Executive Director.

The role of the Chairman is separated from that of the President of the Company and this is clearly defined in the Articles of Association. Duties of the Chairman and the President of the Company are set forth in Articles 147 and 164 of the Articles of Association, respectively.

The Chairman is accountable to the shareholders by advising the Board of Directors and the Group on the overall strategy and policies of the Company so as to ensure that all Directors act in the best interest of the shareholders.

The President of the Company is responsible for leading the management team of the Group and the day-to-day management and operation of the Company based on goals and directions set up by the Board of Directors and the internal control policy and procedure of the Company.

The President of the Company should maintain on-going communications with the Chairman and all Directors and report his work to the Board of Directors regularly to ensure that all Directors are well informed of all material business development of the Group.

(9) *Board Committees*

There are three specialist committees under the Board of Directors, namely the Remuneration and Evaluation Committee, the Nomination Committee and the Audit Committee, all of which were set up in 2003. The terms of reference defining the responsibilities and authority for each of the specialist committees have been formulated, details of which are as follows:

A. *The Remuneration and Evaluation Committee*

(i) The role and functions of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee is responsible for determining and reviewing specific remuneration packages and performances of the Directors and senior management based on the management policies and structures for the remuneration and performance of Directors and senior management laid down by the Board of Directors.

The Terms of Reference of the Remuneration and Evaluation Committee is available on the website designated for the disclosure of the Company's information.

(ii) Members of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee comprises seven Directors, including four Independent Directors, two Non-executive Directors and one Executive Directors.

The convenor of the Remuneration and Evaluation Committee is Independent Director Mr. Zhu Wuxiang. Members of the committee include Mr. Hou Weigui, Mr. Wang Zongyin, Mr. Yin Yimin, Mr. Chen Shaohua, Mr. Mi Zhengkun and Mr. Li Jin (appointed on 22 August 2005).

(iii) Meetings of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee meets at least once each year. In 2005, the Remuneration and Evaluation Committee convened two meetings. Attendance at the meetings was as follows:

Member of the Remuneration and Evaluation Committee	Attendance in person	Attendance by proxy
Zhu Wuxiang	2/2	—
Hou Weigui	1/2	1/2
Wang Zongyin	1/2	1/2
Yin Yimin	1/2	1/2
Chen Shaohua	2/2	—
Mi Zhengkun	2/2	—
Li Jin*	—	—

Note: The Remuneration and Evaluation Committee had not convened any meeting subsequent to the appointment of Director Li Jin to the committee on 22 August 2005.

(iv) The decision-making process and criteria for determining remuneration for Directors and senior management

The Remuneration and Evaluation Committee makes recommendations to the Board of Directors on the allowances for Directors by reference to the work performance of the Directors of the Company as well as the levels offered by other listed companies in the industry. Such recommendations shall be confirmed upon consideration and approval both by the Board of Directors and the general meeting of shareholders.

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The Remuneration and Evaluation Committee reviews remuneration appraisals on an annual basis to determine the annual remuneration budget. It also conducts annual performance appraisals in respect of each senior management personnel of the Company and determines the remuneration of such senior management personnel based on the results of such appraisals.

(v) Work of the Remuneration and Evaluation Committee during the year

The Remuneration and Evaluation Committee held two meetings in 2005 to review the remuneration packages for 2004 and consider the remuneration budget of the Company for 2005. It also conducted an annual performance appraisal in respect of the President of the Company and determined his remuneration for 2005. Mr. Li Jin, Independent Director of the Company, was appointed a member of the Remuneration and Evaluation Committee.

B. *The Nomination Committee*

(i) The role and functions of the Nomination Committee

The Nomination Committee is primarily responsible for considering standards and procedures for the selection of Directors and senior management of the Company. The committee considers the criteria, procedures and duration of appointment for Directors and senior management of the Company in accordance with relevant laws and regulations and the Articles of Association and taking into account the actual conditions of the Company. The Nomination Committee then submits a proposal to the Board of Directors for its approval, and implements the decisions made by the Board of Directors.

The Terms of Reference of the Nomination Committee is available on the website designated for the disclosure of the Company's information.

(ii) Members of the Nomination Committee

The Nomination Committee comprises seven Directors, including four Independent Directors and three Non-executive Directors. The convenor of the Nomination Committee is Independent Director Mr. Mi Zhengkun. Members of the committee included Mr. Hou Weigui, Mr. Xie Weiliang, Mr. Li Juping, Mr. Zhu Wuxiang, Mr. Qiao Wenjun and Mr. Li Jin (appointed on 22 August 2005).

