

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Company are committed to maintaining a good and sensible framework of corporate governance and to complying with applicable statutory and regulatory requirements with a view to assuring the conduct of management of the Company as well as protecting the interests of all shareholders.

Compliance with the CG Code

Throughout the year, the Company has adopted the Code on Corporate Governance Practices (the “CG Code”) and the Rules on the Corporate Governance Report (the “CG Rules”) as set out respectively in Appendix 14 and 23 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

At the annual general meeting of the Company held on 28 June 2005, to be consistent with paragraph A.4.2 of the CG Code, Bye-law 87(1) of the Company's Bye-laws was amended to reflect the requirement for the retirement of all directors by rotation at least once every three years at the Company's annual general meeting.

The following outlines how the Company has adopted and complied with the CG Code and the CG Rules to achieve good corporate governance.

A. DIRECTORS

A.1 *The Board*

Principle of Good Governance: The Board should assume responsibility for leadership and control of the Company and be collectively responsible for promoting the success of the Company. The directors should take decisions objectively in the interests of the Company.

Code Provisions	Satisfied ?	Compliance by the Company in 2005								
A.1.1										
Board meetings should be held at least four times a year.	√	<p>A total of six board meetings were held in 2005 with individual attendance of each director as follows:</p> <p>Executive directors:</p> <table> <tr> <td>Mr. Kwok Peter Viem</td> <td>5/6</td> </tr> <tr> <td>Mr. Ma Ting Hung</td> <td>5/6</td> </tr> <tr> <td>Mr. Shou Xuancheng (Note 1)</td> <td>1/2</td> </tr> <tr> <td>Mr. Sun Xinguo</td> <td>5/6</td> </tr> </table>	Mr. Kwok Peter Viem	5/6	Mr. Ma Ting Hung	5/6	Mr. Shou Xuancheng (Note 1)	1/2	Mr. Sun Xinguo	5/6
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Mr. Shou Xuancheng (Note 1)	1/2									
Mr. Sun Xinguo	5/6									

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Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.1.1		
		<p>Ms. Li So Mui 5/6</p> <p>Mr. Mi Zengxin 4/6</p> <p>Mr. Qiu Yiyong 5/6</p> <p>Mr. Zeng Chen 6/6</p> <p>Mr. Zhang Jijing 4/6</p> <p>Independent non-executive directors:</p> <p>Mr. Chan Mo Po, Paul (Note 2) 3/3</p> <p>Mr. Fan Ren Da, Anthony 4/4</p> <p>Mr. Ngai Man (Note 3) N/A</p> <p>Mr. Tsang Link Carl, Brian 4/4</p> <p>Notes: 1 Appointed on 1 September 2005 2 Resigned on 1 October 2005 3 Appointed on 1 March 2006</p>
A.1.2		
All directors should be given an opportunity to include matters in the agenda for regular board meetings.	√	All directors are invited to include matters in the agenda for regular board meetings.
A.1.3		
Notice of at least 14 days should be given of a regular board meeting.	√	The Company generally gives 14 days prior written notice of a regular board meeting and reasonable prior notice for all other board meetings.
A.1.4		
All directors should have access to the advice and services of the Company Secretary.	√	All directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures and all applicable rules and regulations are complied with.
A.1.5		
Minutes of board meetings and meetings of board committees should be kept by the Company Secretary and such minutes should be open for inspection.	√	The minutes are kept by the Company Secretary and they are open for inspection by the directors and the members of the board committees.

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Code Provisions	Satisfied ?	Compliance by the Company in 2005
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A.1.6

Minutes should record in sufficient detail the matters considered by the Board and decisions reached. Draft and final versions of minutes should be sent to all directors for their comment and records within a reasonable time after the meeting.

√

The Company Secretary is responsible for taking the minutes. The drafts are sent to the directors for comment within a reasonable time after each meeting.

A.1.7

There should be an agreed procedure to enable the directors to seek independent professional advice, at the Company's expense, to assist them to discharge their duties.

√

The Company provides an agreed procedure enabling the directors to seek independent professional advice at the Company's expense.

A.1.8

If a substantial shareholder or a director has a conflict of interest in a material matter, a board meeting should be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.

√

The voting and quorum requirements specified in the Company's bye-laws conform with the Code's requirements.

