

The board of directors of the Company (the “Board”) acknowledges the importance of and benefit from good corporate governance practices and is committed to improving the corporate governance practices in order to ensure better transparency and safeguard the interests of shareholders.

The Company’s corporate governance practice are based on the principles and the code provisions (the “Code Provisions”) as set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). In the year under review, the Company has complied with most of the Code Provisions save for the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code and certain deviations from the Code Provisions in respect of the Code Provisions A.2.1, A.4.2 and E.2.1. The following summarises the Company’s corporate governance practices and explains deviations, if any, from the CG code.

THE BOARD

Responsibilities

The day-to-day operations of the Company are delegated to the management while the Board provides leadership and formulates strategic policies and plans of the Group with a view to enhance shareholder interests.

The Board reserves for its decisions all major matters of the Company, including: objectives and overall strategies of the Company; annual budgets and financial matters; equity related transactions such as issue of shares/options; repurchase of shares; dividend; raising of capital loan, determination of major business strategy; merger and acquisition; major investment; annual financial budget in turnover; profitability and capital expenditure; review and approval of financial performance and announcement; and matters as required by laws and ordinance.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulation are followed.

Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company’s expense, upon making request to the Board.

The functions delegated to management are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Composition

The Board currently comprises a total of nine members including four Executive Directors, two Non-executive Directors (“the NED”) and three Independent Non-executive Directors (“the INED”). The Board has different professional and industry experiences and background so as to bring in valuable contributions and advices for the development of the Group’s business. The NED and INED together have substantial experience in fields of auditing, legal matters, business, accounting, corporate internal control and regulatory affairs. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all NED and INED make various contributions to the effective direction of the Group.

The Company has received written annual confirmation from each INED of his independence pursuant to the requirements of the Listing Rules. The Company considers all INED to be independent in accordance with the independence guidelines set out in the Listing Rules.

Board meetings

The Board meets regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. A total of 4 board meetings were held during the year. The individual attendance record of each Director at the meetings of the Board, the Remuneration Committee and the Audit Committee during the year ended 31 December 2005 is set out below:

Name of Director	Attendance/Number of meetings		
	Board	Remuneration Committee	Audit Committee
EXECUTIVE DIRECTORS			
Mr. Yang Yirong (<i>Chairman</i>)	4/4	N/A	N/A
Mr. Gong Xionghui	4/4	N/A	N/A
Ms. Lu Jiahua	4/4	N/A	N/A
Mr. Lin Like (i)	1/1	N/A	N/A
Mr. Ho Wan Ming (ii)	3/3	N/A	N/A
Mr. Lin Zhigang (ii)	2/3	N/A	N/A
NED			
Mr. Feng Tao (<i>Vice Chairman</i>) (i)	0/1	N/A	N/A
Mr. Han Huan Guang (i) (iii)	1/1	0/0	N/A
Mr. Yang Chiming (ii) (iii)	0/3	0/1	N/A
INED			
Mr. Yau Fook Chuen (iv) (v)	3/4	1/1	2/2
Mr. Wong Yik Chung, John (v) (vi)	3/4	1/1	2/2
Mr. Zheng Lansun (v) (vi)	0/4	0/1	0/2

Notes:

- (i) Appointed on 16 September 2005.
- (ii) Resigned on 16 September 2005.
- (iii) Chairman of the Remuneration Committee.
- (iv) Chairman of the Audit Committee.
- (v) Member of the Remuneration Committee.
- (vi) Member of the Audit Committee.

Notices of regular board meetings are served to all Directors at least 14 days before the meetings while reasonable notice is generally given for other Board meetings. Agenda and Board papers together with complete and reliable information are sent to all Directors at least 3 days before each Board meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decision. Minutes of all Board meetings and committee meetings are kept by the Company Secretary. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened board meeting. The Company's Articles of Association also contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Appointment, rotation and re-election of Directors

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of INED. The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

The Company has not yet adopted A.4.2. Under the code provision A.4.2 of the CG Code, all Directors appointed in fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment, and every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to Article 108(A) of the Articles of Association of the Company (the “Articles of Association”), one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting provided that the Chairman, the Deputy Chairman, the Managing Director or Joint Managing Director of the Company shall not be subject to retirement by rotation. According to Article 112 of the Articles of Association, all Directors appointed to fill a casual vacancy shall office until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. In order to ensure full compliance with the code provision A.4.2 of the CG Code, special resolutions for approval by the shareholders of the Company will be proposed to amend Articles 108(A) and 112 of the Articles of Association at the forthcoming AGM.

