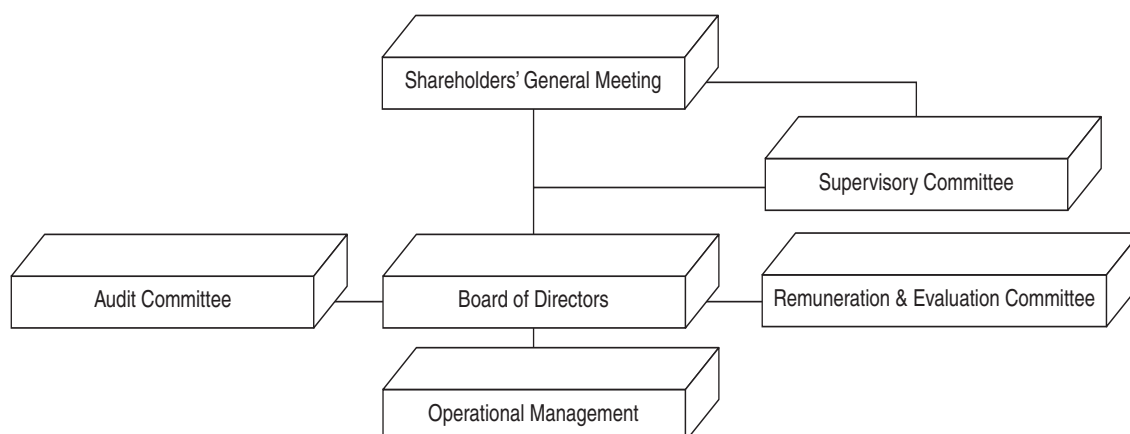


Corporate Governance Report

REPORT ON CORPORATE GOVERNANCE PRACTICES

The following diagram sets forth the Company's corporate governance structure:



(a) Corporate Governance Practices

Good corporate governance practices are essential for a company listed in two regions. The Board and the Operational Management are convinced that, in order to improve accountability, enhance transparency, maintain the Company's normal operations and safeguard the interest of the Company and its shareholders, the Company shall strictly carry out high standards of corporate governance practices. The Board acknowledges its responsibility to ensure the formulation of good corporate governance practices and procedures, which shall be prepared strictly in compliance with the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Listing Rules. The Company was committed to comply with such corporate governance practices and procedures to the best of its ability throughout 2005. However, a few deviations occurred when the Company complied with such corporate governance practices and procedures, as a result of the fact that Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong, being executive Directors of the fifth Board of the Company, were subject to enforcement measures adopted by the PRC police department for alleged economic crimes.

Save as disclosed in this corporate governance report, to the best knowledge of the Company and as far as information is available, the Company has complied with the Code during the Reporting Period.

(b) Securities Transactions by Directors

The Company has adopted all the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its code for securities transaction by Directors. Having made specific enquiries, Mr. Liu Cong Meng, Mr. Li Zhen Hua, Mr. Fang Zhi Guo, Mr. Li Kung Man, Mr. Xu Xiao Lu, and Mr. Chan Pei Cheong, Andy, Directors of the fifth Board of the Company, have confirmed that they have fully complied with the Model Code throughout the year.

In order to regulate dealings of the Company's securities by some of its employees who may be in possession of certain unpublished price sensitive information of the Company as a result of the nature of their work, the Company plans to make relevant written requirements and guidelines to its employees on no less exacting terms than the Model Code.

Deviation event: Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong, being executive Directors of the fifth Board of the Company, were subject to enforcement measures adopted by the PRC police department for alleged economic crimes, and none of them can be contacted as at the date hereof, as such, the Company is not able to confirm whether they have complied with the Model Code.