A.2 Chairman and Chief Executive Officer

Principle of Good Governance: There should be a clear division of responsibilities at the board level - the management of the Board and the day-to-day management of the business - to ensure a balance of power and authority.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
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A.2.1

The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between them should be clearly established and set out in writing.

√

Mr. Kwok Peter Viem is the Chairman and Mr. Sun Xinguo serves as the Chief Executive Officer. The Chairman focuses on the Group's strategic planning while the Chief Executive Officer has overall executive responsibility for the Group's development and management.

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Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.2.2		
The Chairman should ensure all directors are properly briefed on issues arising at board meetings.	√	The Chairman has a clear responsibility to provide the whole Board with all the information that is required for the discharge of the Board's responsibilities.

A.2.3

The Chairman should ensure that the directors receive adequate information, which must be complete and reliable, in a timely manner.	√	The Chairman has been continually improving the quality and timeliness of the information distributed to the directors.
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A.3 Board Composition

Principle of Good Governance: The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. The Board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that it can effectively exercise independent judgement.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.3.1		
The independent non-executive directors should be expressly identified as such in all corporate communications.	√	The composition of the Board, by category of the directors, including names of Chairman, executive directors and independent non-executive directors, is disclosed in all corporate communications.

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A.4 Appointments, Re-election and Removal

Principle of Good Governance: There should be a formal, considered and transparent procedure for the appointment of new directors. There should be plans in place for orderly succession for appointments to the Board. All directors should be subject to re-election at regular intervals.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
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A.4.1

Non-executive directors should be appointed for a specific term, subject to re-election.	√	Non-executive directors are not appointed for a specific term. However, under the Company's bye-laws, one-third of all directors (whether executive or non-executive) are subject to retirement by rotation and re-election at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.
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A.4.2

All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	√	The Company's bye-laws provides that any director so appointed by the Board to fill a casual vacancy shall hold office until the next following annual general meeting and shall be eligible for re-election at that meeting. In order to bring the Company's bye-laws in line with the CG Code, the directors propose to put forth to shareholders for consideration at the forthcoming annual general meeting a special resolution to amend the Company's bye-laws to require any director appointed to fill a casual vacancy to hold office until the next general meeting of the Company. Mr. Shou Xuancheng was appointed as a director on 1 September 2005, the Company has not held any general meeting since his appointment. Mr. Shou will retire and be eligible for re-election as director at the forthcoming annual general meeting.
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Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.4.2		In accordance with the existing provision of the Company's bye-laws, every director is subject to retirement by rotation at least once every three years.

A.5 Responsibilities of Directors

Principle of Good Governance: Every director is required to keep abreast of his responsibilities as a director and of the conduct, business activities and development of the Company. The non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.5.1		
Every newly appointed director should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.	√	<p>On appointment, the new director is briefed by senior executives on the Group's corporate goals and objectives, activities and business, strategic plans and financial situations. He is also provided with a package of orientation materials in respect of duties and responsibilities of directors under the Listing Rules, the Company's bye-laws, corporate governance and financial reporting standards.</p> <p>The Company Secretary is responsible for keeping all directors updated on the Listing Rules and other regulatory and reporting requirements.</p>

A.5.2

<p>The functions of non-executive directors should at least include:</p> <p>(a) to bring an independent judgement at board meetings;</p> <p>(b) to take the lead where potential conflicts of interests arise;</p> <p>(c) to serve on board committees, if invited; and</p> <p>(d) to scrutinise the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.</p>	√	<p>All non-executive directors serve on the audit, nomination and remuneration committees.</p> <p>They are invited to participate in board meetings so that they are able to provide at such meetings their experience and judgement on matters discussed in the meetings.</p>
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Code Provisions	Satisfied ?	Compliance by the Company in 2005
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A.5.3

Every director should ensure that he can give sufficient time and attention to the affairs of the Company.

√

There was satisfactory attendance for board meetings and the board committees meetings, which evidence prompt attention of the directors to the affairs of the Company.

A.5.4

All directors must comply with their obligations under the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

√

All directors complied with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers.

A.6 Supply of and Access to Information

Principle of Good Governance: The directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
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A.6.1

An agenda and accompanying board papers should be sent to all directors at least 3 days before the intended date of a meeting.

√

An agenda and the presentation material are usually sent to the directors 3 days before the meeting.

