

1. CORPORATE GOVERNANCE PRACTICE

With shares listed on both the Hong Kong Stock Exchange and the Shenzhen Stock Exchange, the Company is committed to improving its corporate governance in accordance with international corporate governance standards. The Board and the management understand that they are responsible for sound corporate governance practice and procedures with strict implementation, so as to ensure the interests of shareholders and maximise the investment return for the shareholders in the long run.

Following the coming into effect of the Code on Corporate Governance Practices (“the Code”) issued by Hong Kong Stock Exchange, the Company has further improved its corporate governance pursuant to the Code. During the reporting period, the Company has complied with all code provisions and most of the recommended best practices set out in the Code.

2. SECURITIES TRANSACTIONS OF DIRECTORS

The Board has adopted the relevant code for securities transactions by Directors in compliance with the Listing Rules. After specific enquiries to each of Directors, the Directors confirmed that they have complied with the standards set out in Appendix 10 to the Listing Rules.

3. INDEPENDENT NON-EXECUTIVE DIRECTORS

Throughout the reporting period, the Board has been in compliance with the Rule 3.10(1) of the Listing Rules, which requires a company to maintain at least three independent non-executive directors, and with the Rule 3.10(2) of the Listing Rules, which requires one of those independent non-executive directors to possess professional qualifications or to be specialised in accounting or relevant financial management.

Pursuant to the requirements of the Hong Kong Stock Exchange, the Company has conducted verifications on its independent non-executive directors in respect of their independence as follows: the Company has accepted the written confirmation of each of the independent non-executive directors ascertaining that they are in compliance with Rule 3.13 of the Listing Rules in respect of their independence. The Company is of the opinion that all of the independent non-executive directors are independent.

4. THE BOARD AND ITS SPECIAL COMMITTEES

(1) Composition of the Board and its Special Committees

The Board of the Company comprises 14 members including 1 Chairman, 7 executive directors, 1 non-executive director and 5 independent non-executive directors. The number of independent non-executive directors represents one-third of the Board.

The Board establishes 4 special committees the members of which are directors only. In particular, the majority of the members of the Audit Committee, Nomination Committee, Remuneration and Review Committee independent non-executive directors who are also the conveners.

These special committees report to the Board and submit proposals to the Board for consideration and approval.

4. THE BOARD AND ITS SPECIAL COMMITTEES (continued)

(1) Composition of the Board and its Special Committees (continued)

The composition of the Board and the attendance of the Directors at the meeting during the reporting period are as follows:

Name	Position in the Board	Attendance to meetings
LIU Jie	Chairman	100%
TANG Fuping	Executive Director	100%
YANG Hua	Executive Director	100%
YAO Lin	Executive Director	100%
HUANG Haodong	Executive Director	100%
FU Wei	Executive Director	100%
FU Jihui	Executive Director	100%
ZHANG Lifan	Executive Director	100%
YU Wanyuan	Non-executive Director	100%
Wang Linsen	Independent Non-Executive Director	100%
YAO Weiting	Independent Non-Executive Director	100%
LIU Yongze	Independent Non-Executive Director	100%
Francis Li Chak Yan	Independent Non-Executive Director	100%
WANG Xiaobin	Independent Non-Executive Director	100%

All the Directors, including the non-executive directors and independent non-executive directors are subject to a term of 3 years and may be re-elected.

4. THE BOARD AND ITS SPECIAL COMMITTEES *(continued)*

(2) Duties and Operation of the Board

The Board reports to general meetings and exercises the following powers:

- i. to convene and report to shareholders at the general meetings;
- ii. to implement the resolutions passed at the general meetings;
- iii. to decide the Company's business and investment plans;
- iv. to prepare the Company's annual budget and budget implementation proposal;
- v. to prepare the Company's profit distribution plan and loss recovery plan;
- vi. to prepare the proposals for increases or reductions of the Company's registered capital and the issue of corporate debentures;
- vii. to draw up plans for the merger, division or dissolution of the Company;
- viii. to determine the Company's internal management structure;
- ix. to appoint or dismiss the Company's general manager; to appoint or dismiss a deputy general manager and other senior management members (including financial controller) as nominated by the general manager, and determine their remunerations;
- x. to prepare the Company's basic management system; and
- xi. to prepare proposed amendments to the articles of association of the Company.

Save for the resolutions in respect of the matters specified in sub-paragraphs vi, viii and xi above which shall be passed by at least two-thirds of the directors, the resolutions in respect of other matters may be passed by at least half of the directors.

The Board of the Company is responsible for preparation of the financial statements for each financial period, which shall reflect the operating status and results and cash flows of the Company for each period on a true and fair basis.

In 2005, the Board held a total of 10 meetings.