Corporate Governance Report

Governance Structure

(c) The Board of Directors

During the Reporting Period, the then Board is the fifth Board of the Company, which consists of nine Directors, namely Mr. Liu Cong Meng, Mr. Li Zhen Hua, Mr. Fang Zhi Guo, Mr. Gu Chu Jun, Mr. Yan You Song and Mr. Zhang Hong as executive Directors and Mr. Li Kung Man, Mr. Xu Xiao Lu and Mr. Chan Pei Cheong, Andy as independent non-executive Directors. All Directors have a term of office commencing from 15 January 2005 to 26 June, 2006, except that Mr. Chan Pei Cheong, Andy has a term of office commencing from 15 January 2005 to 23 January 2006. On 26 June 2006, the sixth Board of the Company was elected and established at the first extraordinary general meeting of the Company in 2006, where Mr. Tang Ye Guo, Ms. Yu Shu Min, Mr. Su Yu Tao, Mr. Xiao Jian Lin, Mr. Lin Lan and Mr. Zhang Ming were appointed as executive Directors, and Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren were appointed as independent non-executive Directors. Members of the Board have different industry backgrounds, possessing rich experience in fields such as science and technology, corporate management and accounting. The biographies and roles of the aforesaid Directors are set out on pages 22 to 27 of this annual report.

The primary duties of the Board include: convening shareholders' general meetings and reporting its work to the shareholders' general meetings, and exercising its decision-making rights according to powers and duties conferred by the shareholders' general meetings in aspects including strategic development plans for the Company, establishment of the management structure, investment and financing plans, financial monitoring, disposition of material assets, material transactions and human resources. The Board is responsible for formulating the Company's overall strategy and annual business and budget plans, and ensure that its production operations are properly planned, authorised, implemented and monitored. In addition, the Board is in charge of the appointment of members of the Operational Management and also the supervision and evaluation of the performance of the Operational Management. The Board may establish, within its structure, special committees such as the audit committee (the "Audit Committee") and the Remuneration and Evaluation Committee according to relevant resolutions approved at shareholders' general meetings.

Directors are also responsible for supervising and preparing accounts for each fiscal period to ensure that such accounts truly and fairly reflect the Company's business conditions, results and cash flow performance during the period. The Operational Management should provide adequate explanations and sufficient information to the Board so as to enable the Board to make an informed assessment of the financial information and other information submitted to Board for approval. In preparing the accounts ended 31 December 2005, the Directors:

- selected and consistently applied the appropriate accounting policies;
- approved early adoption of all standards as set out in Hong Kong Financial Reporting Standards that are consistent with International Financial Reporting Standards; and
- made prudent and reasonable judgements and estimates and prepared the accounts on an ongoing concern basis.

Deviation event: The Company has not fully complied with provisions C.1.1 and C.1.2 of the Code in 2005. Since the executive Director of the fifth Board Mr. Gu Chu Jun and others were suspected for alleged economic crimes, the accounts of the Company for the year ended 31 December 2004 did not truly and fairly reflect the Company's business conditions and results during the relevant period.

The Operational Management is responsible for implementing decisions made by the Board and making its own decisions on the Company's business operation matters within the scope of delegation by the Board, including: carrying out the Company's production and operation management, implementing the Company's annual operation and investment plans, preparing the proposal of the Company's internal control structure, formulating the Company's basic management system and setting up the Company's basic regulations. Meanwhile, as requested

Corporate Governance Report

by the Board, the Operational Management reports to the Board the conclusion of the Company's major contracts, status of the performance of the contract, use of capital and the Company's profit and loss conditions and ensuring that such information is true and complete.

Deviation event: The Company has not fully complied with provision A.6.2 of the Code in 2005. Such deviations were due to the fact that the executive Director of the fifth Board Gu Chu Jun and others were suspected for alleged economic crimes, which led the former Operational Management (the Company appointed a new Operational Management on 16 September 2005) to be unable to report the conclusion of the Company's major contracts, contract implementation status, use of capital and the Company's profit and loss conditions to the Board on a timely, true and complete basis.

The Directors are subject to selection or replacement at shareholders' general meetings. Both the Board and the Supervisory Committee have the right to propose to the Shareholders' General Meetings for nomination or replacement of the Directors. In addition, shareholders who individually or jointly hold more than 5% of the total number of the Company's issued shares with voting rights may propose to the Shareholders' General Meeting for replacement of the Directors. Each Director has a term of office of three years. Upon expiry of his term, a Director may be re-elected for a successive term. A Director may also resign prior to the expiry of his current term.

The Company has formulated relevant rules in compliance with the Listing Rules and related regulations to remind the Directors that they shall perform their obligations, including making disclosures to regulatory authorities on a timely basis about their interests, potential conflicts of interests and changes in their personal information details, etc. Each Director also undertakes that he has sufficient energy and time to handle the Company's affairs.

