

Corporate Governance Report

The Board believes that high standard and good corporate governance practices are essential for the Company to enhance its accountability and transparency, and strike a balance between the interests of the public and its stakeholders, inter alia, shareholders, customers, employees, creditors and investment partners. In this connection, the corporate governance practices of the Company are published on the website of the Company so that stakeholders are aware of the standards which they can expect from the Company and let the Company knows whether these standards, and the manner in which the Company conducts itself in practice, meet their expectations.

The Board believed that the Company has during the year complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 ("Appendix 14") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31st December 2005 except that (i) the Independent Non-executive Directors have not been appointed for any specific terms, but they are subject to retirement and eligible for re-election in each annual general meeting in accordance with the Bye-Laws of the Company; (ii) one of the regular Board meetings of the Company was attended by less than half of the Directors due to other business commitments by the absent Directors; and (iii) Mr. Wei Jiafu, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 5th May 2005 due to other business commitments. In addition to complying with the code provisions of Appendix 14, the Company has in certain areas adopted the recommended best practices contained therein. Guided by the Corporate Governance Statement of Policy for the Company ("CG Statement of Policy") which is available on the website of the Company at www.coscointl.com, the Company recognizes that corporate governance is an evolving process and is dedicated to continue improving its corporate governance practices to maintain a good, solid and sensible framework of corporate governance.

A. Board of Directors

The Board is accountable to the shareholders of the Company ("Shareholders") for leading the Company and its subsidiaries in a responsible and effective manner. The Directors are aware of their collective and individual responsibilities to the Shareholders for the manner in which the affairs of the Company are managed and operated. Each Director must act in good faith in the best interests of the Company.

Board functions and composition

The Board is responsible for overseeing the Company's strategies development and determines the objectives, targets with a view to enhancing Shareholders' value and to monitoring and providing guidances to the senior management of the Company ("Senior Management"). The Board also monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the strategic objective of the Company.

The Board comprises fourteen Directors, eleven of them are Executive Directors, namely Mr. Wei Jiafu, Mr. Liu Guoyuan, Mr. Li Jianhong, Mr. Zhou Liancheng, Mr. Liu Hanbo, Mr. Jia Lianjun, Mr. Wang Xiaoming, Mr. Chen Pisen, Mr. Meng Qinghui, Mr. Lin Libing and Mr. Wang Xiaodong, and the remaining are Independent Non-executive Directors, namely Mr. Chan Cheong Foon, Andrew, Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec. The biographical details of the Directors are given on "Profile of Directors and Senior Management" of this Annual Report. The information is also published on the Company's website.

The Chairman, the Vice-chairman and the Managing Director are Mr. Wei Jiafu, Mr. Liu Guoyuan and Mr. Liu Hanbo respectively. The roles of the Chairman, the Vice-chairman and the Managing Director are separated and are not performed by the same individual. The Chairman and the Vice-chairman are responsible for formulating the overall strategies and policies of the Company. The Managing Director, supported by other Board members and the Senior Management, is authorized by the Board to manage the day-to-day business operations and implementation of internal control policies of the Company in accordance with the objective and direction formulated by the Board. Both the Board and the Senior Management have clearly defined authorities and responsibilities under various internal controls and check and balance mechanisms. Matters reserved to the full Board for decision include group strategy formulation, matters involving a conflict of interest for a substantial Shareholder or a Director, material acquisitions and disposals of assets, delegation of authorities, treasury and risk management policies and key human resources issues. The Senior Management, under the leadership of the Managing Director, is responsible for exercising the authorities and discharging responsibilities. The Senior Management is required to submit reports on the Company's operations on a regular basis to the Board so that it could discharge its responsibilities. The Board reviews and approves the Company's annual financial budget and business plans, which serves as an

important yardstick in assessing and monitoring the performance of the Senior Management. The Senior Management are also obliged to supply the Board and the Board Committees with adequate information in a timely manner to enable them to make informed decisions.

Board meetings

During the year, the Board held a total of four Board meetings, all of which are regular board meetings. The Financial Controller, Company Secretary and the head of Internal Audit Department also attended the Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial. The Board is supplied with relevant information by the Senior Management pertaining to the matters to be brought before the Board for decisions as well as reports relating to operational and financial performance of the Company and its subsidiaries before each regular Board meeting. At least 14 days' notice of a regular Board meeting is given to all Directors to give them opportunity to attend. All Directors are given an opportunity to include any matters in the agenda for regular Board meeting. Board papers are dispatched to the Directors at

least 3 days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting. All Directors have access to the services of Company Secretary who is responsible for ensuring the Board procedures are complied with and for advising the Board on compliance matters. The proceedings of the Board meetings are chaired by the Chairman or the Vice-chairman who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and equal opportunities are being given to the Directors to speak, express their views and share their concerns.

