

# Corporate Governance Report

The Company's corporate governance practices are based on the principles and the code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules.

The Board recognises the importance of good corporate governance practices and 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 the deviation from Code Provision A 2.1.

The Company commits to continuously improving its corporate governance practices by periodically reviewing its corporate governance practices to ensure that the Company continues to meet the requirements of the CG Code.

The key corporate governance practices of the Company are summarised as follows:

## **BOARD OF DIRECTORS**

### **Composition**

The Board includes five executive Directors and three independent non-executive Directors.

#### *Executive Directors*

Sun Lianggui (*Chairman of the Board*)  
Wang Zhaobo (*Chief Operating Officer*)  
Sun Xianfang (*Chief Financial Officer*)  
Wang Jiaqing (*Chief Marketing Officer*)  
Zhou Zhongdong

#### *Independent Non-executive Directors*

Hung, Randy King Kuen  
Wang Yuechao  
Wei Zhiqiang

Members of the Boards are professionals from the computer science, industrial automation, finance and accounting. More than one-third of the Board is independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

There is no financial, business, family or other material/relevant relationship among the Directors.

Each of the independent non-executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 27 July 2004, and will continue thereafter until terminated by not less than two months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term. The independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association.

The Company confirms that it has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independent guidelines set out in the Listing Rules.

## Board Meetings

During the year, five Board meetings were held.

	<b>Attendance/ Number of Meetings</b>
<i>Executive Directors</i>	
Sun Lianggui ( <i>Chairman</i> )	5/5
Wang Zhaobo	5/5
Sun Xianfang	5/5
Wang Jiaqing	5/5
Zhou Zhongdong	5/5
<i>Independent Non-executive Directors</i>	
Hung, Randy King Kuen	2/5
Wang Yuechao	2/5
Wei Zhiqiang	2/5

## Board Responsibilities and Delegation

The Board should assume responsibility for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The Board is responsible for formulating the Company's overall strategies, authorising the annual development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system and supervising and managing management's performance.

The day-to-day management, administration and operation of the Company are delegated to the management. The delegated functions are reviewed by the Board periodically to ensure they remain appropriate to the needs of the Company. The Board gives clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company.

## Nomination of Directors

The Company has not established a nomination committee and retained the functions to the Directors. The Directors from time to time identify individuals suitably qualified to become Board members and make recommendations to the Board. The main consideration in selecting candidates for directorships on the Board is whether their characters, qualifications and experience are appropriate for the businesses of the Group. During the year, the Board did not nominate any new Directors.

### **Directors' Securities Transactions**

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with such code of conduct throughout the year ended 31 December 2005.

### **Directors' Responsibility for the Group's Financial Reporting**

The Directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, the Directors are responsible to select appropriate accounting policies and apply them consistently.

### **Remuneration of Directors**

The Company established a remuneration committee ("Remuneration Committee") on 25 April 2005, which comprises three independent non-executive Directors and two executive Directors.

#### **Members of Remuneration Committee**

Sun Lianggui (*Chairman*)

Sun Xianfang

Hung, Randy King Kuen

Wang Yuechao

Wei Zhiqiang

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for the remuneration of Directors, reviewing and approving their specific remuneration package by reference to market conditions, performance of the Group and corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee did not hold any meeting during the year ended 31 December 2005 as the Board had determined the remuneration package of the Directors during the Board meetings in 2005. The Remuneration Committee will meet at least once a year starting from 2006.

### **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The Company does not have a chief executive officer and Mr. Sun Lianggui, the chairman of the Board, assumes the responsibility of the chief executive officer.

The Company is currently in the process of identifying an appropriate candidate to take up the post of the chief executive officer.

The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings.

The Chairman is responsible for ensuring that the Directors receive adequate information, which must be complete and reliable, in a timely manner.

## EXTERNAL AUDITORS

A statement by the external auditors about their reporting responsibilities is included in the Report of the Auditors on page 24 of this annual report.

The remuneration paid or payable to the external auditors of the Company of RMB802,000 during the year was wholly related to audit services.

## AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") on 27 July 2004 with written terms of reference which describe the authority and duties of Audit Committee based on the guidelines set out in "A Guide for the Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee is primarily responsible for reviewing and supervising the financial reporting process and internal control system of the Group with the management as well as external auditors of the Company.

The Audit Committee comprises three independent non-executive Directors.

<b>Members of Audit Committee</b>	<b>Attendance/ Number of Meetings</b>
Hung, Randy King Kuen ( <i>Chairman</i> )	2/2
Wang Yuechao	2/2
Wei Zhiqiang	2/2

The Audit Committee held two meetings with the Chief Financial Officer during the year ended 31 December 2005 to review the financial results and reports; financial controls; internal controls; and risk management systems; and the re-appointment of the external auditors. The Company's annual results for the year ended 31 December 2005 have been reviewed by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors.