

Corporate Governance Report

1. Corporate Governance Practices

The Company is committed to establish a sound, solid and sensible corporate governance framework to constantly improve its corporate governance, where emphasis is attached to (1) full disclosure of its corporate governance practices for enhanced transparency to shareholders; and (2) improvement of the internal control system by reviewing the Company's corporate governance practices in accordance with Code on Corporate Governance Practices (the "Code") with effect from 1 January 2005 to cater for the constant development and evolvement of corporate governance.

The Code sets out the principles of good corporate governance and two levels of recommendation, namely, Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviation; and Recommended Best Practices, which are for guidance only, save that issuers are encouraged to comply with. The Board has reviewed the Company's corporate governance practices. For the year ended 31 December 2005, the Company has adopted all the principles and Code Provisions and nearly all the Recommended Best Practices set out in the Code.

The Company's corporate governance framework incorporates all the Code Provisions and nearly all the Recommended Best Practices in the Code. The Company's code on corporate governance practices includes, without limitation to, the Articles of Association passed at the shareholders' general meeting on 9 September 2004 and Work Rules for the Board of the Directors, Organisation Rules for the Audit Committee, the Articles of the Nomination Committee, Organisation Rules for the Strategic Committee and Organisation Rules for the Remuneration Committee passed at the Board meeting on 25 August 2005. All the documents mentioned above are set out on the Company's website. The Board also formulated Management Methods for Information Disclosure, Management Mechanism for Investor Relations and Management Mechanism for Implementation of Resolutions of the Board of Directors as relevant work rules of the Company.

The Company's code on corporate governance practices exceeds the requirements of the Stock Exchange and is more strict than the Code Provisions set out in the Code in many aspects, which mainly include the following:

- Apart from the Audit Committee and the Remuneration Committee, the Board set up another two governance committees, namely, the Nomination Committee and the Strategic Committee.
- Apart from one non-executive director, all other members of the Audit Committee are independent non-executive directors.

1. Code on Corporate Governance Practices *(continued)*

- More than 4 Board meetings were held in the financial year ended 31 December 2005.
- Each year, the President submits the Work Report to the Board, personally reporting the details of the management's compliance with the Company's internal control system, regulations and work process.

2. Board of Directors

Directors

As at 31 December 2005, the Board consisted of 11 directors including 5 executive directors, 5 independent non-executive directors and 1 non-executive director. All directors shall resign from the Board at the third annual general meeting after their appointment and are eligible for re-election. New directors are subject to shareholders' election at the first Shareholders' general meeting after their appointment. Each new director will receive a specific inauguration notice prepared by the Board, including notice of applicable laws and regulations and the chapters in the Listing Rules in relation to directors' duties, as well as an introduction to the Company's business and development. Biographic details of the directors are set out in the section "Profile of Directors, Supervisors and Senior Management" in pages 25 to 32 of this annual report and on the Company's website. Independent non-executive directors are expressly identified in all corporate communications that disclose directors' names.

Executive director

Xing Daoqin ¹	Chairman
Tao Kui	Vice Chairman
Guo Mengquan ¹	President
Zhang Shaowen	
Yun Dajun	Chief Financial Controller

Non-executive director

Zhang Xingxi	Member of the Audit Committee
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Independent non-executive director

Feng Fei	Member of the Audit Committee
Xu Xinzhong	Member of the Audit Committee
Feng Bing	Member of the Audit Committee
Wang Jialu	
Zha Jianqiu	Member of the Audit Committee

1. Mr. Xing and Mr. Guo were appointed as Chairman and President respectively on 5 August 2005. Relevant details are set out in the Company's announcement dated 5 August 2005.

2. Board of Directors *(continued)*

Directors *(continued)*

The Company has complied with the requirements in Rules 3.10(1) and 3.10(2) of the Listing Rules relating to adequate appointments of independent non-executive directors, at least one of which shall have proper professional qualifications or proper accounting or relative financial speciality.