The Board shall convene at least four meetings a year, the chairman shall be responsible for convening the meeting, and a written notice of meeting shall be given to all Directors 14 days before the date of the meeting and the documents containing a meeting agenda and accompanying supporting papers shall be sent to each Director at least 3 days before the date of the meeting. Where an extraordinary board meeting is convened, a written notification shall be sent to all Directors 10 days before the date of the meeting. A Director may attend the meeting in person or by telecommunication means, or entrust another Director as his proxy to attend the meeting on his behalf. In addition, the Board may resolve matters by way of written resolution in lieu of the convening of a Board meeting, provided that the Directors have sufficient opportunities to express their opinions.

There is an open atmosphere for Directors to contribute their views freely at meetings, and major decisions will only be made after full discussion at Board meetings. Directors acknowledge their responsibilities of having to act in the interest of the public and the Company, having particular regard to the interests of the medium and small shareholders, and ensure in the event that the shareholders' interests are in conflict with any other's interests, the former shall prevail.

Unless the Board requires otherwise, a general manager who is not a Director may be present at Board meetings and has the right to receive notices of the meetings and relevant documents. In addition, he may also deliver speeches at the meetings. The Operational Management has the responsibility to provide adequate and timely information to the Board and Board committees, so as to enable the Directors to make informed decisions. The information provided by the Operational Management shall be complete and reliable. In order to perform their duties diligently, the Directors may, based on the information provided by the Operational Management, make further queries to the Operational Management and require the Operational Management to provide other information (other than the information provided voluntarily by the Operational Management).

All Directors have access to the Company Secretary, who is responsible for ensuring that the Board procedures and all applicable rules and regulations are complied with, and advising the Board on compliance matters.

The Board is provided with sufficient resources to discharge their duties including, inter alia, the retention of external advisers at the Company's expense, as they deemed necessary by the Board. Individual Directors may also retain external advisers, at the Company's expense, to provide advice on any specific matter.

Corporate Governance Report

Minutes of Board meetings shall record in sufficient detail the matters considered by the Board and decisions reached, including any doubt and opposition expressed by the Directors. Draft and final versions of the minutes of the Board meetings shall be submitted to the Directors for their comments and for record-keeping, this will be done within a reasonable time after the Board meeting. Minutes of the meeting shall be signed by the Directors present at the meeting and the recorder.

Minutes of Board meetings shall be kept by the secretary to the Board, and the secretary to the Board shall also keep other Board documents and relevant information, for the Directors' reference at any time. If the Directors have any doubt about the foregoing information, the Company will take measures to respond as soon as possible.

In 2005, the fifth Board of the Company convened nine meetings to discuss the Company's operating results, overall strategies, investment schemes as well as operating and financial performance. The Directors took part in the meetings in person or by correspondence or proxy, and the attendance is detailed in the following table:

| | Number of meetings for the year | Number of attendance in person | Number of attendance in person by correspondence | Number of attendance in person by correspondence by proxy | Attendance rate for the year |
|--|---------------------------------|--------------------------------|--|---|------------------------------|
| <i>Executive Directors</i> | | | | | |
| Liu Cong Meng | 9 | 9 | 0 | 0 | 100% |
| Li Zhen Hua | 9 | 9 | 0 | 0 | 100% |
| Fang Zhi Guo | 9 | 6 | 2 | 1 | 100% |
| Gu Chu Jun | 9 | 3 | 0 | 0 | 33% |
| Yan You Song | 9 | 3 | 0 | 0 | 33% |
| Zhang Hong | 9 | 1 | 1 | 1 | 33% |
| <i>Independent Non-executive Directors</i> | | | | | |
| Li Kung Man | 9 | 6 | 3 | 0 | 100% |
| Xu Xiao Lu | 9 | 5 | 4 | 0 | 100% |
| Chan Pei Cheong, Andy | 9 | 4 | 5 | 0 | 100% |

As at the date of this annual report, the Directors of the sixth Board of the Company confirmed that the following significant uncertainties will affect the operation and development of the Company:

