

The Company had complied throughout the reporting period with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

BOARD OF DIRECTORS

In 2006, the Board of Directors (the "Board") of the Company comprises five Executive Directors, namely, Mr Zhao Liqiang, Mr Zhou Qingquan, Mr Zhao Yuanchang, Mr Wu Hongju and Mr Guo Xianpeng; seven Non-Executive Directors, namely, Mr Ma Xingrui (Chairman) (appointed in July 2006), Mr Rui Xiaowu (Chairman) (resigned in July 2006), Mr Gong Bo, Mr Chen Dingyi, Ms Chan Ching Har, Eliza, Mr Wang Yujun and Mr Xu Jianhua (appointed in July 2006); and three Independent Non-Executive Directors, namely, Mr Lee Hung Sang, Mr Chow Chan Lum, Charles and Mr Luo Zhenbang.

Mr Ma Xingrui (appointed in July 2006) and Mr Rui Xiaowu (resigned in July 2006) have been appointed as Chairman of the Company consecutively, and Mr Zhao Liqiang has been appointed as President of the Company. Each of Mr Ma Xingrui and Mr Rui Xiaowu are not related to Mr Zhao Liqiang in financial, business or family aspects. The roles of Chairman and President have been divided according to respective written Terms of Reference. The Board is responsible for determining the Group's objectives, strategies, policies and principal business plans, delegating to the management the responsibilities of running the Company's business, making day-to-day decisions concerning business operations and the implementation of the approved strategies in achieving the overall development strategies of the Company.

The Company had adopted *the Model Code for Securities Transactions by Directors of Listed Issuers*, Appendix 10 of the Listing Rules, as the required standard for the Directors of the Company to trade the securities of the Company. The Company had enquired with all the Directors as to whether they had complied with Appendix 10 of the Listing Rules while trading the securities of the Company during 2006. So far as was known to the Company, all Directors had complied with Appendix 10 during the period. The Company had also established written guidelines for relevant employees in respect of their dealings in the securities of the Company.

The specific term for each Non-Executive Director (including Independent Non-Executive Directors) of the Company is two years, provided that each Non-Executive Director is subject to retirement by rotation and re-election, if eligible, under the Articles of Association of the Company.

The Company had complied with the requirements of the Listing Rules to appoint three Independent Non-Executive Directors during 2006, namely, Mr Lee Hung Sang, Mr Chow Chan Lum, Charles and Mr Luo Zhenbang. Out of the three Independent Non-executive Directors, Mr Chow Chan Lum, Charles has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The Company had received a letter from each of the Independent Non-Executive Directors confirming his independence in compliance with Rule 3.13 of the Listing Rules. As such, the Company confirmed that all Independent Non-Executive Directors are independent. The Directors of the Company are unrelated to each other in every aspect, including financial, business or family.

Mr Ma Xingrui and Mr Xu Jianhua have received a comprehensive, formal and tailored induction on the first occasion of their respective appointment, to ensure that they have a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

BOARD MEETINGS

The Company has in place an established Board process. Regular Board meetings are held at least four times a year, and, if necessary, additional meetings would be arranged. The Company Secretary assists the Directors in establishing the meeting agenda. Notice of meeting and information package have been sent to Directors within reasonable and practical time prior to a regular Board meeting in order to facilitate the Directors informed discussion and decision-making. Each Director may request inclusion of matters in the agenda for Board meetings.

The Company Secretary is responsible for taking minutes of meetings. Draft minutes have been sent to all Directors for their comments within a reasonable time after each meeting and are approved by the Board at the immediate following meeting. Final versions of the Board minutes have been sent to all Directors for inspection. The minute books are kept by the Company Secretary and are open for inspection by the Directors upon request. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board and advising the Board that the procedures are followed and that Listing Rules are complied with. The Company has established a procedure to enable Directors, upon reasonable request and at the Company's expense, to seek independent professional advice in appropriate circumstances and to assist the relevant director or directors to discharge his/their duties to the Company.

DIRECTORS

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and assessing the independence of Independent Non-Executive Directors, and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors. In the nomination process, the Board of Directors makes reference to criteria including, inter alia, accomplishment and experience in the industry, professional and educational background and commitment in respect of available time and relevant interest.