With extensive professional skills and experience, the independent non-executive directors of the Company are able to fully exert their oversight and balance duties to guarantee the interests of the shareholders and the Company as a whole. Five of the six (exceeding one third) non-executive directors are independent non-executive directors. In determining the independence of a non-executive director, for a director to be considered independent, the Board must confirm that such director does not have any direct or indirect material relationship with the Company, and a director who has assumed the office in the Company for more than 9 years is regarded as having no independence. The Board is of the view that all independent non-executive directors have made effective independent judgment and involved in no circumstance set out in Rule 3.13 of the Listing Rules or any other factor which may cast doubt upon their independence.

The Company has made appropriate insurance cover arrangements for the legal actions that may be against directors and the senior management. Each year, the Board reviews the insurance cover arrangements. For all directors' constant professional development and knowledge and skill upgrading, no thorough plan was made nor any fund was budgeted by the Company.

2. Board of Directors *(continued)*

Power of the Board

The Board is responsible for providing leadership and monitoring the Company's affairs. All directors are liable to act in the best interests of the Company and collectively assume the responsibility for overseeing and monitoring the Company's affairs. Non-executive directors have the same responsibilities and obligations as executive directors. The Board makes regular assessment on the management's business prospects and results as well as exercises other power in accordance with the Articles of Association, which mainly includes:

- To oversee the implementation of resolutions passed at shareholders' general meetings;
- To approve the Company's business plans and investment schemes;
- To formulate the Company's annual financial budget schemes;
- To formulate the Company's profit distribution plan;
- To formulate the Company's basic management system;
- To approve the Company's accounting policies and adjustment to the same;
- To approve various announcements including financial statements.

The Board prepares the Company's financial statements and takes the responsibility for the completeness and legitimacy of the financial statements as well as the efficiency of the Company's internal control system and risk management process. The Articles of Association clearly specifies the functions of the Board and the Chief Executive. The Board's authorisation to the management shall be finalised in form of resolutions of the Board. The Board makes periodic reviews on the functions of and the rights authorised to the Chief Executive to ensure such arrangements are proper and in compliance with the Articles of Association.

Annual reports and financial statements

The Board confirms that it has the responsibility for preparation of financial statements for the Company for each financial year, truly and impartially reporting the Group's financial condition and that in preparation of such financial statements, it has complied with applicable accounting standards and adopted proper accounting policies. The Board has made objective and explicit comment on the Company's performance in each annual report and interim report. The Board keeps the Company's accounts, which disclose with reasonable accuracy the Company's financial condition and which enable the Company's preparation of financial statements in compliance with laws, provisions and applicable accounting standards.

The auditors' representation on reporting responsibilities for financial statements is set out in page 66 of the Auditors' Report in this annual report.

2. Board of Directors *(continued)*

Board committees

To ensure sound corporate governance, the Board has established four special committees, namely, the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategic Committee, and determined their respective functions in accordance with the principles stipulated in the Code. Each committee shall report their work to the Board. For performance of their duties, the Board committees are entitled to, when necessary, appoint lawyers, investment banks, accountants or other professionals to give their expert opinions. Expenses incurred will be borne by the Company.

Chairman and Chief Executive

The Chairman is responsible for operation and management of the Board while the Chief Executive takes charge of the day-to-day management of the Company's business. To ensure a balanced distribution of functions and authorisations, roles of the Chairman and the Chief Executive are explicitly differentiated with respective duties specified in the Articles of Association. The position of Chairman is assumed by Mr. Xing Daoqin while the position of Chief Executive is taken by Mr. Guo Mengquan. Under the assistance of the Vice Chairman, the Chairman leads and oversees the operation of the Board to ensure the Board's performance being in the best interests of the Company.