1. As Mr. Gu Chu Jun, the former chairman of the Company, was suspected of having committed economic crime, the society became suspicious about the prospect of the Company during the Reporting Period. The Company was plunged into crisis with stagnant production and sales. Despite the Company has resumed its normal production, operation and sales with the help of Hisense Group since September 2005, the incident has caused uncertain effects on the brand name and marketing channels of the Company.
2. As at the date of this report, the Group has taken legal actions against Guangdong Greencool and its related companies (the "Greencool Companies") for damaging the interests of the Group, and has claimed compensation for the losses. However, as the Group is not completely aware of the assets and liabilities situation of the Greencool Companies, there are risks that such claims, even if awarded, may be unable to enforce. Therefore, the outcome of such claims may have a material impact on the assets of the Company.

Corporate Governance Report

(d) Chairman and President

The Chairman and president of the Company are appointed by the Board. The persons appointed as the Chairman and president of the Company during the period from 1 January 2005 till the date herein are as follows:

| | 1 January 2005 - 12 August 2005 | 12 August 2005 - 26 June 2006 | 26 June 2006 to the date herein |
|-----------|---|---|--|
| Chairman | Gu Chu Jun | Liu Cong Meng (Acting) | Tang Ye Guo |
| | 1 January 2005 - 16 September 2005 | 16 September 2005 - 26 June 2006 | 26 June 2006 to the date herein |
| President | Liu Cong Meng | Tang Ye Guo | Su Yu Tao |

The Chairman is responsible for presiding and convening AGMs and Board meetings, ensuring proper function of the Board and that the Board will review and discuss all the significant issues in a timely and effective manner, reviewing the results of implementation of the Board's resolutions as well as performing duties of the legal representative of the Company. The president is in charge of and responsible for the production, operation and management of the Company, organising resources for implementing the Board's resolutions, the Company's annual operation and investment plans and making decisions on other issues with the authorities granted to him by the Board.

Deviation Event:

- (1) The Company has not fully complied with provision A2.1 of the Code during the Reporting Period. As the Company's ex-Chairman Mr. Gu Chu Jun was subject to enforcement measures adopted by the PRC police department for alleged economic crimes, the Company appointed the then president Mr. Liu Cong Meng to act as Chairman during the period from 12 August 2005 to 16 September 2005, resulting in the fact that the Company was not able to fully comply with provision A2.1 of the Code in relation to the requirement that "the roles of Chairman and president should be separate and should not be performed by the same individual" during the period from 12 August 2005 to 16 September 2005;
- (2) The Company has not fully complied with provision A2.3 of the Code during the Reporting Period. As the Company's ex-Chairman Mr. Gu Chu Jun was involved in the alleged economic crimes, during the Reporting Period, the Company was not able to fully comply with provision A2.3 of the Code in relation to the requirement that "the Chairman is responsible for ensuring that Directors receive adequate information in a timely manner, which must be complete and reliable".

(e) Independent Non-Executive Directors

The fifth Board of the Company consists of three independent non-executive Directors, which account for one-third of the total number of Directors. The independent non-executive Directors of the fifth Board of the Company are in compliance with Rules 3.10 (1) and (2) of the Listing Rules and are assumed by persons who are independent of any Directors, Supervisors, chief executives and substantial shareholders (as defined in the Listing Rules) or such individuals or corporate bodies without any connection thereto (the "independent third party"). The Company has received confirmation of independence from each of the independent non-executive Directors.

On 26 June 2006, the sixth Board of the Company was established, among which there are three independent non-executive Directors, accounting for one third of the total members of the new Board. The independent non-executive Directors of the sixth Board meet the requirements set out in Rule 3.10(1) and (2) of the Listing Rules. The independent non-executive Directors are independent as they are persons or corporate persons (independent third parties) who are completely independent from or have no relations with Directors, Supervisors, chief executives and substantial shareholders (as defined in Listing Rules).

Corporate Governance Report

The functions performed by the independent non-executive Directors include, but not limited to:

- (1) participating in Board meetings to bring in independent judgment to such issues as corporate strategy and policy, corporate performance, accountability, resources, key appointments and standard of conducts;
- (2) taking the lead where potential conflicts of interests arise;
- (3) serving on the Audit Committee, Remuneration and Evaluation Committee and other committees relating to corporate governance upon invitation; and
- (4) scrutinising the Group's performance in achieving agreed corporate goals and objectives, and monitor the reporting of performance.