A.6.2

Each director should have separate and independent access to the senior management of the Company to make further enquiries or to obtain more information in order to fulfil his duties properly.

√

The directors have access to the senior management of the Company whenever they feel necessary.

A.6.3

All directors are entitled to have access to board papers and related materials. Where queries are raised by the directors, steps must be taken to respond as promptly and fully as possible.

√

Board minutes and related materials are available for inspection by the directors whenever requested. All efforts are made to ensure that queries of the directors are responded to promptly.

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B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 *The Level and Make-up of Remuneration and Disclosure*

Principle of Good Governance: There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. No director should be involved in deciding his own remuneration.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
B.1.1		
The Company should establish a remuneration committee with specific written terms of reference. A majority of the members should be independent non-executive directors.	√	In June 2005, the Company established a remuneration committee with specific written terms of reference which deal clearly with its authority and responsibilities. The majority of the members are independent non-executive directors.
B.1.2		
The committee should consult the Chairman and/or the Chief Executive Officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.	√	The committee consults with the Chairman and/or the Chief Executive Officer about their proposals relating to the remuneration of other executive directors. The committee is authorised to obtain such legal, remuneration or other professional advice as it shall deem appropriate.
B.1.3		
The terms of reference of the committee should include the minimum prescribed duties.	√	The terms of reference of the committee include the minimum prescribed responsibilities.
B.1.4		
The committee should make available its terms of reference, explaining its role and authority delegated to it by the Board.	√	The terms of reference of the committee are made available.
B.1.5		
The committee should be provided with sufficient resources to discharge its duties.	√	The committee can seek independent professional advice to complement its own resources to discharge its duties.

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C. ACCOUNTABILITY AND AUDIT

C.1 Financial Reporting

Principle of Good Governance: The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
C.1.1		
Management should provide such explanation and information to enable the Board to make an informed assessment of the matters put before the Board for approval.	√	The directors are regularly provided with updates on the Company's businesses, potential investments, financial objectives, plans and actions.
C.1.2		
The directors should acknowledge in the Corporate Governance Report their responsibilities for preparing the accounts, and there should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements.	√	A statement of directors' responsibilities for preparing the financial statements is set out in this Corporate Governance Report. The report of the auditors states the auditors' reporting responsibilities.
C.1.3		
The Board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	√	The Board aims at presenting a balanced, clear and understandable assessment of the Group's performance, position and prospects in all shareholder communications.

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C.2 Internal Controls

Principle of Good Governance: The Board should ensure that the Company maintains sound and effective internal controls to safeguard shareholders' investment and the Company's assets.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
C.2.1		
The directors should at least annually conduct a review of the effectiveness of the system of internal control of the Company and its subsidiaries.	√	<p>The Board has overall responsibility for the system of internal control and for reviewing its effectiveness, particularly in respect of the controls on financial, operational, compliance and risk management.</p> <p>The Chief Financial Officer reports to the audit committee twice a year on key findings regarding internal controls. The audit committee, in turn, communicates any material issues to the Board.</p>

C.3 Audit Committee

Principle of Good Governance: The Board should establish formal and transparent arrangements for considering how it applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. The audit committee should have clear terms of reference.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
C.3.1		
Minutes of audit committee meetings should be kept by the Company Secretary. Draft and final versions of minutes should be sent to all committee members for their comment and records within a reasonable time after the meeting.	√	The minutes are kept by the Company Secretary. The drafts prepared by the Company Secretary are sent to the committee members for comment within a reasonable time after each meeting.
C.3.2		
A former partner of the existing auditing firm should not be a member of the committee for a period of one year commencing on the date of his ceasing to be a partner of the firm.	√	None of the committee members is or was a partner of the existing audit firm.

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Code Provisions	Satisfied ?	Compliance by the Company in 2005
C.3.3		
The terms of reference of the committee should include the minimum prescribed duties.	√	The terms of reference of the committee include the minimum prescribed responsibilities.
C.3.4		
The committee should make available its terms of reference, explaining its role and authority delegated to it by the Board.	√	The terms of reference of the committee are made available.
C.3.5		
Where the Board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the Board has taken a different view.	√	The committee recommended to the Board (which endorsed the view) that, subject to shareholders' approval at the forthcoming annual general meeting, Ernst & Young be re-appointed as the external auditors for 2006.
C.3.6		
The committee should be provided with sufficient resources to discharge its duties.	√	The committee can seek independent professional advice to complement its own resources to discharge its duties.