Under the assistance of the Vice Chief Executive, the Chief Executive is responsible for managing the day-to-day affairs of the Company, organising and implementing resolutions of the Board and reporting to the Board on the Company's overall operation. As the chief manager of the Company's day-to-day affairs, the Chief Executive is responsible for the annual business plan and investment schemes and formulation of the Company's basic management rules. He/She also takes the direct responsibility for the Company's operation. In strict compliance with the Board's authorisations and resolutions, the management reports to the Board on any decisions or undertakings made by it or seeks prior approvals by the Board.

The Chief Executive, the Vice Chief Executive and the Chief Financial Controller make concerted efforts to collaborate with administrative departments of the Company to ensure the Board's and the Board committees' access to complete, reliable and proper information so that the directors can make decisions with adequate information and to ensure proper implementation of the Board's resolutions. The Chief Executive monitors the Company's operation and financial results with a view to plans and budget and passes on their opinions to the Board on material events. The Chief Executive and the Chief Financial Controller are also executive directors, who keep contact with the Chairman and all directors to ensure their full understanding of the Company's all significant businesses and relevant progress.

2. Board of Directors *(continued)*

Board meetings

The Chairman is responsible for approving agenda of each Board meeting and effectually convenes the Board meeting, taking into consideration, where appropriate, other matters proposed by directors for inclusion in the agenda. Assisted by the Company Secretary, the Chairman seeks to ensure all directors' proper access to accurate, timely and sufficient information on the proposals to be considered by the Board to enable their wise decisions. While a fourteen days' notice of a regular Board meeting is given, the agenda and the meeting documents attached are circulated at least 3 days prior to the holding of a Board meeting or a meeting of any special committee.

The Chairman encourages the directors to be fully engaged in the Board's affairs and make contributions to the Board's function. In addition to regular Board meetings, the Chairman and non-executive directors hold at least one meeting without executive directors' presence each year. During the year under review, such meeting was convened once. The Board adopts sound corporate governance practices and procedures and takes appropriate steps to inspire the directors' open and frank communication so as to ensure non-executive directors' enquires to each executive director and the effective communication between them.

2. Board of Directors *(continued)*

Board meetings *(continued)*

It is expressly provided in the Work Rules for the Board of Directors that, in the event that a substantial shareholder or director of the Company has a conflict of interests in the matter to be considered at the Board meeting, such matter shall not be dealt with by Board committees or by way of circulation. Any director who has a conflict of interests in the matters to be considered shall abstain from voting.

Board meetings are held on a regular basis for at least 4 times each year. In accordance with the Articles of Association, directors, when necessary, may propose to convene an extraordinary board meeting. They may also, when they consider necessary, obtain the Company's information and independent expert opinion, where expenses incurred are borne by the Company. In 2005, the Board convened 6 meetings with an average attendance rate of 93%. The following table shows details about each director's attendance at the annual general meeting, Board meetings and meetings of Board committees in 2005:

Times of attendance / times of meeting

Director	Board Meetings	Meetings of the Audit Committee	Meeting of Remuneration Committee	Meeting of the Chairman and non-executive directors	Annual general meeting
Executive director					
Xing Daoqin	6/6			1/1	1
Tao Kui	6/6		1/1		1
Guo Mengquan	6/6				
Zhang Shaowen	4/6				1
Yun Dajun	6/6				1
Non-executive director					
Zhang Xingxi	6/6	2/2		1/1	1
Independent non-executive director					
Feng Fei	5/6	2/2		1/1	
Xu Xinzong	5/6	2/2	1/1	1/1	1
Feng Bing	6/6	2/2	1/1	1/1	1
Wang Jialu	6/6		1/1	1/1	1
Zha Jianqiu	5/6	2/2		1/1	1

2. Board of Directors *(continued)*

Joint Company Secretary

The Joint Company Secretary reports to the Board. All directors are entitled to the Joint Company Secretary's services. He / She shall notify the Board the latest information on governance and oversight on a regular basis, assist the Chairman of the Board in preparation of the agenda, and prepare and despatch meeting documents on a timely and comprehensive basis so as to ensure the efficiency and validity of the Board meetings. Under the assist of the Company's lawyer, the Joint Company Secretary is in charge of announcement of annual and interim reports and information disclosure in accordance with the Listing Rules and relevant rules of the Company. He / She makes a regular enquiry to the Company's financial department for information on connected transactions to secure the compliance with Listing Rules in respect of such transactions.