Term of appointment of NED and INED

All NED and INED were appointed for an initial term of not more than one year and will be renewable automatically for successive term of one year until terminated by not less than three months’ notice in writing served by either party or the other.

Indemnification

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and officers. The Board reviews the extent of this insurance annually.

SEGREGATION OF RULES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER (“CEO”)

The Company has not yet adopted A.2.1. Under the code provision A.2.1 of the CG Code, the roles of Chairman and CEO should be separate and would not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

The Company does not presently have any officer with the title CEO. At present, Mr. Yang Yirong, being the Chairman and the President of the Company, is responsible for the strategic planning, formulation of overall corporate development policy and running the business of the Group as well as the duties of Chairman. The Board considered that, due to the nature and extent of the Group’s operations, Mr. Yang is the most appropriate chief executive because he possesses in-depth knowledge and experience in fine chemicals business and is able to ensure the sustainable development of the Group. Besides, he is the founder, the chairman and the controlling shareholder of the Group since its establishment and till now. Notwithstanding the above, the Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make the necessary amendments.

BOARD COMMITTEES

The Board has established two committees, namely the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which deal clearly with their authority and duties.

The chairmen of the committees will report the findings and recommendations of the committees to the Board after each meeting. The minutes of all meetings of the committees are circulated to the Board for information.

Remuneration Committee

Mr. Han Huan Guang is the chairman while all the three INED, namely, Mr. Yau Fook Chuen, Mr. Wong Yik Chung, John and Dr. Zheng Lansun are the members of the Remuneration Committee.

The primary responsibilities of the Remuneration Committee include establishing a formal and transparent procedures for developing policy on the remuneration of the Executive Directors and senior management, making recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management, ensuring the remuneration packages are sufficient to attract and retain the Directors to run the Company successfully, to avoid over-paying and ensure no Director or any of his associates will participate in deciding his own remuneration.

During the year under review, the Remuneration Committee met once to review and consider the remuneration policy and packages, including any discretionary management bonus of the Executive Directors and senior management by reference to market conditions, performance of the Group and the individual and corporate goals.

Audit Committee

The Audit Committee comprises the three INED, namely, Mr. Yau Fook Chuen, Mr. Wong Yik Chung, John and Dr. Zheng Lansun. Mr. Yau is the chairman of the Audit Committee and he possesses recognised professional qualifications in accounting required by the Listing Rules.

The primary duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board;
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the year under review, the Audit Committee held two meetings with the Vice President of Corporate Control and the Financial Controller to review the interim and annual financial statements, financial controls, internal controls and risk management systems and the re-appointment of the external auditors. The Company's interim report and annual report for the year under review has been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as the Company’s own code of conduct regarding Directors’ securities transactions. Specific enquiry has been made to all Directors and all the Directors have confirmed that they have complied with all the relevant requirements as set out in the Model Code throughout the year ended 31 December 2005.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements which give a true and fair view and the Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

EXTERNAL AUDITORS

During the year, PricewaterhouseCoopers, the external auditors of the Company received approximately RMB0.99 million for audit services provided to the Group. The external auditors did not provide any non-audit service to the Group during the year under review.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

Details of the rights of shareholders and the procedures for demanding a poll on resolutions at shareholders’ meetings are set out in the circulars despatched to shareholders which the notice of the general meeting forms part and will be explained during the proceedings of meetings.

The Company has not yet adopted E.2.1. Under the code provision E.2.1 of the CG Code, the Chairman of a meeting and/or Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in opposite manner to that instructed in those proxies. According to Article 72 of the Articles of Association, the criteria for demanding a poll does not include such specification. In order to ensure full compliance with the code provision E.2.1 of the CG Code, special resolution for approval by the shareholders of the Company will be proposed to amend Article 72 of the Articles of Association in the forthcoming AGM.

The Company continues to enhance communications and relationships with its investors. The annual general meeting enables the Company’s shareholders to exchange views with the Board. The chairman of the Board and the chairman of Audit Committee and Remuneration Committee have attended at the annual general meeting to be available to answer the questions of the shareholders of the Company. Regular meetings are also held with media, institutional investors and research analysts to provide them the Group’s latest business development and non-price sensitive information.

To promote effective communication, extensive information about the Company business is provided in its interim and annual reports, which are sent to shareholders, analysts and interested parties. The Company also maintains a corporate website on which comprehensive information, updates on the Company’s business developments and operations, financial information, corporate governance practices and other information of the Group are provided.