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D. DELEGATION BY THE BOARD

D.1 Management Functions

Principle of Good Governance: The Company should have a formal schedule of matters specifically reserved to the Board for its decision. The Board should give clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
D.1.1 and D.1.2		
<p>The Board should give clear directions as to the powers of management, in particular, with respect to the circumstances where management should obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.</p> <p>The Company should formalise the functions reserved to the Board and those delegated to management.</p>	√	<p>Important matters are reserved for the Board's decision, including:</p> <ul style="list-style-type: none"> • long-term objectives and strategies • extension of the Group's activities into new business areas • appointments to the Board and the board committees • annual internal controls assessment • annual budgets • material acquisitions and disposals • material connected transactions • material banking facilities • announcements of interim and final results • payment of dividends

D.2 Board Committees

Principle of Good Governance: Board committees should be formed with specific written terms of reference that deal clearly with the committees' authority and duties.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
D.2.1		
<p>The Board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.</p>	√	<p>There are three board committees: audit, nomination and remuneration. They were each established with specific written terms of reference.</p>
D.2.2		
<p>The committees should be required to report back to the Board on their decisions or recommendations.</p>	√	<p>The minutes of the meetings are circulated to all members of the Board unless a conflict of interest arises. The committees are required to report back to the Board on key findings during the year.</p>

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E. COMMUNICATION WITH SHAREHOLDERS

E.1 *Effective Communication*

Principle of Good Governance: The Board should endeavour to maintain an on-going dialogue with shareholders and, in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
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E.1.1

In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.	√	A separate resolution is proposed for each substantially separate issue, including the election of a director.
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E.1.2

The Chairman of the Board should attend the annual general meeting and arrange for the chairmen of the audit, nomination and remuneration committees (as appropriate) to be available to answer questions at the annual general meeting.	√	The Chairman of the Board attended the annual general meeting of 2005. The Company will arrange for the chairman of each of the committees to attend the annual general meeting to answer questions at the annual general meeting.
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E.2 *Voting by Poll*

Principle of Good Governance: The Company should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the Company's Bye-laws.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
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E.2.1

The circulars to shareholders should disclose the procedures for and the rights of shareholders to demand a poll.	√	Each circular to shareholders containing notice convening a general meeting of the Company contains the procedures for demanding a poll.
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Code Provisions	Satisfied ?	Compliance by the Company in 2005
E.2.2		
The Company should ensure that votes cast are properly counted and recorded.	√	<p>The representative of the share registrar of the Company is normally appointed as scrutineer of the votes cast.</p> <p>In relation to votes taken by way of a poll, results are published in major Hong Kong newspapers on the business day following the meeting and posted on the websites of the Stock Exchange and the Company.</p>
E.2.3		
The chairman of a meeting should at the commencement of the meeting adequately explain the poll procedures.	√	The chairman of the meeting explains the poll procedures at the commencement of the meeting.

DIRECTORS' SECURITIES TRANSACTIONS

Throughout the year, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

All directors have confirmed, following specific enquiry by the Company, that they complied with the required standard set out in the Model Code throughout the review year.

BOARD OF DIRECTORS

The Board consists of a Chairman, two Vice Chairmen, a President and Chief Executive Officer, five executive directors and three independent non-executive directors:

Executive directors:

Mr. Kwok Peter Viem	(Chairman)	
Mr. Ma Ting Hung	(Vice Chairman)	
Mr. Shou Xuancheng	(Vice Chairman)	(appointed on 1 September 2005)
Mr. Sun Xinguo	(President and Chief Executive Officer)	
Ms. Li So Mui		
Mr. Mi Zengxin		
Mr. Qiu Yiyong		
Mr. Zeng Chen		
Mr. Zhang Jijing		

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Independent non-executive directors:

Mr. Chan Mo Po, Paul (resigned on 1 October 2005)

Mr. Fan Ren Da, Anthony

Mr. Ngai Man (appointed on 1 March 2006)

Mr. Tsang Link Carl, Brian

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Group has management expertise in the industries of energy resources and commodities, including oil, aluminium and coal. The Board has the required knowledge, experience and capabilities to operate and develop the Group's businesses and implement the Company's business strategies. The biographical details and experience of the directors and senior management are set out on pages 13 to 16.