The Joint Company Secretary is also in charge of preparing and keeping minutes of meetings of the Board and the Board committees together with any relevant documents, which will be provided and disclosed to all directors for their inspection at any reasonable time. All matters under consideration including any enquiry and objection by directors shall be minuted in details. In proper time upon close of a meeting, a minute draft shall be despatched to all directors for their modification opinions. In case of any query raised by directors, the Company shall, as soon as possible, take steps to make responses thereto.

Directors' interests

All directors ensure adequate time and energy to handle the Company's affairs and shall, upon their initial appointment, report to the Board in respect of the number and nature of any office assumed by them in other companies or institutions and the term of office, as well as disclose to the Company names of such companies or institutions. If the Board considers a director has a conflict interest in any proposal under consideration, such director shall report his/her interests and abstain from voting and may, when necessary, apply for absence. The Board requires directors to confirm whether there is any connected transaction between the directors or their respective associates and the Company or its subsidiaries at each financial reporting period. Any material transactions relating to connected parties, which have been confirmed, will be disclosed in notes to the financial statements of an annual report.

2. Board of Directors *(continued)*

Securities transactions by directors

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors of the Company ("Model Code"). The Model Code is also applicable to special employees who may have certain price sensitive information that has been not disclosed, including such employees in the Company's subsidiaries and parent company. Upon appointment, any director of the Company is delivered a Model Code. After that, the Model Code is delivered twice a year, namely, one month prior to the Board meeting to approve the Company's interim results and one month prior to the Board meeting to approve the Company's annual results, together with an indicative notice to remind the directors that they may not deal in the Company's shares until the results announcement.

All directors of the Company confirm that as at 31 December 2005, all directors and the special employees who may have certain price sensitive information that has been not disclosed complied with the Model Code and none of the said persons incur any conduct in violation of regulations.

3. Internal Control

Internal control system

The Board is fully in charge of the Group's internal control system. It is responsible for ensuring the Company has adequate internal control systems to monitor its overall financial status, hence avoiding material financial omission or loss. Through its Audit Committee, the Board makes periodic review on the effectiveness of the internal control system.

The Company's internal control system plays a key role in risk management which is crucial for achievement of business objectives. The internal control system and work process is formulated to prevent unauthorised use or disposal of the Company's assets and to ensure the keeping of true and adequate accounting records and relating financial information. While the internal control procedures are designed to manage and properly control, but not remove, the risks of failing to achieve business prospects. The Company's internal control provides reasonable, but not absolute, assurance against material mis-statement or loss.

Each year, the Company reviews the efficiency of the internal control system, which includes control over finance, operation, regulation compliance and risk management. Relevant results have been reported to the Board through executive directors.

3. Internal Control *(continued)*

Internal control system *(continued)*

The Board confirms that the Company has set up procedures and systems for recognising, assessing and managing material operating risks with support from Board committees and the senior management. Based on the evaluations made by the management and the internal audit department of the Company in 2005 and as at the date of approval of this annual report, the Audit Committee believes that the Company's internal control system and accounting system are aimed to enable the security of material assets, recognition and monitoring of the Company's operating risks, execution of material transactions under the management's authorisation and reliable disclosure of financial statements; and that the established control system is functioning constantly to identify, evaluate and manage the material risks faced by the Company. The Board is fully in charge of overseeing the operation of Company's business units.

Personnel with proper experience and skills are appointed to the boards of directors of the Company's subsidiaries and associated companies to attend their board meetings and to oversee the operations of those companies. Monitoring activities include review and approval of business strategies, budgets and plans as well as setting of key business performance targets. The identification, evaluation and report on the likelihood and potential financial impact of material business risks are left to the management of such companies.