(iii) Meetings of the Nomination Committee

The Nomination Committee meets at least once each year. In 2005, the Nomination Committee convened two meetings. Attendance of the meetings was as follows:

Member of the Nomination Committee	Attendance in person	Attendance by proxy
Mi Zhengkun	2/2	—
Hou Weigui	1/2	1/2
Xie Weiliang	2/2	—
Li Juping	2/2	—
Zhu Wuxiang	2/2	—
Qiao Wenjun	2/2	—
Li Jin*	—	—

Note: The Nomination Committee had not convened any meeting subsequent to the appointment of Director Li Jin to the committee on 22 August 2005.

(iv) Procedures for the selection and appointment of Directors and senior management

The Nomination Committee conducts extensive searches for candidates of Directors and senior management both internally in the Company, its subsidiaries or associate companies and externally in the open market after considering the Company's requirements for new Directors and senior management. With the consent of the potential candidates, a meeting of the Nomination Committee will be convened to examine the qualifications of the initial nominees based on the conditions for appointment of Directors and senior management. One month prior to the election of new Directors, the Nomination Committee will propose candidates for directorship to the Board of Directors and furnish the Board with relevant information. Prior to the appointment of any new senior management staff, the Nomination Committee will also propose to the Board of Directors candidates to be appointed as senior management staff and furnish the Board with relevant information.

(v) Work of the Nomination Committee during the year

In 2005, the Nomination Committee held two meetings to approve the resignation of former Independent Director Mr. Tan Zhenhui from the office of Independent Director and submitted the same to the Board of Directors for approval. At the second meeting, Independent Director Mr. Li Jin was appointed as a member of the Nomination Committee.

C. *The Audit Committee*

(i) The role and functions of the Audit Committee

The Audit Committee is primarily responsible for making recommendations to the Board of Directors on the appointment and dismissal, remuneration and terms of engagement of external auditors, supervising the implementation of the Company's internal audit system, reviewing the financial information of the Company and its disclosure (including the inspection of the Company's financial statements and annual reports and accounts, interim reports and quarterly reports as to whether they are complete, as well as the review of significant opinions on financial reporting contained in the statements and reports), assessing the financial controls, internal controls and risk management system of the Company, and reviewing material connected transactions.

The Terms of Reference of the Audit Committee is available on the website designated for the disclosure of the Company's information.

(ii) Members of the Audit Committee

The Audit Committee comprises by seven Directors, including four Independent non-executive Directors and three Non-executive Directors. The convenor of the Audit Committee is Independent Director Mr. Chen Shaohua. Members of the committee included Mr. Hou Weigui, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Zhu Wuxiang, Mr. Qiao Wenjun and Mr. Mi Zhengkun. The Audit Committee was in compliance with Rule 3.21 of the Hong Kong Stock Exchange Listing Rules.

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(iii) Meetings of the Audit Committee

The Audit Committee meets at least twice each year. In 2005, the Audit Committee convened two meetings. Attendance of the meetings was as follows:

Member of the Audit Committee	Attendance in person	Attendance by proxy
Chen Shaohua	2/2	—
Hou Weigui	1/2	1/2
Zhang Junchao	2/2	—
Dong Lianbo	2/2	—
Zhu Wuxiang	2/2	—
Qiao Wenjun	2/2	—
Mi Zhengkun	2/2	—

(iv) Work of the Audit Committee during the year

The Audit Committee reviewed the accounting policies and standards adopted by the Group in close collaboration with the management, including the audited financial reports and annual reports for 2005. It also expressed its review opinion on external auditing, internal auditing and internal controls after considering reports received from relevant departments.

3. The Supervisory Committee

(1) Supervisors

The Supervisory Committee of the Company comprises Mr. Zhang Taifeng (Chairman), Mr. Qu Deqian, Ms. Wang Yan, Mr. Wang Wangxi and Ms. He Xuemei.