Each director has a duty to act in good faith in the best interests of the Company. The directors, individually and collectively, are aware of their responsibilities and accountability to shareholders and for the manner in which the affairs of the Company are managed and operated.

Meetings of the Board are held regularly and at least four times a year at approximately quarterly intervals to approve, inter alia, the financial results of the Company. Regular board meetings are scheduled in advance to give the directors an opportunity to attend. Directors can attend board meetings either in person or by electronic means of communication. A total of six board meetings were held in 2005 and there was satisfactory attendance.

Directors have timely access to relevant information prior to each board meeting to enable them to make an informed decision and to discharge their duties and responsibilities.

Rule 3.10(1) of the Listing Rules requires that every board of directors of a listed issuer must include at least three independent non-executive directors. During the period between 1 October 2005 and 28 February 2006 inclusive, the Company had only two independent non-executive directors due to the resignation of Mr. Chan Mo Po, Paul.

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules and considers them to be independent.

To the best knowledge of the Company, there is no financial, business, family or other material or relevant relationship among members of the Board or between the Chairman and the Chief Executive Officer.

The Company provides directors with directors' and officers' liability insurance coverage to protect them from loss as a result of any legal proceeding against the Company.

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Kwok Peter Viem is the Chairman and Mr. Sun Xinguo serves as the Chief Executive Officer. The role of the Chairman is separate from that of the Chief Executive Officer so as to delineate their respective areas of responsibility. They receive significant support from the directors and the senior management team.

The Board, led by the Chairman, sets the overall direction, strategy and policies of the Company. Under the leadership of the Chief Executive Officer, management is responsible for executing the Board's strategy and implementing its policies through the day-to-day management and operations of the Company.

The Board delegates appropriate aspects of its management and administration functions to management. It also gives clear directions as to the powers of management, in particular, with respect to the matters that management must report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Board determines which functions are reserved to the Board and which are delegated to management. These arrangements are reviewed on a periodic basis to ensure they remain appropriate to the needs of the Company.

The Chairman provides leadership to the Board to ensure that the Board acts in the best interests of the Company. He is also responsible for overseeing effective functioning of the Board and application of good corporate governance practices and procedures. The Chairman seeks to ensure that all directors are properly briefed on issues arising at board meetings. He also encourages the directors to make full and active contributions to the Board's affairs.

NON-EXECUTIVE DIRECTORS

The independent non-executive directors of the Company are seasoned individuals from diversified backgrounds and industries and one member has an appropriate accounting qualification and related financial management expertise as required by the Listing Rules. With their expertise, they offer experience, independent judgement and advice on the overall management of the Company. They take the lead where potential conflicts of interests arise. Their responsibilities include maintaining a balance between the interests of all shareholders of the Company as a whole.

They are also key members of the audit, nomination and remuneration committees.

The independent non-executive directors are not appointed for specific terms. However, under the Company's bye-laws, one-third of all directors (whether executive or non-executive) are subject to retirement by rotation and re-election at each annual general meeting.

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REMUNERATION OF DIRECTORS

The Board established the remuneration committee in June 2005 with specific written terms of reference which deal clearly with its authority and responsibilities. The purpose of the committee is to make recommendations to the Board on the remuneration policy and structure for executive directors and senior management of the Group and the remuneration of all directors of each member of the Group.

The committee is responsible for establishing a formal and transparent procedure for developing policy on remuneration, and for determining specific remuneration packages for all executive directors and senior management, including benefits in kind, pension rights and compensation payments.

The Group's remuneration policy seeks to provide a fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. The emoluments are also based on individual director's time commitment, responsibilities and performance. The committee can seek independent professional advice to complement its own resources to discharge its duties.

The majority of the members of the committee are independent non-executive directors and its composition is as follows:

Chairman	:	Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	
Member	:	Mr. Ngai Man	(Independent Non-executive Director)	(appointed on 1 March 2006)
		Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)	
		Mr. Ma Ting Hung	(Executive Director)	(appointed on 1 March 2006)
		Mr. Sun Xinguo	(Executive Director)	

Following the establishment of the committee in June 2005, two meetings were held in the year to discuss remuneration related matters. All members attended the meetings.

During the year, the committee discussed the terms of reference of the committee, the frequency of and procedures for meeting and the terms of employment of a new executive director under a service contract. The committee also reviewed and approved the performance-based remuneration of each individual executive director by reference to corporate goals and objectives. No director was involved in deciding his/her own remuneration.

