



General rules on corporate governance practices of the Company are set out, but not limited to, the following documents:

Articles of Association, Procedural Rules for General Meetings, Procedural Rules for Board Meetings, Procedural Rules for Meetings of the Supervisory Committee, Working Guidelines for the Management, Working Guidelines for the Audit Committee, Terms of Reference of the Remuneration Committee and Rules on Information Disclosure.

The Board has reviewed the corporate governance practices adopted by the Company and is of the view that the Company has complied with most principles and some recommended best practices set out in the Code on Corporate Governance Practices (the "Code") of the Listing Rules, except for the terms of reference of the remuneration committee. The corporate governance practices of the Company are summarized below:

THE BOARD

The Board is responsible for the leadership and supervision of the Company. The Directors assume the role to promote the business of the Company through directing and supervising the affairs of the Company.

DIRECTORS

The Board comprises thirteen directors, including the chairman, executive director, eight non-executive directors and three independent non-executive directors. The non-executive directors have contributed their comprehensive professional knowledge and financial experience for the effective management of the Group. With extensive knowledge and experience, the independent non-executive directors have taken the supervisory and balancing roles in order to protect the interests of shareholders and the Company as a whole. The Board believes that the independent non-executive directors are capable of making judgments independently and comply with the guidelines on the independence of independent non-executive directors set out in rule 3.13 of the Listing Rules.

The Company has not established any nomination committee. The Company follows the formal procedures in the appointment of new directors. The Board will consider referrals from the shareholders and nominate new directors pursuant to certain standards. These standards include relevant professional knowledge and experience, personal ethics, integrity and skills of directors, as well as their time commitment to affairs of the Company. In 2005, the Board nominated Mr. Tan Ruisong, Mr. Wang Bin and Mr. Wang Yong as non-executive directors and they were appointed at the first general meeting thereafter.

Each director (including non-executive director) holds office for a period of three years. Pursuant to the Articles of Association, the terms of office of all current directors and supervisors will expire at the 2005 annual general meeting of the Company and they will be eligible for re-election. The terms and conditions of the newly appointed directors will be stipulated in their respective appointment letters.

The respective profiles and duties in the Board and committees of the Directors are set out on page 9 to page 16 of the Annual Report. Relevant information will also be published on the website of the Company.

The Company has arranged for appropriate insurance coverage in respect of legal actions which may be instituted against its directors and senior management in relation to their services. The Board will review its insurance coverage every year.



POWERS OF THE BOARD

The Board takes a conscientious and effective approach in managing and supervising the Group. Every director is deemed to act in the best interest of the Company. Members of the Board understand that they are individually and collectively responsible to all shareholders in relation to the management, supervision and operation of the Company.

The Board regularly reviews the Group's overall strategy, its business targets and operation results. The Board exercises its power to formulate the objectives and strategies of the Group, and to monitor operational and financial performance of the Group.

The Board is responsible for preparing the financial statements of the Group. The Board will also ensure integrity of the financial information therein and the effectiveness of internal control and risk management procedures of the Group. All Group policies, material transactions or transactions leading to conflicts of interest are decided by the Board. On the other hand, the chief executive officer is responsible for attaining the business target of the Company and managing the daily operations. Duties reserved to the Board and those delegated to management are set out in the Procedural Rules for Board Meetings and Work Guidelines for the Management. The Board regularly reviews the duties of and powers delegated to the chief executive officer to ensure such arrangements are appropriate.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and the chief executive officer have been clearly segregated to ensure a balance of power and authority. The current chairman of the Company, Mr. Zhang Hongbiao, is responsible for leading the Board to ensure the effective operation of the Board. The chief executive officer, Mr. Wu Xiandong, is responsible for business operation of the Company. The roles and duties of the chief executive officer are clearly set out in the Working Guidelines for the Management.

BOARD MEETINGS

The Board meets regularly four times a year, in April, June, August and December respectively. Matters to be considered at these regular board meetings have been put into writing. Further, additional board meetings are held when required.

The company secretary assists the chairman in preparing the agenda for each board meeting and considers the matters proposed by other directors for inclusion in the agenda. The agenda and relevant materials are usually delivered to the directors at least three days before the relevant board meeting date. The chairman should ensure that all directors are properly briefed on issues to be discussed at the board meeting and provided with relevant documents which contain analysis and background information.