Directors shall have full access to information on the Company and its subsidiaries and are able to obtain independent advice whenever deemed necessary by the Directors (including Directors serving the Board committee). The Company Secretary shall be responsible for preparing minutes and keeping records of matters discussed and decisions resolved at all Board meetings.

The following tables set out details of the Directors' attendance at the regular Board meetings held in 2005.

Date of Board meetings	No. of Directors present/ total no. of Directors	Attendance rate (%)
3rd March 2005	14/14	100
5th August 2005	10/14	71
22nd September 2005	8/14	57
28th December 2005	5/14	36

Executive Directors	No. of Board meetings attended/held in 2005	Attendance rate (%)
Wei Jiafu	1/4	25
Li Jianhong	1/4	25
Liu Guoyuan	4/4	100
Zhou Liancheng	2/4	50
Liu Hanbo	4/4	100
He Jiale*	1/4	25
Guo Huawei*	1/4	25
Chen Pisen	4/4	100
Meng Qinghui	3/4	75
Zhao Kaiji*	2/4	50
Lin Libing	4/4	100

Independent Non-executive Directors	No. of Board meetings attended/held in 2005	Attendance rate (%)
Chan Cheong Foon, Andrew	3/4	75
Kwong Che Keung, Gordon	4/4	100
Tsui Yiu Wa, Alec	3/4	75

* resigned as Executive Director since 25th January 2006

Independent Non-executive Directors

The Independent Non-executive Directors are highly experienced with appropriate professional qualifications. They assist the Board for an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct and ensure the maintenance of a high standard of financial and other mandatory reporting, providing adequate checks and balances to safeguard the interests of Shareholders and the Company as a whole.

Independent Non-executive Directors have expressly identified as such in all corporate communications that disclose the names of Directors. Each of the Independent Non-executive Directors has given his annual confirmation on independence on 28th January 2006.

A meeting between the Vice-chairman and Independent Non-executive Directors without the presence of Executive Directors was held in the first quarter of 2005.

Directors' Retirement

According to the Bye-Laws of the Company, all Directors including the Independent Non-executive Directors shall retire from office but be eligible for re-election at the annual general meeting.

Directors' Insurance Indemnity

The Company has arranged appropriate insurance cover on the Directors and officers' liabilities in respect of legal actions against its Directors and Senior Management arising out of corporate activities.

Directors' Securities Transactions

The Company has its own code of conduct regarding securities transactions of Directors and employees ("Securities Code") no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules ("Model Code"). To ensure Directors' dealings in the securities are conducted in accordance with the Model Code and Securities Code, a Director is required to notify the Chairman or the Vice-chairman in writing and obtain a written acknowledgement from the committee set up prior to any dealings in securities. All Directors have confirmed,

following specific enquiry by the Company that they fully complied with the Model Code and Securities Code throughout the year 2005.

B. Board Committees

The Board has six committees, namely Audit Committee, Executive Committee, Investment Committee, Nomination Committee, Remuneration Committee and Risk Management Committee. The terms of reference of each committee is set out in the CG Statement of Policy. The composition of each committee is set out below.

(1) Audit Committee

The Audit Committee, comprised three Independent Non-executive Directors, namely Mr. Chan Cheong Foon, Andrew, Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec who are appointed by the Board and has extensive experience in accounting and financial matters. The committee is chaired by Mr. Chan Cheong Foon, Andrew. Two of the committee members of the committee are certified public accountants. The committee meets at least two times a year. Special meeting(s) may be called at the discretion of the chairman of the committee or the request of the Managing Director or Head of Internal Audit Department to review significant control or financial issues.

The Board, through the committee, has conducted semi-annual reviews of the effectiveness of the internal control system of the Company covering all financial reporting and internal control procedures, ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, internal rules and procedures approved by the Board.

Two committee meetings were held in 2005 and all members of the committee attended the meetings. All businesses transacted at these meetings were documented and maintained in accordance with applicable laws and regulations. After each committee meeting, the committee chairman will present a written report to the Board which highlights any significant issues discussed in the meeting.