Executive directors hold monthly meetings with executive and business senior management members to review the integrated financial status and operations against the budgets and estimation and to estimate and evaluate risk factors so as to formulate and adjust business strategies.

The Financial Controller of the Company has established systems and procedures for the approval and control of expenditures. Operating expenditures are subject to overall budget control and are controlled within approval levels for such expenditures being set by reference to each executive's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process. Detailed investment scheme shall be made by the Company's Chief Executive and approval by the Board prior to commitment for material expenditures within the approved budget, and also unbudgeted expenditures.

3. Internal Control *(continued)*

Internal audit

The Company sets up an internal audit department, which oversees the Company's internal governance and conducts independent reviews as to whether the internal control system is adequate and efficient. The audit department is led by the department manager and composed of 8 professionals including internal auditors. Main duties of the internal audit department include:

- To oversee the Company's all operating activities and internal control on a regular basis;
- Together with other business departments of the Company, to carry out periodic audit on the financial status, income and expenses, operations, work process, and fraud investigations of all business units, branches and subsidiaries of the Company.
- To carry out special audit on matters to which the Board or the management attaches special attention.

The internal audit department gives its prudent opinion as to whether the Company's operations have a complete and efficient risk management system, and reports it to the Chairman or directly contacts the head of the Audit Committee. All internal audit reports and opinions are submitted to the Chief Executive, the Chief Financial Controller and other executive directors of the Company as well as the senior management of the department being audited. The audit department also follows up on all reports to ensure that all issues have been satisfactorily resolved. In addition, a regular dialogue is maintained between the audit department and the external auditors so that both are aware of the significant factors that may affect their respective scope of work.

The Company has set up a detailed oversight system for handling the price sensitive information for all employees' reference.

3. Internal Control *(continued)*

Risk management

One of the Board's responsibilities is to raise the risk awareness across the Company's business operations. The Board properly implements the operating risk management procedure throughout the Company and formulates policies and procedures which provide a framework for identification and management of risks. The Board fulfils its oversight role over the Company and its subsidiaries in the following areas:

- establishment of the risk appetite, risk profile and risk management strategy of the Company;
- identification, assessment and management of the material risks faced by various business units of the Company;
- review and assessment of the adequacy of the Company's risk management process, system and internal control;
- review and monitoring of compliance with the Company's risk management process, system and internal control including compliance with prudential and legal requirements governing the business of the Company.

The risk management activities include review of detailed financial and operation reports, budgets and business plans provided by the management, review by the Board of actual results against the budgets, ongoing work of the Group's internal audit function and regular business reviews by executive directors and the executive management teams of each core business divisions. While the said procedures are designed to identify and manage the risks which may impose adverse impact on realisation of the Group's business prospects, they do not provide absolute assurance against any material mis-statement or loss.

4. Special Committees under the Board

Audit Committee

The Audit Committee assumes the responsibilities for audit of the Company's financial reports, review of internal control and corporate governance work and provision of relevant advice to the Board. Independent non-executive directors represent four fifths of the members of the Audit Committee. The Audit Committee is chaired by Mr. Zha, an independent non-executive director. Mr. Zha has proper qualifications and financial experience.

4. Special Committees under the Board *(continued)*

Audit Committee *(continued)*

By reference to the recommendations in A Guide for Effective Audit Committees issued by Hong Kong Institute of Certified Accountants and C.3 of the Code, the Board has formulated the Organisation Rules of the Audit Committee, stipulating the functions and duties of the Audit Committee, which is set out on the Company's web-page: <http://www.irico.com.cn/cn/investor/guicheng.htm>

In 2005, the Audit Committee convened two meetings with an average attendance rate of 100%. The senior management and external auditors were invited to these meetings. In 2005, the committee