(2) Details of appointments and resignations of the Supervisors, Supervisory Committee meetings convened during the Reporting Period and the work of the Supervisory Committee in 2005 are set out in the section headed "Changes in Supervisors" in this report on page 34 and in the Report of the Supervisory Committee on page 75. Attendance of meetings of the Supervisory Committee for the year is set out as follows:

Supervisor	Attendance in person	Attendance by proxy
Zhang Taifeng	2/2	—
Li Huanru	1/1*	—
Cui Hongwei	—	1/1*
Cao Quansheng	1/1*	—
Li Jinhu	—	1/1*
He Xuemei	2/2	—
Wang Wangxi	1/2	—
Qu Deqian	1/1*	—
Wang Yan	1/1*	—

Note: The resignation of Ms. Li Huanru, Ms. Cui Hongwei, Mr. Cao Quansheng and Mr. Li Jinhu and the appointment of Mr. Qu Deqian and Ms. Wang Yan as Supervisors of the Company were considered and approved at the 2004 Annual General Meeting.

4. Responsibility of the Directors for the financial statements

In addition to the annual report and interim report, the Company also publishes a quarterly report in accordance with PRC GAAP and reconciliation of net profit and shareholders' equity in accordance with HKASs within one month after the end of the first quarter and the third quarter.

The responsibility of the Directors for the financial statements set out below should be read in conjunction with the report of the PRC auditors and the report of the Hong Kong auditors on page 102 and page 181, respectively.

■ *Annual report and accounts*

The Directors confirm that it is their responsibility to prepare financial statements in respect of each financial year to give a true and fair report on the Group's conditions.

■ *Accounting policies*

The Directors have consistently applied appropriate accounting policies and complied with all applicable accounting standards in the Group's preparation of the financial statements.

■ *Accounting records*

The Directors are responsible for ensuring that accounting records are being kept by the Group and that such records, in which the Group's financial conditions are disclosed with reasonable accuracy, will facilitate the Group's preparation of its financial statements in accordance with the Companies Ordinance of Hong Kong and applicable accounting standards.

■ *Ongoing concern*

After due enquiries, the Directors are of the opinion that the Group has sufficient resources to carry on operations in the foreseeable future, and as a result it is appropriate for the Group to prepare its financial statements on an ongoing concern basis.

5. Auditors' Remuneration

The term of appointment for the Group's PRC auditors Shenzhen Dahua Tiancheng Certified Public Accountants ended on 1 September 2005. With a view to more efficient coordination between the PRC auditors and the Hong Kong auditors, it was approved at the general meeting of shareholders held on 12 October 2005 that Ernst & Young Hua Ming be appointed as the PRC auditors of the Company for 2005 for a term of one year.

Ernst & Young Hua Ming and Ernst & Young acted as the Group's PRC auditors and Hong Kong auditors, respectively. Ernst & Young was appointed auditors of the Group's annual financial reports for two consecutive years (2004 and 2005).

The external auditors of the Group did not provide any non-audit services.

	Amount	Auditors
Audit fees 2005	0.50 million RMB	Ernst & Young Hua Ming
Audit fees 2005	4 million HKD	Ernst & Young

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Changes in auditors of the Group in the past three years:

Year	PRC	Hong Kong
2003	Shenzhen Nanfang Minhe Certified Public Accountants	Ernst & Young
2004	Shenzhen Dahua Tiancheng Certified Public Accountants	Ernst & Young
2005	Ernst & Young Hua Ming	Ernst & Young

6. Internal Control

The Board of Directors carries out daily tracking of the Company's internal control systems through the Audit Department, which reports to the Audit Committee. Through testing procedures of six major systems, namely environmental controls, business controls, accounting systems controls, electronic information systems controls, information transmission controls and internal audit, it also conducts evaluation of a series of control systems, internal procedures and policies in respect of the Group's organisational structure, human resources, application of group funds and assets, transaction certification and confidentiality and disclosure of information. The Audit Department reports twice a year to the Audit Committee to ensure soundness of the Company's internal control system and safeguard shareholders' investments and the Company's assets. In 2005, the Audit Department reported on the Company's internal control in 2004 and the first half of 2005 to the Audit Committee in April and August to further improve the Company's internal control system and increase the effectiveness and efficiency of internal control.

7. Investor Relations and Shareholders' Rights

(1) *Investor relations*

The Company has always maintained sound communications with its shareholders. Shareholders may express their views or exercise their rights through communication channels set up by the Group, such as the investors' hotline and e-mail contacts. Shareholders' Q&A sessions were arranged during the 2004 annual general meeting and the first extraordinary general meeting of 2005 to enable direct dialogue between shareholders on the one hand and the Directors and management on the other.

