

# CORPORATE GOVERNANCE REPORT

During the reporting period, the Company has been proactively complying with all code provisions of the Code on Corporate Governance Practices in Appendix 14 of Listing Rules, and implementing improved governance and disclosure measures. The Board has established Audit Committee and Remuneration and Review Committee so as to ensure the efficient operation of the Board and set up a regulation system catering to the management of the Company, aims to implement their respective duties efficiently. The Company will continue to enhance its corporate governance measures and transparency in the Shareholder's regard.

## THE BOARD OF DIRECTORS

The Board comprises ten executive Directors. Mr. Liu Dagong (Chairman), Mr. Liu Wenying, Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Li Tengjiao, Mr. Shao Haichen, Mr. Zhang Jing, Mr. Li Youji, Mr. Liu Shuangcheng and Mr. Zhao Fei and three independent non-executive Directors: Mr. Lu Zhongmin, Mr. Chen Zhi and Mr. Chan Sau Shan, Gary.

The Board is the legal business decision organization of the Company. It is responsible for the leadership and control of business and operation of the Company, aiming to assist Shareholders to attain their best interests.

Under the leadership of the chairman, the Board is responsible for the formulating and review of the development and operating strategy and policies, making annual budget and final accounting scheme, business plans and proposing dividend plans as well as supervising management members, pursuant to relevant laws, regulations and Articles of Association. Under the leadership of general manager, management of the Company is responsible for the supervision of everyday business operation, policy planning and implementation and report to the Board in respect of all business of the Company. General manager keeps in contact with all directors and ensures director's timely receipt of adequate, complete and reliable information.

Basic principles applied in the Board's discussion of matters include: group decision, individual responsibility and the minority going along with the decision of the majority.

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In the year, the Board of the Company convened a total of 23 meetings, and detailed attendance of each Directors is as follows:

	<b>Name of Directors</b>	<b>Number of attendance / number of possible attendance</b>
<b>Chairman</b>	Mr. Liu Dagong	23/23
<b>Executive Directors</b>	Mr. Liu Wenyong	23/23
	Mr. Zhao Yanshui	23/23
	Mr. Yan Linjiao (General manager)	23/23
	Mr. Li Tengjiao	23/23
	Mr. Shao Haichen	23/23
	Mr. Zhang Jin(Financial controller)	23/23
	Mr. Li Youji	23/23
	Mr. Li Shuangchen	23/23
	Mr. Zhao Fei	23/23
<b>Independent non- executive Directors</b>	Mr. Lu Zhongmin	4/23
	Mr. Chen Sau Shan	2/23
	Mr. Chen Zhi	4/23

All of the three independent non-executive Directors meet evaluations on independence set out in Rule 3.13 of the Listing Rules. The death of Mr. Tao Xiang, the late independent non-executive Director, on 4 July 2005 resulted in a vacancy of independent non-executive Director, and the Company intends to select proper person as substitute in due course.

All members of the Board had no relationship with each other in respect of finance, business, family or other material/connected relationship.

The Board convened four regular meetings this year. Before holding of each regular meeting, notice was delivered fourteen days prior to date of the meeting, to ensure that all Directors have the opportunity to propose discussion matters to be listed in the agenda; notices of other Board meetings has also been properly delivered to provide chances to all Directors to find time for their attendance. All Directors can access to opinion and services of the Company secretary, including reviewing minutes.

The Board is of the opinion that the Company had complied with Code on Corporate Governance Practices in Appendix 14 of the Listing Rules as at 31 December 2005.

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## CHAIRMAN OF THE BOARD AND GENERAL MANAGER

The chairman of the Board is Mr. Liu Dagong, while the general manager of the Company is Yan Linjiao.

The biographical details of the chairman and general manager of the Company are set out on page 21 of this annual report.

During the year, the function of the Board's operation and management was clearly separated from that of the company's daily business management, and with a balance of power and authority, power was not concentrated in any individual.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

In this term, the term of three independent non-executive Directors is three years, from 1 July 2003 to 30 June 2006.

## SECURITIES TRANSACTION BY DIRECTORS

Standards adopted by the Company regarding securities transactions by Directors are not less competent than the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "Model Code"). All Directors has adhered to the Model Code in respect of securities transactions by Directors during the reporting period.

## DUTIES OF DIRECTORS IN RESPECT OF FINANCIAL STATEMENTS:

Directors declare that they are responsible for preparing the financial statements to reflect a true and fair view of the Company for each financial year. Announcement of its reporting duty by the auditor is incorporated in the annual report, but the two announcements thereof are independent from each other.