- audited the Company's accounts and interim results announcement for the six months ended 30 June 2005, together with the proposals to be approved by the Board;
- audited the Report of the Board of Directors, accounts and the annual results announcement of the Company for the year ended 31 December 2005, together with the proposals to be approved by the Board;
- audited the audit fees and remuneration payable to the external auditors for the year ended 31 December 2005, together with the proposals for the auditors' re-appointment to be approved by the Board;
- audited the Company's implementation of connected transactions in 2005, together with the proposals to be approved by the Board;
- reviewed matters in relation to audit, internal control and financial policies with the senior management and external auditors of the Company.

Apart from two formal meetings, a number of informal discussions were held in respect of the Company's operating risks and financial evaluation in 2005. Entrusted by the Board, the committee is responsible for appointment of international evaluation institutions to re-evaluate the Company's material fixed assets according to market movements. In order to facilitate the direct communication with external auditors and fully perform its role in the Company's governance mechanism, the committee drafted the Regulation on Appointment of Accounting Firms by IRICO Group Electronics Company Limited, which has been approved by the Board. To strengthen its communication with the internal audit department, it will submit the Regulation on Relationship between the Audit Committee and the Internal Audit Department of IRICO Group Electronics Company Limited (Draft) for discussion and consideration to further coordinate the internal audit. The Audit Committee wishes to enhance the communications with external auditors and internal audit department for a more practical monitoring function to safeguard interests of investors and all relating parties.

4. Special Committees under the Board *(continued)*

External auditors

The Audit Committee reviewed the letter from PricewaterhouseCoopers to confirm its independence and objectiveness, held meetings with the firm to discuss the audit scope and fees, and approved scope and fees for any non-audit service provided by the firm at the Company's request.

For the year ended 31 December 2005, remuneration payable to the external auditors amounted to RMB4,700,000, all of which was for audit service. No non-audit service fee was incurred for the year. The audit fee has been approved by the Audit Committee and the Board.

In accordance with the Regulation on Appointment of Accounting Firms by IRICO Group Electronics Company Limited, the Audit Committee is responsible for appointment of external auditors. To ensure the audit quality and a fair price, for the initial appointment, accounting firms up to the Stock Exchange's requirements and relevant PRC rules are invited to submit their project service proposal. Currently, such work is in process. The Company will determine its auditors for the financial year ended 31 December 2006 based on the electing results disclosed, and submit the proposal for appointment of the accounting firm to the Board for discussion and approval, which is subject to the final approval and authorisation by the forthcoming 2005 Annual General Meeting.

Remuneration Committee

The Remuneration Committee is chaired by Mr. Tao Kui and comprises three independent non-executive directors, namely, Mr. Xu Xinzhong, Mr. Wang Jialu and Mr. Feng Bing. The committee is responsible for approval of remuneration policies for all directors and senior management members, including yearly distribution of share appreciation rights pursuant to the Company's share appreciation rights plan. Each year, the committee reviews the current remuneration policy and proposes to the Board to change the remuneration policy and system. It also assists the Company to formulate fair and transparent remuneration policies for directors and senior management and determination of their remunerations. For proposals on remunerations of other executive directors, the Remuneration Committee shall consult the Chairman and Chief Executive and when necessary, professional institutions. The Board and the Company have taken measures to ensure the committee's adequate resources for performance of its duties. Power of the Remuneration Committee has been approved by the Board and set out on the Company's web-page: http://www.irico.com.cn/_info/cn/news_txt_269.htm

4. Special Committees under the Board *(continued)*

Remuneration Committee *(continued)*

Apart from a number of informal discussions, the Remuneration Committee held one meeting in 2005, reviewing the Company's remuneration policies for its directors and senior management including Management Methods on Remuneration of Directors and Senior Management (Draft). Such management methods, together with modification opinion from the committee, will be submitted to the Board for consideration and approval. In addition, the committee discussed the difference between the limitation requirement on remunerations of functionaries in state-owned enterprises stipulated by State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") and market prices, as well as its restrictions and impact on establishment of executive director remuneration incentive mechanism. By doing such, the Remuneration Committee wishes to set up an effective remuneration incentive mechanism within the framework of SASAC's policies.