4. THE BOARD AND ITS SPECIAL COMMITTEES (continued)

(3) Remuneration and Review Committee

Members of the Remuneration and Review Committee and their attendance at the meetings during the reporting period are as follows:

Name	Position	Attendance to meetings
WANG Linsen	convenor	100%
YANG Hua	member	100%
LIU Yongze	member	100%
Francis LI Chak Yan	member	100%

Main duties of the Remuneration and Review Committee are:

- i. to review the assessment criteria of directors and senior management members; to carry out the assessment and to provide advices; and
- ii. to review the remuneration policies and terms of employment of directors and senior management members.

In 2005, the Remuneration and Review Committee of the Company held 1 meeting. At the meeting, the performance of Directors and senior management members of the Company during 2004 was assessed and the remunerations of them during 2004 were reviewed, and submitted to the Board for consideration.

4. THE BOARD AND ITS SPECIAL COMMITTEES *(continued)*

(4) Nomination Committee

Members of the Nomination Committee and their attendance at the meetings during the reporting period are as follows:

Name	Position	Attendance to meetings
YAO Weiting	convenor	100%
LIU Jie	member	100%
YANG Hua	member	100%
WANG Linsen	member	100%
LIU Yongze	member	100%

Main duties of the Nomination Committee are:

- i. to review the criteria and procedures of selection of directors and senior management members, and provide suggestions;
- ii. to conduct extensive search for qualified candidates of Directors and senior management members; and
- iii. to access the candidates for Directors and senior management members and provide the relevant recommendations.

In 2005, the Nomination Committee of the Company held a total of 4 meetings to nominate the relevant candidates for the Directors and senior management in accordance with the relevant qualification requirements and the relevant laws and regulations and the articles of association of the Company for the consideration of the Board.

4. THE BOARD AND ITS SPECIAL COMMITTEES (continued)

(5) Audit Committee

Members of the Audit Committee and their attendance at the meetings during the reporting period are as follows:

Name	Position	Attendance to meetings
LIU Yongze	convenor	100%
YU Wanyuan	member	100%
YAO Weiting	member	100%
Francis LI Chak Yan	member	100%

Main duties of the Audit Committee are:

- i. to make proposals in relation to the engagement and termination of engagement of the external auditors;
- ii. to supervise the Company's internal auditing process and implementation;
- iii. to facilitate the communications between internal auditing department and external auditors;
- iv. to review financial information of the Company and its disclosure; and
- v. to review the Company's internal control system.

In 2005, the Audit Committee of the Company held a total of 4 meetings. At the meetings, the Audit Committee reviewed the quarterly, interim and annual financial statements and financial information set out in the quarterly, interim and annual reports of the Company, reviewed the internal control system of the Company, and make recommendations in relation to the engagement of external auditors.

The Audit Committee and the management of the Company has reviewed the accounting policy adopted by the Company, and has communication on the issues in relation to auditing, internal control and financial statements, including review for the audited financial statements for the year ended 31 December 2005.

5. CHAIRMAN AND GENERAL MANAGER

The positions of Chairman and General Manager of the Company are assumed by different persons with definite division of duties.

Duties of the Chairman

- i. to preside over the shareholders' general meetings and to convene and preside over the Board meetings;
- ii. to supervise the implementation of resolutions of the Board; and
- iii. to exercise other powers conferred by the Board.

Duties of the General Manager

The General Manager of the Company reports to the Board and exercises the following powers:

- i. to take charge of the Company's operation and management and to implement the resolutions of the Board;
- ii. to implement the Company's annual business plan and investment plan;
- iii. to make proposals in relation to the Company's internal management structure;
- iv. to make proposals in relation to the Company's basic management system;
- v. to prepare the basic rules and regulations of the Company;
- vi. to make proposals in relation to the appointment and the termination of appointment of the deputy general manager or other senior management members of the Company (including financial controller);
- vii. to make proposals in relation to the appointment and the termination of appointment of the management personnel other than those required to be appointed or terminated by the Board; and
- viii. to exercise other powers conferred under the articles of association or granted by the Board.

6. AUDITORS' REMUNERATION

KPMG and KPMG Huazhen were appointed at the 2004 annual general meeting of the Company as the international and domestic auditors of the Company, respectively, for the year 2005. The remuneration of the Company's auditors for 2005 amounted to HK\$3,500,000. The Company reimbursed out of pocket expenses arising from auditing. KPMG and KPMG Huazhen have been appointed as international and domestic auditors of the Company for nine consecutive years for auditing services.

For the purpose of the Company's acquisition of the entire interests in ANSI held by Angang Holding in 2005, KPMG and KPMG Huazhen were respectively appointed as international and domestic auditors of the Company for the material acquisition of assets to provide financial auditing and related services. The auditing fees in connection therewith paid to KPMG and KPMG Huazhen were HK\$6,244,000 and Rmb5,400,000 in 2005.