Information on the procedures, including shareholders' voting and the appointment of proxies relating to the general meeting of shareholders of the Company, is set out in the Articles of Association published by the Company on 11 April 2005 on the website designated for information disclosure.

The Company holds results presentation meetings each year after the announcement of its annual and interim results. In 2005, the Company held two results presentation meetings and four telephone results presentation meetings, and received over 100 attending domestic or international investors.

The Group's website is updated regularly to provide investors and the public with timely information of the Group's latest developments.

(2) *Amendments to the Articles of Association*

On 31 May 2005, the Company amended its Articles of Association upon approval of the 2004 annual general meeting. For details please refer to the notice of annual general meeting published in the China Securities Journal, Securities Times, Shanghai Securities News, South China Morning Post and Hong Kong Economic Times on 11 April 2005.

The Company amended the Articles of Association (as amended by the 2004 annual general meeting) (the "Existing Articles") in compliance with the amended Company Law of the People's Republic of China and the Securities Law of the People's Republic of China (as approved by the eighteenth meeting of the Standing Committee of the Tenth National People's Congress on 27 October 2005) and the Code on Corporate Governance Practices contained in the Hong Kong Stock Exchange Listing Rules effective as from 1 January 2005. Such amendments will be tabled at the Company's annual general meeting to be held on 14 June 2006 for approval by shareholders by way of special resolution. For details of resolutions relating to the proposed amendments, please refer to the notice of annual general meeting published in the China Securities Journal, Securities Times, Shanghai Securities News, The Standard and Hong Kong Economic Times on 7 April 2006.

(3) *Shareholding structure of the Company*

Details of movements in the share capital and changes in shareholders are set out in the section headed "Changes in Share Capital and Shareholders" on pages 19 to 24 of this Annual Report.

(4) *Shareholders' general meetings held in 2005*

Please refer to the section headed "General Meetings of shareholders" on pages 53 of this Annual Report.

8. Remuneration

(1) *Remuneration of Directors, Supervisors and senior management for the year*

Please refer to the section headed "Changes in Shareholdings and Remunerations of Directors, Supervisors and Senior Management for the year" on pages 31 of this Annual Report.

Further details of the remuneration of Directors and Supervisors for the year are set out in note 7 and note 8 to the financial statements prepared in accordance with HKASs.

(2) *Remuneration package for employees*

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees also receive welfare benefits including medical care, housing subsidies, retirement and other miscellaneous benefits. In accordance with applicable PRC regulations, the Group participated in social insurance contribution plans organised by the relevant government authorities, under which we paid monthly contributions towards each employee's social insurance in an amount equivalent to a specified percentage of his/her monthly salaries. Further details of the remuneration of top 5 employees of the company for the year are set out in note 8 to the financial statements prepared in accordance with HKASs.

(3) *The deferred share bonus scheme*

Details of the deferred share bonus scheme are set out in note 40 to the financial statements prepared in accordance with HKASs.

(4) *Retirement benefits*

Details of retirement benefits provided by the Group are set out in note 32 to the financial statements prepared in accordance with HKASs.

9. Interests

(1) *Service contracts and contractual interests of Directors and Supervisors*

None of the Directors and Supervisors of the Company have entered into any service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

(2) *Directors' and Supervisors' interests in contracts*

None of the Directors and Supervisors of the Company were materially interested, either directly or indirectly, in any contracts of significance to which the Group is a party subsisting during or at the end of 2005.

(3) *Directors', Supervisors' and the President's interests in shares or debentures*

The interests in shares of the Company held by Directors, Supervisors and the President of the Company as at 31 December 2005 are set out in the section headed "Changes in the Shareholdings and Remuneration of the Company's Directors, Supervisors and Senior Management" on page 31 of this Annual Report.

Save as disclosed above, as at 31 December 2005, none of the Directors, Supervisors and the President had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) that is required to be recorded in the register to be kept under Section 352 of the Securities and Futures Ordinance, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules.

As at 31 December 2005, none of the Directors, Supervisors or the President, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

(4) *Securities transactions by Directors*

The Company has adopted code provisions relating to the dealing in the Company's shares by Directors contained in the Model Code. After making specific enquiry with all Directors, the Company confirms that all Directors of the Company were in full compliance with the Model Code throughout 2005.

(5) *Connected transactions*

Details of connected transactions of the Company during the year are set out on pages 77 to 84 of the annual report.