(f) Remuneration and Evaluation Committee

The Company has established the Remuneration and Evaluation Committee of the fifth Board during the Reporting Period, the members of which consist of Mr. Liu Cong Meng, Mr. Li Zhen Hua, Mr. Xu Xiao Lu, Mr. Li Kung Man and Mr. Chan Pei Cheong, Andy. Among the members, Mr. Xu Xiao Lu, Mr. Li Kung Man and Mr. Chan Pei Cheong, Andy are the independent non-executive Directors of the fifth Board and Mr. Li Kung Man acts as the chairman of the Committee.

The main functions performed by the Remuneration and Evaluation Committee are set out below:

- (1) studying the standard for assessment of Directors and senior management of the Company, conducting the assessment and putting forward suggestions; studying and examining the remuneration policy and plan for the Directors and senior management of the Company;
- (2) carrying out the responsibility delegated from the Board, i.e. to determine the specific remuneration packages of all executive Directors and senior management of the Company, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations of the remuneration of non-executive Directors to the Board;
- (3) the Remuneration and Evaluation Committee should consider factors such as:
 - the salaries paid by comparable companies, the time commitment and responsibilities of the Directors, the employment conditions elsewhere in the Group and the desirability of performance-based remuneration;
 - reviewing and approving performance-based remuneration by reference to corporate goals and objectives passed by the Board from time to time;
 - reviewing and approving the compensation payable to executive Directors and senior management of the Company in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms; and
 - reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with the relevant contractual terms.

Corporate Governance Report

The Remuneration and Evaluation Committee shall have access to professional advice if considered necessary.

The Directors and senior management of the Company cannot decide on their own remuneration.

The aim of remuneration policies adopted by the Remuneration and Evaluation Committee is to attract and retain Directors and senior management who faithfully and diligently discharge their duties and are loyal to their responsibilities and, accordingly, is extremely important to the Company.

The Remuneration and Evaluation Committee of the fifth Board of the Company held one meeting during the year 2005. All members of the Remuneration and Evaluation Committee attended the meeting in person, and the remuneration policy for the new senior management of the Company who took office on 16 September 2005 was determined at the meeting.

Details of the remuneration of the Directors and the senior management of the Company for the year ended 31 December 2005 are set out on pages 22 to 23 of this annual report.

On 26 June 2006, the Company established the Remuneration and Evaluation Committee of the sixth Board, comprising executive Directors of the sixth Board Mr. Tang Ye Guo and Ms. Yu Shu Min and independent non-executive Directors Mr. Zhang Sheng Ping, Mr. Lu Qing and Mr. Cheung Yui Kai, Warren, with Mr. Zhang Sheng Ping as Chairman of the committee.

(g) Director Nomination

The Company has not yet established a nomination committee.

The Board and the Supervisory Committee of the Company are both entitled to make proposals to the annual general meeting of the Company ("AGM") for the nomination of a candidate to be a Director or for the replacement of a Director.

Any shareholders holding or jointly holding 5% or more of the shares with voting rights issued by the Company to the public are entitled to propose to the AGM for replacing a Director. When such shareholders want to nominate a director as a candidate, the maximum number of candidates that the shareholder can nominate will be determined by the ratio of one candidate for every 5% of such shares for (the balance, if less than 5%, it shall be ignored).

The above-mentioned candidates must possess relevant work experience and adequate qualification. The intent of the candidate as well as a notice of his acceptance of nomination must be submitted to the Board within a specific period of time. In addition, the nominee should provide a written commitment prior to the AGM that he accepts the nomination and guarantees the truthfulness and completeness of the information about him disclosed thereby and promises that he will duly perform his duties as a Director after his appointment.

(h) Auditors' Remuneration

In 2005, the Company appointed Shenzhen Dahua Tiancheng Certified Public Accountants and BDO McCabe Lo Limited as the Company's domestic and foreign auditors, respectively. Their remuneration was determined by the fifth Board as authorised in the AGM. The Company agreed to pay a total of HK\$5,600,000, for the remuneration of its domestic and foreign auditors for the provision of review and audit services on the financial statements for the six months ended 30 June 2005 and year ended 31 December 2005. During the Reporting Period, the Company appointed KPMG to investigate the material cash flows incurred during the period of 1 October 2001 to 31 July 2005. For this appointment, the Company paid KPMG a fee of RMB3,300,000.