The management has provided the directors and committee members with adequate and sufficient information on a timely basis. This will ensure that the directors and committee members are well-informed of the Company's latest development so that they may discharge their duties effectively. Every director has received comprehensive induction training upon his appointment. Directors are encouraged to constantly update their skills, knowledge and understanding of the business of the Group through the induction training, regular attendance at board meetings and committee meetings, and meetings with key personnel of the head office and various departments of the Group.



All directors have access to the services of the company secretary. The company secretary is responsible for ensuring that board procedures are followed and advising the Board accordingly. The company secretary regularly updates the Reference Guide for Directors and Supervisors to ensure that the Board is well-informed of the latest information on corporate governance and supervision. Directors, the audit committee and the remuneration committee may seek independent professional advice at the Company's expense in discharging their duties.

Directors are encouraged to discuss issues of the Group openly and frankly at board meetings and every executive director is available for inquiries raised by non-executive directors. Independent non-executive directors may convene meetings amongst themselves if necessary to discuss issues related to the Group. Board minutes as well as any materials related to the board meetings are kept by the company secretary and made available for inspection by any member of the Board.

The Board has established an audit committee and a remuneration committee to ensure good corporate governance. Duties of these committees are set out in accordance with the principles of the Code. In addition, the Company has established a strategic development committee to formulate long-term development strategies and to decide on substantial investments. Each committee reports directly to the Board. Minutes of committee meetings are kept by the company secretary.

Six meetings were held by the Board during 2005. The chief executive officer and vice presidents, including the chief financial officer, attended these meetings to brief the Board or reply to issues relating to corporate governance, risk management, compliance with laws and regulations, merger and acquisition, financial statements and financial information. The attendance of every director in the board meetings and committee meetings in 2005 is set out below:

Directors	Times of presence/Times of meetings		
	The Board	Audit committee	Remuneration committee
Executive directors			
Mr. Zhang Hongbiao	6/6	N/A	N/A
Mr. Wu Xiandong	6/6	N/A	N/A
Non-executive directors			
Mr. Liang Zhenhe	5/6	2/2	N/A
Mr. Song Jingang	6/6	N/A	2/2
•Mr. Tan Ruisong	3/6	N/A	N/A
•Mr. Wang Bin	3/6	N/A	N/A
Mr. Chen Huaiqiu	6/6	N/A	N/A
Mr. Tian Min	6/6	N/A	N/A
•Mr. Wang Yong	3/6	N/A	N/A
Mr. Maurice Savart	3/6	N/A	N/A
*Mr. Xu Tongxing	3/6	N/A	N/A
*Mr. Cui Xuwen	3/6	N/A	N/A
*Mr. Yang Jinhuai	3/6	N/A	N/A
*Ms. Hu Jiarui	2/6	1/2	N/A
Independent non-executive directors			
Dr. The Hon. Li Kwok-Po, David	4/6	2/2	2/2
Mr. Guo Chongqing	6/6	1/2	1/2
Mr. Li Xianzong	6/6	2/2	1/2



Notes:

1. Directors marked • were appointed on 16th June 2005; directors marked * resigned on 16th June 2005.
2. Directors Mr. Guo Chongqing and Mr. Li Xianzong were appointed as members of the remuneration committee on 4th April 2005.
3. Ms. Hu Jiarui resigned as member of the audit committee on 16th June 2005.

INTERESTS HELD AND SECURITIES TRANSACTIONS BY DIRECTORS

All directors should declare to the Board whether they hold offices or positions in other companies or entities upon their appointment as directors and they are required to update the Board their relevant interests every year. If the Board considers that a director has a conflict of interest in any motion or transaction, the director shall declare his interests and abstain from voting. If required, the director should be excused from the meeting.

Interests of the Company held by the directors as at 31st December 2005 have been disclosed in the Report of the Board on page 41 to page 49 of the Annual Report. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own guidelines for securities transactions by Directors and employees of the Company (the "Securities Code"). All Directors have been provided with a copy of the Securities Code upon appointment. The Directors will receive written reminders of the restrictions on dealing in any securities or derivatives of the Company. The written reminders will be provided one month prior to the board meeting for approving annual or interim results. All Directors of the Company have confirmed their compliance with the Securities Code in 2005 upon specific enquiries with them.

Employees who may likely possess unpublished price sensitive information of the Group are also required to comply with the Securities Code. The Company is not aware of any breach in this regard in 2005.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Board has established a remuneration committee which comprises Mr. Song Jingang, a non-executive director, as the chairman and three independent non-executive directors, Dr. The Hon. Li Kwok-Po, David, Mr. Guo Chongqing and Mr. Li Xianzong. The remuneration committee is responsible for approving policies on remuneration of all directors and senior management, as well as making recommendations to the Board on revising policies and structure for remuneration. The remuneration committee reported to the Board after every meeting.

