

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensuring high standard of corporate governance and establishing a formal and transparent procedure to protect and maximise the interests of shareholders. In the opinion of the directors, the Company complied with the code provisions (the "Code Provisions") as set out in Appendix 14 "Code of Corporate Governance Practices" to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the period under review, except Code Provision A.4.1.

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. None of the existing non-executive directors of the Company is appointed for a specific term, which constitutes a deviation from Code Provision A.4.1. However, all of the non-executive directors are subject to retirement by rotation in accordance with the Company's Articles of Association. As such, the Company considers that sufficient measures are in place to ensure that the corporate governance practices of the Company are no less exacting than those of the Code Provisions.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules to govern securities transactions by the directors. After having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code and its code of conduct throughout the period under review.

AUDIT COMMITTEE

The audit committee of the Company was established in compliance with rule 3.21 of the Listing Rules. The role and function of the audit committee include supervising the accounting and financial reporting procedure and auditing the financial statements of the Group, examining and monitoring the internal control system adopted by the Group and reviewing the relevant work of the Group's external auditors. Members of the audit committee include three independent non-executive directors, Mr. Cao Guixing (chairman of the audit committee), Prof. Liu Wei and Dr. Jin Lizuo.

The audit committee has reviewed the unaudited condensed interim consolidated financial statements for the six months ended 30 June 2006.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established in accordance with the Code Provisions. The role and function of the remuneration committee include the determination of the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. Members of the remuneration committee include the executive chairman of the Company, Mr. Zhang Honghai, and three independent non-executive directors, Mr. Cao Guixing, Prof. Liu Wei and Dr. Jin Lizuo (chairman of the remuneration committee).

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group. The Company convened meeting periodically to discuss financial, operational and risk management control. During the period under review, the Board has reviewed the operational and financial reports, budgets and business plans provided by the management.