Directors consider that, in the preparation of the financial statements, the Company has implemented proper accounting policies and complied with all relevant accounting standards.

Directors have the duty to ensure the Company's accounting records are properly kept, which must reasonably and precisely disclose the financial condition of the Company. Financial statements of the Company shall be prepared in accordance with laws in PRC, disclosure requirements in Hong Kong Company Ordinance and relevant accounting standards.

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## DIRECTORS' REMUNERATION

In accordance with stipulations in the Listing Rules, the Company has set up Remuneration and Review Committee, to formulate policies of the Director's remuneration and determine remunerations thereof. The terms of reference thereof is set out as follows:

- (i) to study and set review standards for Directors and managers, to carry out review and produce suggestions;
- (ii) to study, review and formulate remuneration policies and scheme for directors and senior management;

Members of Remuneration and Review Committee include: Mr. Chen Zhi (chairman), Mr. Liu Dagong and Mr. Lu Zhong Min.

Remuneration of the Company's executive Directors is subjected to their positions, performance and contribution and is linked with the operating results of the Company.

In the year, the Committee convened one meeting to discuss matter relating to remuneration with attendance by Mr. Chen Zhi, Mr. Liu Dagong and Mr. Lu Zhongmin. The Remuneration and Review Committee has formulated relevant remuneration policy for executive Directors, evaluated performance of executive Directors and approved contract terms thereof.

## NOMINATION OF DIRECTORS

Executive Directors shall be nominated by the controlling Shareholder, China Yituo, whose appointment is subject to approval of the Company's Shareholders at general meetings.

Independent non-executive Directors shall be nominated by the Board, whose appointment is subject to approval of the Company's Shareholders at general meetings

The Company has set up a standard for the nomination of the Directors, and the nomination, appointment and re-appointment of Directors is made on the basis of expertise, work experience, diligency, and level of knowledge in a fair and objective manner.

## AUDITOR'S REMUNERATION

Ernst & Young and Ernst & Young Hua Ming were appointed as the international and the PRC auditors of the Group respectively. They have audited the financial statements and financial reports prepared under Hong Kong and PRC Accounting Standards, respectively. The remuneration for the two accounting firms amounted to HK\$4.83 million. Among the total remuneration, HK\$4.10 million represented the annual audit fee and HK\$ 0.73 million represented the agreed-upon procedures fee. Both the audit fee and the agreed-upon procedures fee were already inclusive of disbursements incurred by the two auditors and related taxes on the fees. In addition, Ernst & Young Tax Services Limited provided profits tax reporting services in Hong Kong for the Company. Such services is not included in the scope of audit and the fee was HK\$7,000.

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## AUDIT COMMITTEE

As required in the Listing Rules, the Company has set up Audit Committee. The terms of reference thereof is set out as follows:

- (i) to review the appointment of accountant and auditing fee and to raise any question of their resignation or dismissal.
- (ii) to review annual and interim financial information of the Company and disclosure thereof;
- (iii) to regulate and review the internal control system of the Company, particularly the implementation of connected transactions;
- (iv) to provide suggestion relating to proper operation of the Company.

Audit Committee comprises three independent non-executive Directors: Mr. Lu Zhongmin (Chairman), Mr. Chan Sau Shan, and Mr. Chen Zhi.

In the year 2005, Audit Committee convened two meetings with financial controller and external auditors. Audit Committee reviewed the results of the Group for year 2004, interim results of the Company for year 2005. The Audit Committee has also reviewed the annual results of the Group for the year ended 31 December 2005.

## INTERNAL CONTROL

The Board is responsible the overall internal control system of the Company. The Directors have reviewed the internal control system of the Company and its subsidiaries, and have extent their approval on the principle of overall effectiveness. In relation to internal control of subsidiaries, due to (i) the large number of Company's subsidiaries; (ii) complicated shareholding structure; and (iii) large geographical coverage, the management and control of the Company and its subsidiaries are relatively difficult and as a result of which one of the subsidiaries of the Company failed to make the relevant disclosure requirement to the public before the connected transaction with minority Shareholders of the Company is conducted. In this regard, the Company will adopt effective measures to improve the internal control system of the Company and its subsidiaries, and to remedy the deficiency.

During the reporting period, there is no material uncertainty relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

With regard to the appointment of the external auditors, the Board and the Audit committee has not taken different view in that respect.

By order of the Board  
**Liu Dagong**  
*Chairman*

Luoyang, the PRC  
21 April 2006