The remuneration committee met twice during 2005 and considered the following businesses:

- proposed to the Board regarding the change of members of the remuneration committee;
- approved remuneration of newly appointed directors;
- reviewed current remuneration policies and making recommendations to the Board; and
- revised terms of reference of the remuneration committee.

Details on remuneration for the year ended 31st December 2005 are set out in note 12 to the financial statements.



Deviation: The Code has described the minimum terms of reference of the remuneration committee. In 2005, the Company's remuneration committee did not cover all duties set out in the Code because the current policy of the Company on directors' remuneration is fixed and does not include long-term incentives nor performance-based remuneration. The Company has now amended and approved the terms of reference of the remuneration committee in accordance with the requirement of the Code and conducted a review of its current policies on remuneration. Terms of reference of the remuneration committee is published on the website of the Company.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTS

The Board is responsible for the preparation of the financial statements for every financial period and ensuring those financial statements give a true and fair view on the results of operations, financial position and cash flow of the Group in the relevant financial period. In preparing the financial statements for the year ended 31st December 2005, the Directors have:

- selected and applied consistently appropriate accounting policies;
- adopted all the relevant standards in the International Financial Reporting Standards; and
- made a prudent and reasonable judgment and estimation and prepared financial statements on a going concern basis.

In accordance with the requirements of the Listing Rules, the Company has timely announced its annual and interim results within four and three months respectively after the end of the relevant financial periods.

AUDIT COMMITTEE

The Board has established the audit committee pursuant to the Listing Rules and applied the Guide for the Effective Audit Committee issued by the Hong Kong Institute of Certified Public Accountants as the terms of reference of the audit committee. The terms of reference of the audit committee is published on the website of the Company.

The audit committee is responsible for reviewing financial statements, reviewing internal control system and the work on corporate governance, as well as providing advice to the Board. The majority of the audit committee members are independent non-executive directors, with Mr. Li Xianzong, an independent non-executive director, as the chairman of the committee. The chairman and most committee members have appropriate professional qualifications in accounting or related financial management expertise as required by the Listing Rules.

The audit committee held two meetings during 2005 with external auditors of the Company. In 2005, the audit committee discussed the results of auditing with the Company's external auditors and reviewed the accounting principles and standards applied by the Group, the internal control system and the financial statements. The audit committee reported to the Board its scope of work, discussion results and advice after every meeting. During 2005, the audit committee has:

- reviewed the report of the Board, the audited financial statements of the Group for the year ended 31st December 2004 and the relevant results announcement;
- reviewed interim financial information of the Group for the six months ended 30th June 2005 and the relevant interim results announcement;



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- reviewed the results of auditing as well as explanations to the results; and
- conducted a review of the financial reporting system and the internal control system of the Group and made its recommendations.

The audit committee reviewed the Group's annual results for the year ended 31st December 2005 and the consolidated financial statements.

EXTERNAL AUDITORS

The remuneration of the Company's external auditors in 2005 is RMB5.2 million, all of which is paid for its auditing service and the remuneration has been approved by the Board.

The Board has resolved to propose at the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the international and PRC auditors of the Company for the financial year of 2006. The resolution is subject to the approval of shareholders at the 2005 annual general meeting.

INVESTOR RELATIONS

The Company has established and maintained various communication channels with its shareholders through publishing annual reports and interim reports, announcements in the press and on the Stock Exchange website.

The annual general meeting of the Company provides an open platform for shareholders to exchange opinions with the Board. At that meeting, chairman of the Board and chairmen of committees (or members of committees) would try their best to answer questions raised by shareholders.

At the annual general meeting, each resolution such as the appointment of directors would be dealt with and resolved separately. The Company would provide details of the resolutions to be approved at the general meeting and important information in the circular will be dispatched to shareholders. The circular will contain details such as the procedures for voting by poll, the right of shareholders to require a voting by poll, the profile of every candidate for re-election and a statement regarding the independence of the candidate. Results of voting by poll are published on newspapers and the website of the Company.

The Company has established Rules on Information Disclosure to ensure information disclosed by the Company is accurate, complete and timely made. The Company has also appointed specific employees to assume the role of contacting and communicating with investors.

Senior management may meet with institutional investors and financial analysts occasionally to establish mutual understanding on the business performance and operation targets of the Company. Business details of the Group are published on the website of the Company and both announcements on interim results and annual results could also be downloaded from the website.