Remuneration policy for executive directors: The remuneration portfolio policy for executive directors is designed to link executive directors' remunerations with their performance and the Company's commissions to inspire their performance and re-election. In accordance with the Articles of Association, directors may not determine or approve their own remunerations.

Except for Mr. Yun Dajun, the other five executive directors of the Company are the functionaries who fall within the SASAC's management, and hence are subject to Provisional Management Methods for Remunerations of Enterprise Representatives (《中央企業負責人薪酬管理暫行辦法》) and Provisional Assessment Methods for Appraisal of Operating Results of Enterprise Representatives (《中央企業負責人經營業績考核暫行辦法》). These five directors' remunerations consist of basic salary, performance-linked salary and long-term incentive-linked salary. The basic salary is the annual basic income of a functionary, which is determined by reference to the business scale of the enterprise, responsibilities, and the average salary of local enterprises, the industry and the enterprise itself. The performance-basic salary is linked with the operating results appraisal and based on the basic salary, which is determined by reference to the appraisal grade and scores for the annual operating results of the enterprise representative. After the appraisal results are obtained, 60% of the performance-basic salary is paid while the payment of the remaining 40% will be deferred to the second year of re-election or resignation.

Based on their individual performance and the Company's operating status, the Remuneration Committee approved the share appreciation rights to be granted to the executive directors pursuant to the share appreciation rights plan as approved by shareholders.

Remuneration policy for non-executive directors: Remunerations of non-executive directors are subject to approval by the Company's shareholders' general meeting and determined after taking into consideration the complexity of the matters to be handled by them and their duties. Pursuant to the service contract entered into between the Company and the non-executive directors, the Company pays non-executive directors the out-of-pocket expenses incurred in performance of their duties (including attendance at the Company's meetings).

4. Special Committees under the Board *(continued)*

Remuneration Committee *(continued)*

A director's remuneration includes the amount paid by the Company and its subsidiaries for their management of affairs of the Company and its subsidiaries. Remunerations paid to each director of the Company in 2005 are as follows:

(a) Executive directors and Non-executive directors

Name	Remuneration and allowances	Housing welfare fund	Retirement benefits contribution
<i>Unit: RMB</i>			
Executive director			
Xing Daoqin	219,435	4,800	8,606
Tao Kui	233,147	5,232	8,606
Guo Mengquan	207,969	4,704	8,606
Zhang Shaowen	205,718	4,704	8,606
Yun Dajun	HK\$1,479,558	—	—
Non-executive director			
Zhang Xingxi*	265,380	4,440	13,632

* Remuneration of Mr. Zhang Xingxi derived from IRICO Group Corporation, the controlling shareholder of the Company.

(b) Independent non-executive director

Name	Emolument
Feng Fei	100,000
Xu Xinzhong	100,000
Feng Bing	100,000
Wang Jialu	100,000
Zha Jianqiu	100,000

Nomination Committee

In 2005, the Nomination Committee comprised six directors, namely, Xing Daoqin, Tao Kui, Guo Mengquan, Zhang Shaowen, Xu Xinzhong and Wang Jialu. As such composition was not in compliance with the requirement that non-executive directors shall be in the majority as set out in Recommended Best Practice A.4.4 of the Code, adjustment was made by the Board to it at the 7th Board meeting on 17 March 2006. The current Nomination Committee is chaired by Mr. Xing Daoqin and comprises Tao Kui, Guo Mengquan, Feng Fei, Feng Bing, Xu Xinzhong and Wang Jialu.