(2) Executive Committee

Executive Committee consists of three Executive Directors and is chaired by Mr. Liu Hanbo who is the Managing Director. The committee meets regularly and operates as a general management committee with overall delegated authority from the Board. The committee is responsible for executing the strategy, reviewing the business performance, ensuring adequate fundings and monitoring performance of the management of the Company and its subsidiaries. A meeting was held in January 2006. All members of the committee attended the meeting.

(3) Investment Committee

The Investment Committee consists of four Executive Directors and is chaired by Mr. Wang Xiaoming who is an Executive Director of the Company. The committee advises the Board on the investment of the Company, including advice on investment policies, asset allocation and new investment proposal.

A meeting was held in July 2005 to review and discuss the joint venture project between Jotun A/S and the Company on marine coating business. All members of the committee attended the meeting.

(4) Nomination Committee

The Nomination Committee consists of three Independent Non-executive Directors namely Mr. Chan Cheong Foon, Andrew, Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec and a Deputy Managing Director, Mr. Lin Libing. Chaired by Mr. Tsui Yiu Wa, Alec, the committee meets at least once a year and is responsible for making the recommendations to Shareholders on Directors standing for re-election as directors. It is also responsible for making recommendations to the Board on the nomination of candidates to fill casual vacancies of Directors.

A meeting was held in January 2006 to discuss the appointment of proposed Directors. After considering the qualification and experience of Mr. Jia Lianjun, Mr. Wang Xiaoming and Mr. Wang Xiaodong, the committee recommended to the Board to appoint them as Executive Directors of the Company. All members of the committee attended the meeting.

(5) Remuneration Committee

The Remuneration Committee consists of three Independent Non-executive Directors namely, Mr. Chan Cheong Foon, Andrew, Mr. Kwong Che Keung, Gordon and Mr. Tsui Yiu Wa, Alec and the Managing Director, Mr. Liu Hanbo and is chaired by Mr. Kwong Che Keung, Gordon. The committee meets at least once a year, and is responsible to determine the policy for the remuneration of the Company (including that of Executive Directors and Senior Management) and approving the terms of their service contracts. The committee ensures that the remuneration offered is appropriate for the duties and in line with market practice.

A meeting was held in April 2005 to determine the total annual emoluments of the Vice-chairman. All members of the committee attended the meeting.

(6) Risk Management Committee

The Risk Management Committee consists of four Executive Directors and is chaired by Mr. Liu Guoyuan who is also the Vice-chairman. It aims at managing risk and controlling its operation and financial activities so as to avoid or reduce risks which can cause loss or reputation damage, ensure compliance with applicable laws and regulations. The committee is responsible for formulating the written policies and procedures to identify and manage risks including operation risk, liquidity risk, regulatory risk, and credit risk.

A meeting was held in July 2005 to discuss a report submitted by the Senior Management. The said report contained three parts, namely, the development history on the risk management of the Company and the risk analysis, the basic ideas behind the risk management of the Company and the implementing rules of risk management of the Company. Together with the said report was seven attachments which include risk management policy, a comprehensive regulation on management based budgeting, detailed implementing rules for capital budgeting and management, regulation on contract management, regulation on tendering and management, regulation on the compliance of the Listing Rules by subsidiaries and the Internal Audit Handbook. All members of the committee attended the meeting.

C. Internal and External Audit

(1) Internal Audit

The Company has implemented appropriate policies and procedures for all major business operations. The head of Internal Audit Department is responsible for monitoring compliance with these policies and procedures. The primary objective of the Internal Audit Department is to assist the Board and the Senior Management in risk management and in monitoring compliance with applicable regulatory requirements and guidelines with a view to enhancing the effectiveness of the internal control mechanisms of the Company. All internal audit missions set out in the 2005 Internal Audit Plan were accomplished. The recommendations made by Internal Audit Department in connection with these audit missions were widely accepted and rectification measures have been put in place. Internal Audit Department also actively participates in the review and enhancement of the internal policies and procedures of the Company on a continuing basis.

To preserve the independence of the internal audit function, the head of Internal Audit Department reports directly to the Audit Committee on internal audit matters and to the Managing Director on administrative matters.

Using a risk ranking methodology, the Internal Audit Department plans its internal audit schedules annually in consultation with, but independent of, Senior Management, and the audit plan is submitted to the Audit Committee for approval. Independent reviews of different financial, business and functional operations and activities will be conducted with audit resources being focused on higher risk areas. Ad hoc review will also be conducted on areas of concern identified by the Audit Committee and the Senior Management.

