

Corporate Governance Report

1. In accordance with the relevant laws, rules and regulations, the Company has continued to improve the corporate governance.

The details which the Company complies with the Code of Corporate Governance are as follows:

A.1 The Board

- (1) The Board meet regularly to fulfill their responsibilities. The Board held five regular meetings and three meetings by written resolutions.

The Directors' attendance of the Board Meetings

Name	Times in Person	Times by Proxies	Absence
Xu Zheng-ning	8	–	–
Sun Zhi-hong	7	1	–
Qian Heng-ge	7	1	–
Xiao Wei-zhen	7	1	–
Long Xing-ping	8	–	–
Zhang Hong	6	2	–
Guan Diao-sheng	6	2	–
Shen Xi-jun	7	1	–
Cao Yong	8	–	–
Li Zhen-feng	7	1	–
Li Zhong-he*	8	–	–
Wang Hua-cheng*	6	2	–
Yi Ren-ping*	5	3	–
Qian Zhi-hong*	8	–	–

* Independent Directors

- (2) All Directors can raise matters in the agenda for the Board meetings.
- (3) The notice of 14 days has been given for regular meetings and usually the notice of 10 days for the other Board meetings.
- (4) The Company Secretary provides sustainable services for and reminds of all Directors with a view to ensuring them to follow all applicable rules and regulations.

Areas of deviation – nil

A.2 Chairman and Chief Executive Officer

- (1) Mr. Xu Zheng-ning was elected as Chairman of the Company by the Board. Nominated by Chairman of the Company, Mr. Xiao Wei-zhen was appointed as General Manager of the Company by the Board. The clear division of responsibilities between Chairman and General Manager are set forth in the Articles of Association.
- (2) Chairman of the Company at least holds meetings once a year with Independent Directors only.

Areas of deviation – nil

A.3 The Board composition

- (1) The Directors have extensive experience in enterprise management, industry administration, finance and bank fields. They have abilities and skills required by the Company's business.
- (2) The Board includes four Independent Directors, of which two Independent Directors are certified public accountants in the PRC. The four Independent Directors have confirmed their independences of the Company to the Stock Exchange.
- (3) The names and profiles are set forth on page 33 to page 35 in this annual report.

Areas of deviation – nil

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A.4 Appointment, re-election and removal

- (1) All Directors are elected by shareholders' general meetings for a term of not more than 3 years. The Board has no right of appointing temporary directors.
- (2) The term of office of Independent Directors shall not be more than 6 years.

Areas of deviation – nil

A.5 Responsibilities of Directors

- (1) Every newly elected Director has received a comprehensive induction on the first occasion of his appointment from the legal advisors of the PRC and Hong Kong of the Company, to ensure that he can be aware of his responsibilities of being a director.
- (2) The detailed responsibilities of Independent Directors are set forth in the Articles of Association.
- (3) Directors shall abstain from voting at the Board meeting due to interests conflicts.
- (4) After having specifically inquired from all the Directors, the Company confirms that all Directors have fully complied with the standards as set forth in the Model Code. Pursuant to the requirements of the Code of Corporate Governance, the Company also passed the code for relevant employees in respect of their dealings in the securities of the Company in 2005.

Areas of deviation – nil

A.6 Supply of and access to information

- (1) The Company provides information relating to business operation of the Company regularly, to help Directors to understand the Company's operation.
- (2) All Directors acquire adequate information that can help them to make accurate decisions 3 working days prior to the convening of the Board meetings usually.
- (3) The Company Secretary provides sustainable services for all Directors who can consult the Board documents and relevant information when necessary.

Areas of deviation – nil

B. Remuneration of Directors and Senior Management

- (1) The Remuneration Committee under the Board has been set up with specific written terms of authority and duties, consisting of one external Director Ms. Sun Zhi-hong, three Independent Directors — Ms. Li Zhong-he, Ms. Yi Ren-ping and Ms. Qian Zhi-hong and one Supervisor Mr. Tao Chun-sheng who represents the Company Staff, of which Ms. Sun Zhi-hong is the head of the Remuneration Committee.
- (2) Pursuant to the principles approved by the shareholders' general meeting, the Service Contract which was entered into between the Company and each Director or Supervisor, the proposal raised by the Remuneration Committee and with reference to the operating results, the Board considered and passed the remuneration of the Directors, Supervisors and Senior Management. The details of the remuneration of the Directors during the reporting period is set out page 38 of this Annual Report.
- (3) The members of the Remuneration Committee should consult Chairman or General Manager, or may consult independent professionals and the Company shall pay such expenses.

In the reporting period, the Remuneration Committee held two meetings and respectively submitted proposals relating to the remunerations of the Directors, Supervisors and Senior Management in the year 2005 and of the fifth term.