4. Special Committees under the Board *(continued)*

Nomination Committee *(continued)*

The committee provides the Board with its advice on appointment of directors, assessment of the Board's composition and re-election of the Board in accordance with certain agreed standards. The relevant standards include a director's proper professional knowledge and experience in the industry, personal integrity and commitment of adequate time. The Nomination Committee is responsible for choosing and recommendation of director candidates, including consideration of recommendations by others and, when necessary, making use of public recruitment.

By reference to the Recommendation A.4 of the Code, the Board formulated the Organisation Rules of the Nomination Committee, specifying the power of the Nomination Committee. The Organisation Rules of the Nomination Committee is set out on the Company's web-page: <http://www.irico.com.cn/cn/investor/guicheng.htm>

In 2005, the Nomination Committee held several informal discussions in respect of Mr. Ma Jinquan's resignation from his office as the Chairman of the Company, the election of Mr. Niu Xin'an as an executive director and other matters to be approved at the shareholders' general meetings. No formal meetings were held during the year. The Nomination Committee has audited the independence of independent non-executive directors.

5. Investor Relations and Shareholders' Interests

The Company undertakes that it shall make impartial disclosure and full and transparent reporting. The ultimate duty of the Chairman is to ensure efficient communication with the investors and the Board's understanding of the opinions from substantial shareholders. After the Company's announcement of its interim and annual results, the Board is committed to provide shareholders with clear and comprehensive results information of the Group by publishing interim and annual reports. The senior management shall preside over presentations and attend the meetings with institute investors and financial analysts for intercommunication in respect of the Company's results and business prospects, which is a regular function of investor relations. In addition, the Company arranges for roadshow for analysts and investors, from time to time, to foster direct communication and understanding between the investors and the management of the Company. Field visits by analysts and investors are welcomed for inspecting plants and business premises of the Company. In 2005, the Company and investors and/or analysts held 12 meetings and 2 roadshows in HK.

The Company Secretary and financial directors are responsible for day-to-day contacts between the Board and substantial shareholders. Investors and the public may access the Company's website for detailed information on the Company's businesses. The Company's interim and annual results announcements can also be downloaded there.

5. Investor Relations and Shareholders' Interests *(continued)*

The Company formulated and implemented the Management Methods on Information Disclosure and the Rules for Investor Relations Management, aiming to further standardise its information disclosure system to ensure the accuracy, completeness and timeliness of information disclosure and provide investors with high-quality services. The Board Office, with the Company Secretary as its head, formulates the procedures for gathering, verification and reporting of internal operating data and other information as well as the procedures for preparation and review of periodic reporting.

The Company encourages shareholders' attendance at shareholders' general meetings and gives a 45 days' notice of such meetings. The Chairman and directors attend the meetings to answer questions about the Company's businesses. All shareholders have rights to request the convening of an extraordinary general meeting and put forward proposals for shareholders' consideration in accordance with the Articles of Association. At the annual general meeting, each matter is put forward in form of a separate proposal and voted by way of poll based on the number of shares. Voting results of the annual general meeting are released in form of announcements and set out on the Company's website. Circulars despatched to shareholders set out the voting procedures by way of poll, and the rights of shareholders to demand voting by poll pursuant to Rule 13.39(4) of the Listing Rules. The chairman of the meeting ensures that all ballots are counted and filed.

According to the information available to the Company and as far as the directors are aware, at least 25% of the Company's total issued share capital is held by public shareholders.

The Company is committed to increase transparency and improve investor relations and has attached much importance to shareholders' responses to this regard. For any inquiry and advice, shareholders can contact the Company Secretary through the hotline (+86 910 333 3858) or by email (zcn@ch.com.cn; wyq@ch.com.cn) or raise the questions at the annual general meeting or the extraordinary general meeting. Inquiry can also be made through the above means to the Company Secretary for procedures concerning convening an annual general meeting or extraordinary general meeting and putting forward a proposal.

By order of the Board
Joint Company Secretaries
Zhang Chunning
Ng Yuk Keung

Xianyang, PRC
24 April 2006