(2) External Auditors

The Company's independent external auditors are PricewaterhouseCoopers. The Audit Committee is responsible for considering the appointment of the external auditors and also reviewing any non-audit functions performed by the external auditors for the Company and its subsidiaries. In particular, the Audit Committee will consider, in advance of their being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest. A comparative analysis of remuneration (and associated

remuneration) in respect of the audit and non-audit services provided by PricewaterhouseCoopers to the Company and its subsidiaries for the year ended 2004 and 2005 were as follow:

	2005 HK\$'000	2004 HK\$'000
Audit	1,686	1,533
Taxation services	121	51
Due Diligence services	995	512

Two meetings were held on 28th February 2005 and 13th September 2005 and were attended by all committee members of the Audit Committee.

D. Shareholders

The Company conducts ongoing dialogue with the Shareholders and potential shareholders. The Board is committed to providing clear and updated performance information of the Company and its subsidiaries to all Shareholders, as soon as it becomes available, through the publication of interim and annual reports, which are also made accessible on the Company's website. In addition to sending out circulars, notices, financial reports to Shareholders, the Company also arranged information and services for Shareholders on its website for the purpose of keeping direct communication with Shareholders and investors. The Company's website provides the Shareholders and other stakeholders with information on the Company's corporate governance structure, policies and systems. The "Corporate Governance" section of the website of the Company including CG Statement of Policy, biographical data on Directors and Senior Management and terms of reference of Board committees. The annual general meeting not only deals with the regular business of the Company but also acts as a forum for Directors' dialogue with Shareholders whereby Shareholders may ask questions on the Company's operations or related financial information. The Directors and the chairmen of the Board committees will usually attend the annual general meeting and answer questions. Voting by polls had been arranged on all proposed resolutions in relation to the connected transactions at the general meetings in 2005. Poll voting results were announced by way of paid advertisement at the newspapers next trading day of securities to the relevant general meeting and were also made available on the Company's website so as to provide Shareholders with information regarding the level of support and opposition to each resolution. For the



sake of good corporate governance practice, the Board intends to demand poll voting at future general meetings for all resolutions set out in the relevant notice of meeting so as to allow Shareholders to have one vote for every share held. In addition, the Company Secretarial Department respond to letters and telephone enquires from Shareholders and potential shareholders throughout the year.

E. Financial Reporting

The Board is responsible for preparing the financial statements of the Company and its subsidiaries and the external auditors are responsible for reporting in the auditors' report on the financial statements of the Company and its subsidiaries. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Company aims to present a clear and balanced assessment of its financial position and prospects. The Board must ensure that the financial statements for the Company and its subsidiaries are prepared so as to give a true and fair view of the financial status of the Company and its subsidiaries. Audited financial statements are published within four months after the end of the financial year. For the announcement relating to the price-sensitive information and other financial disclosures required under the Listing Rules are disclosed pursuant to statutory requirements.

F. Management Meetings

Executive Committee and the Senior Management meet together on a weekly basis to review, discuss and make decisions on financial and operational matters. These meetings, chaired by the Managing Director, enhance and strengthen departmental communications and cooperation within the Company and its subsidiaries.

G. Connected Transactions

The Company remain committed to ensuring compliance with regulatory requirements under the Listing Rules and applicable laws and regulations in handling connected transactions. Accordingly, the Company implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are approved by Independent Non-executive Directors, conducted under normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by independent

Shareholders in accordance with the Listing Rules. The connected persons were requested to abstain from voting in the general meeting. Details of the connected transactions during the year are set out in Directors' Report.

H. Incentive Scheme and Corporate Culture

The Company maintains an employee handbook providing guidance to employees on matters such as employee dealings on the Company's securities, ethical standards, business conduct and employees conduct. The employee handbook applies to all employees of the Company and its subsidiaries who must ensure strict compliance with the policies therein. Through the establishment of a performance charter for the Senior Management, appropriate appraisal mechanisms, and the granting of share options, the Company has been able to align the interests of the Senior Management and entire staff with the growth and performance of the Company. The Company pays particular attention to the establishment of an optimal corporate culture. With the support of all staff, the Company has identified, designed and implemented a corporate culture that is considered appropriate for its special circumstances, thereby ensuring that good corporate governance is maintained at all levels and at all times within the Company and its subsidiaries.

By order of the Board

CHIU Shui Suet

Company Secretary

Hong Kong, 30th March 2006