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(i) Audit Committee

The Board holds ultimate responsibility for the Company's internal control system. To achieve the best corporate governance practice, the Company has set up an Audit Committee to review the efficiency of the relevant systems.

The Audit Committee mainly performs the following duties under the delegation by the Board:

1. making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and dealing with any matter regarding the resignation or dismissal of such auditors;
2. reviewing and monitoring the external auditors' performance, taking responsibilities of the communication between the internal and external auditors of the Company;
3. developing and implementing policies on the engagement of auditors to supply non-audit services, and making recommendations to the Board on the related issues;
4. reviewing the financial information and other relevant information of the Company;
5. reviewing the financial reporting system, the internal control procedures and the related issues;
6. reviewing the effectiveness of the internal control procedures of the Company; and
7. reporting the uncertainties if there exists material uncertainties relating to events or conditions that may adversely affect the Company's ability to continue as a going concern.

The members of the fifth Audit Committee of the Company include Mr. Chan Pei Cheong, Andy, Mr. Li Kung Man and Mr. Xu Xiao Lu. Mr. Chan Pei Cheong, Andy is the chairman of the Committee.

In 2005, the Audit Committee of the fifth Board of the Company held two meetings. All members of the Audit Committee attended the two meetings in person. All discussions and resolutions passed at the meetings were recorded in accordance with relevant rules and filed after being reviewed and signed by all members of the Audit Committee.

In 2005, the Audit Committee of the fifth Board of the Company accomplished the following tasks:

1. reviewing the annual and interim financial reports, together with the advices provided by the auditors and the responses of the senior management of the Company;
2. making recommendations on the Company's internal control and the Company's control over its subsidiaries;
3. reviewing the accounting policies adopted by the Group and the matters concerning accounting practice;
4. reviewing the connected transactions of the Company and ensuring that the connected transactions are in compliance with the principles of fairness, impartiality and transparency with sufficient protection of the minority shareholders; and
5. making recommendations on significant events of the Company and reminding senior management of the Company of the relevant risks.

Deviation Event: Deviations occurred when the Company tried to comply with provision C3.3 of the Code. As the Company's executive Director of the fifth Board Mr. Gu Chu Jun was suspected of committing economic crimes, the ability of the Audit Committee of the fifth Board to fulfill its duties and to receive information from the Company was restricted. The Audit Committee was unable to guarantee the effective operation of the Company's internal control system.

Corporate Governance Report

Internal Control and Internal Audit

The Company has established the internal control system for reviewing the Company's financial, operating and supervisory control procedures to protect shareholders' interests and the Company's assets. The Audit Committee is responsible for reviewing the effectiveness of the internal control systems.

The Company has established the internal audit department for implementing the internal control functions to inspect, monitor and assess the disclosure of financial information, operations and internal control activities of the Company and its subsidiaries on a regular basis and as needed, based on the potential risks and the importance of internal control systems for different businesses operations. In particular, the internal audit department of the Company will audit the financial income and expenses of the Company and its subsidiaries; review the financial control, sales and procurement operations and advertisements and give out advice; audit the core business of the Company's subsidiaries which have larger business volume, including inventory, accounts receivables, current accounts and expenses; and in addition audit and supervise the tendering activities of the Company and its subsidiaries. The internal audit department will make proposals to the Operational Management according to the audit findings.

The fifth Board of the Company reviewed the effectiveness of the internal control system of the Company during the Reporting Period, and during the review, the Board observed major problems in the current internal control system of the Company, which resulted in Mr. Gu Chu Jun and other persons embezzling the Company's assets through illegal means. In view of this, the Board has made the following plans for improvement:

1. to formulate an internal control policy for the Company based on the experience of the defects in the internal control system of the Company in previous years, and to make an overall summary and description of the objective, content, method and duty of the Company's internal control;
2. in the year 2005, the Company's ex-chairman Mr. Gu Chu Jun and other persons were suspected of committing economic crimes. As a result, the internal audit department of the Company faced many obstacles in the performance of its duties in terms of its independence and the scope of the internal audit. Mr. Gu Chu Jun and other persons used different methods to avoid the Company's internal control system and to embezzle the Company's assets. In order to deal with this situation, the Board has decided to use its best endeavours to guarantee the independence of the internal audit department and to expand the scope of the internal audit. This will allow for (1) more effective supervision of controlling shareholders and Operational Management and (2) the timely and effective rectification of problems discovered by the internal audit, in order to protect the interests of the Company and the shareholders as a whole.