Areas of deviation – nil

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C.1 Financial reporting

- (1) The Company assures that the Senior Management has provided adequate financial information to the Board and the Audit Committee.
- (2) The Directors are responsible for preparing the accounts for every fiscal year, which can give a view of the state of affairs of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year. The Directors has selected the appropriate accounting policies to be carried out, made prudent and reasonable judges and estimates on a going concern basis.
- (3) Required under the Listing Rules, the Company announces and publishes the annual reports, interim reports, quarterly reports and other share price-sensitive affairs timely and accurately.

Areas of deviation – nil

C.2 Internal control

- (1) The Company has set up internal control system to guard on the operational, financial and rule-abiding risks.
- (2) According to the operating state, the Company has modified the internal control system. During the year, the Board has reviewed and modified the effectiveness of the internal control system.
- (3) The internal audit department has been set up and been adequately resourced to carry out internal audit function.

Areas of deviation – nil

C.3 The Audit Committee

- (1) The Audit Committee consists of four Independent Directors — Mr. Wang Hua-cheng, Ms. Yi Ren-ping, Ms. Li Zhong-he, Ms. Qian Zhi-hong and one external Director Mr. Zhang Hong and one Independent Supervisor Mr. Shi Gang, of which there are three certified public accountants of the PRC. Mr. Wang Hua-cheng is the head of the Audit Committee.
- (2) The Company Secretary holds the concurrent post of the Secretary of the Audit Committee and provides sustainable services for the members of the Audit Committee.
- (3) Required under the revised Listing Rules, the Company amended and added the authority and duties of the Audit Committee, mainly includes the appointment proposal of the external auditors, the review of annual report, interim report and procedures of internal control system.
- (4) The members of the Audit Committee can consult independent professionals and the Company shall pay such expenses.

The Audit Committee under the fourth term of the Board held two meetings and reviewed the Company's 2004 Financial Statements, Interim Report for 2005 and formed its independent opinion during the reporting period.

The Audit Committee under the fifth term of the Board held the first meeting on 31 March 2006 and reviewed the 2005 Financial Statements and remuneration of the auditors of the Company for 2005.

Areas of deviation – nil

D. Delegation by the Board

- (1) The Investment Committee, the Audit Committee and the Remuneration Committee under the Board have the specific authority and duties delegated by the Board, and should report to the Board.
- (2) The Board, the Senior Management and each committee under the Board have specific authority and duties, which are set forth the Articles of Association, the Rules and Procedures for shareholders' general meeting and the Rules and Procedures for the Board.

Areas of deviation – nil

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E. Communication with shareholders

- (1) In respect of each substantially separate issue at a shareholders' general meeting, a separate resolution should be proposed by the Chairman of that meeting.
- (2) The circulars to the shareholders of the Company set forth in detail the rights of the shareholders who are entitled to attend the shareholders' general meetings, the agenda, and the voting procedures.
- (3) The members of the Board, the Senior Management are arranged to attend the shareholders' general meetings by the Chairman of the meetings, to respond to the inquiries from the shareholders.

Areas of deviation – nil

The Board has not established Nomination Committee. In the reporting period, pursuant to the Articles of Association of the Company, the Board nominated the director candidates of the fifth term and submitted for approval to the EGM by proposed resolution.

Pursuant to the Articles of Association of the Company, the candidates for independent directorship may be nominated by the Board, the Supervisory Committee, or one or more shareholders holding in aggregate more than 1% of the issued shares of the Company. The candidates for the remaining directorship shall be nominated by the Board, the Supervisory Committee, or one or more shareholders holding in aggregate more than 5% of the issued shares of the Company. All candidates should be elected by the shareholders' general meeting of the Company.

An analysis of remuneration in respect of audit services is set out in item 13 of the "Significant Events" section.

2. Information on the fulfillment of responsibilities by the Independent Directors:

The Independent Directors are responsible and diligent and have played an important role. They protect the interests of the whole Company and legitimate rights and interests of minority shareholders. The Independent Directors have expressed their independent comments on the Company's connected transactions, elections and remunerations of the Directors of the Company during the reporting period.

During the reporting period, the Independent Directors did not propose any demurrals on resolutions.

3. The relationship between controlling shareholders and the Company: the controlling shareholders exercise their legal rights as investors via the shareholders' general meetings legally and do not interfere directly or indirectly in the decision-making or operating activities of the Company. The controlling shareholders did not use the Company's fund or request the Company to guarantee themselves or other parties. The Company has independent procurement and sales system and senior management and staff are full-time employees and remunerated. The Company's assets are fairly stated and with clear ownership. Independent finance department and independent accounting & financial system have been set up. The Board, the Supervisory Committee and the internal departments of the Company are operating independently according to the relevant laws. The Company is independent of its controlling shareholders in terms of personnel, assets, finance, organisations and operation.

4. Regarding the performance evaluation, stimulating and binding mechanism: Under the guidance of the annual operation and management target set by the Board, Remuneration and Assessment Committee of the Company effectively appraised the performance of senior management. The Company has been working hard to establish and perfect evaluation criteria and a stimulating and binding mechanism for senior management.