The Company and one of its subsidiaries, CITIC Australia Trading Limited, operate share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Details of the emoluments and options of each director, on a named basis, are set out in note 7 and 32 respectively to the financial statements.

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NOMINATION OF DIRECTORS

The Board established the nomination committee in June 2005 with specific written terms of reference which deal clearly with its authority and responsibilities. The committee is responsible to the Board for leading the process for Board appointments and for identifying and nominating for the approval of the Board candidates for appointment to the Board.

The committee reviews the structure, size and composition (including skills, knowledge and experience) of the Board on a regular basis and makes recommendations to the Board regarding any proposed changes, identifies individuals suitably qualified to become Board members and selects or makes recommendations to the Board on the selection of individuals nominated for directorships. The committee is also responsible for assessing the independence of independent non-executive directors and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and plans for succession of directors.

The criteria for the committee to select and recommend candidates for directorship include the candidates' skill, knowledge, experience and integrity and whether he/she can demonstrate a standard of competence commensurate with his/her position as a director of the Company.

The majority of the members of the committee are independent non-executive directors and its composition is as follows:

Chairman	: Mr. Ngai Man	(Independent Non-executive Director)	(appointed on 1 March 2006)
Member	: Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	
	Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)	(Note)
	Mr. Kwok Peter Viem	(Executive Director)	(appointed on 1 March 2006)
	Mr. Zhang Jijing	(Executive Director)	

(Note) Mr. Tsang was the Chairman of the committee from the establishment of the committee to 28 February 2006 inclusive.

Following the establishment of the committee in June 2005, no formal meeting was considered necessary during the remainder of the year.

During the year, the committee discussed the terms of reference of the committee, the frequency and procedures of meeting. The appointment of Mr. Shou Xuancheng as a Vice Chairman and an executive director of the Company was approved by the Board on 28 June 2005 at which all the members of the committee were present.

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AUDIT COMMITTEE

The Board established the audit committee in 1999 with specific written terms of reference which deal clearly with its authority and responsibilities. The terms of reference were amended in June 2005 to comply with updated regulatory requirements. The purpose of the committee is to establish formal and transparent arrangements for considering how the Board applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's external auditors.

The committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors and considering any questions of resignation or dismissal of such auditors. The committee can seek independent professional advice to complement its own resources to discharge its duties.

The majority of the members of the committee are independent non-executive directors and its composition is as follows:

Chairman	:	Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)
Member	:	Mr. Chan Mo Po, Paul	(Independent Non-executive Director) (resigned on 1 October 2005)
		Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)
		Mr. Ngai Man	(Independent Non-executive Director) (appointed on 1 March 2006)

During the year, two meetings were held. All members attended the meetings. The committee reviewed, together with the senior management and the external auditors, the financial statements for the year ended 31 December 2004 and for the six months ended 30 June 2005, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters and internal control system.

FINANCIAL REPORTING

The Board aims at presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. Management provides such explanation and information to enable the Board to make an informed assessment of the matters put before the Board for approval.

The directors acknowledge their responsibilities for preparing the financial statements for the Company and its subsidiaries.

The statement of the external auditors of the Company regarding their responsibilities for the financial statements of the Group is set out in the report of the auditors on page 47.

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INTERNAL CONTROLS

The Board has overall responsibility for maintaining a sound and effective system of internal control and for reviewing its effectiveness, particularly in respect of the controls on financial, operational, compliance and risk management, to safeguard shareholders' investment and the Group's assets.

During the year, the Board conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries.

AUDITORS' REMUNERATION

Ernst & Young were re-appointed by shareholders at the 2005 annual general meeting held on 28 June 2005 as the Company's external auditors until the next annual general meeting. They are primarily responsible for providing audit services in connection with annual financial statements of the Group for the year ended 31 December 2005.

For the year ended 31 December 2005, the total remuneration in respect of statutory audit services provided by Ernst & Young for the Group amounted to HK\$1,580,000 and in respect of non-audit services provided by Ernst & Young amounted to HK\$20,000.

The audit committee recommended to the Board (which endorsed the view) that, subject to shareholders' approval at the forthcoming annual general meeting, Ernst & Young be re-appointed as the external auditors for the Company for 2006.