(j) General Meeting

As the highest authority of the Company, the general meeting exercises its rights under the laws to make decisions on significant events of the Company. The Company establishes and maintains different communication channels with its shareholders through the publication of annual reports, interim reports and press releases. To promote effective communication, the shareholders may choose to receive shareholder corporate communication electronically. The convening of AGM or extraordinary general meeting ("EGM") (if any) serve as a direct communication channel between the Board and the shareholders. All Directors understand that the general meeting provides an effective platform for direct communications between the Directors, supervisors and other senior management members and shareholders, where they shall exchange views, report to shareholders with regard to the Group's operations and answer shareholders' questions to secure effective communications with shareholders. Accordingly, the Company has attached much importance to the general meeting. In addition to a 45-day prior notice before the holding of the meeting, the Company requires that all Directors and senior management members shall try their best endeavours to attend the general meetings. Also, all shareholders are encouraged to attend the general meetings, at which shareholders who individually or jointly hold 5% or more of the Company's issued shares with voting rights shall be entitled to put forward a new motion to the Company. At the general meetings, shareholders can make enquiries about the Company's operation status or financial information, and the chairman of the Board or the chairman of the Committees under the Board should reply to the shareholders' questions.

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The general meeting will decide on each resolution separately.

The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided in relation to:

- (a) the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and
- (b) the detailed procedures for conducting a poll and to answer any questions from shareholders whenever voting by way of a poll is required.

Minutes shall be kept for the shareholders' general meeting. Such minutes shall record without limitation to the following:

- (1) the number of shares with voting rights present at the shareholders' general meeting, and the percentage of such shares in the Company's total number of shares;
- (2) the numbers of shares with voting rights held respectively by the shareholders of domestic listed shares (including their proxies) and foreign listed shares (including their proxies) who attend the shareholders' general meeting, and the respective percentages of such shareholdings to the Company's total number of shares;
- (3) the date and venue of the shareholders' general meeting;
- (4) the agenda and the name of the person chairing the shareholders' general meeting;
- (5) the main points of the speech made by each speaker in relation to each resolution;
- (6) the voting results for each resolution (in recording the voting results, the details of the voting made by the shareholders of domestic listed shares and foreign listed shares respectively shall also be included); and
- (7) the enquiries and suggestions raised by the shareholders and the responses and explanations given by the Board and the Supervisory Committee.

In 2005, the Company convened an AGM and an EGM. The shareholding held by shareholders who attended the AGM and the EGM represented 36.60% and 50.60%, respectively, of all the issued shares of the Company.

(k) Supervisory Committee

The Supervisory Committee was established in accordance with the PRC laws. It independently performs its supervisory duties under the laws to protect the legal interests of shareholders, the Company and its staff. It also investigates the Company's finances as required by the articles of association of the Company, and supervises misconducts of the Directors and members of senior management of the Company who disobey laws or administrative regulations in performing their duties. The fifth Supervisory Committee of the Company is composed of two shareholders' representatives and one staff representative of the Company, with Mr. Zeng Jun Hong and Mr. Bai Yun Feng as the shareholders' representatives, Ms. He Si as the staff representative, and Mr. Zeng Jun Hong as the chairman of the Supervisory Committee. As at the date of this annual report, the Company was not able to contact Mr. Zeng Jun Hong. Ms. He Si resigned as the staff representative supervisor on 18 May 2006, and the Company's staff union committee convened a meeting on 23 June 2006, at which Mr. Liu Zhan Cheng was elected as the fifth staff representative supervisor of the Company. Details of the above-mentioned supervisors' biographies are set out on pages 26 of this annual report.

Details relating to the work performed by and the meetings convened by the fifth Supervisory Committee of the Company in 2005 are set out in page 79 of this Annual Report.