Those Directors appointed by the Board during the year shall hold office only until the next annual general meeting and shall then be eligible for re-election. The process for re-election of a Director is in accordance with the Company's Articles of Association, which requires that, other than those Directors appointed during the year, one-third of the Directors for the time being (or the nearest number) are required to retire by rotation at each annual general meeting and are eligible to stand for re-election.

The annual report and the circular for annual general meeting contain detailed information on re-election of Directors including detailed biography of all Directors standing for election or re-election to ensure shareholders to make an informed decision on their election.

The attendance records of individual Directors during 2006 are set out below:

	Annual General Meeting		Extraordinary General Meeting		Directors' Meeting	
	Number of meetings held		Number of meetings held		Number of meetings held	
Number of meetings held	1		1		6	
Directors	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended
Zhao Liqiang	1	1	1	1	6	6
Zhou Qingquan	1	1	1	0	6	6
Zhao Yuanchang	1	1	1	0	6	6
Wu Hongju	1	0	1	0	6	6
Guo Xianpeng	1	1	1	1	6	6
Ma Xingrui	N/A	N/A	N/A	N/A	3	3
Rui Xiaowu	1	0	1	0	4	3
Gong Bo	1	0	1	0	6	5
Chen Dingyi	1	0	1	0	6	5
Chan Ching Har, Eliza	1	0	1	1	6	4
Wang Yujun	1	1	1	0	6	6
Xu Jianhua	N/A	N/A	N/A	N/A	3	3
Lee Hung Sang	1	0	1	0	6	5
Chow Chan Lum, Charles	1	1	1	0	6	6
Luo Zhenbang	1	0	1	0	6	5

In 2006, Mr Rui Xiaowu (Chairman), Mr Chow Chan Lum, Charles (Chairman of Audit Committee) and Ms Chan Ching Har, Eliza (Chairman of Remuneration Committee) were unable to attend the annual general meeting and/or extraordinary general meeting due to business reasons.

BOARD COMMITTEE

The Board has established an Audit Committee and a Remuneration Committee. The Committees are governed by their respective Terms of Reference. The Committees are accountable to the Board, unless there are legal or regulatory restrictions on their ability to do so.

AUDIT COMMITTEE

The Audit Committee of the Company comprises Mr Chow Chan Lum, Charles (Chairman) and Mr Luo Zhenbang, both being Independent Non-Executive Directors, and Mr Wang Yujun, a Non-executive Director.

The major functions of the Audit Committee include serving as a focal point for communication between the Directors and external auditors reviewing the Company's financial information as well as overseeing the Company's financial reporting system and internal control procedures.

Corporate Governance Report

In 2006, the Audit Committee met three times, and both the external auditors and the Company Secretary also attended the meetings for the purpose of assessing and reviewing the internal control system, the financial statements and corporate governance practices and so on. The Audit Committee had also reviewed, discussed and approved the financial statements for the year ended 31 December 2006.

The attendance records of individual Audit Committee members during 2006 are set out below:

Number of meetings held	3	
	Number of meetings eligible to attend	Number of meetings attended
Chow Chan Lum, Charles	3	2
Luo Zhenbang	3	3
Wang Yujun	3	3

REMUNERATION COMMITTEE

The Remuneration Committee comprises Ms Chan Ching Har, Eliza (Chairman) and Mr Gong Bo, both being Non-executive Directors, and Mr Lee Hung Sang, Mr Chow Chan Lum, Charles and Mr Luo Zhenbang, all being Independent Non-executive Directors. The functions of the Remuneration Committee are to formulate remuneration policy and to determine the remuneration of the Directors.

The Remuneration Committee met three times during 2006 to review the Directors' remuneration. Performance and results-based evaluation mechanism was adopted by the Remuneration Committee as the Company's emolument policy in determining the Directors' remuneration. During the year, no Director was involved in deciding his/her remuneration.

The attendance records of individual Remuneration Committee members during 2006 are set out below:

Number of meetings held	3	
	Number of meetings eligible to attend	Number of meetings attended
Chan Ching Har, Eliza	3	3
Gong Bo	3	2
Lee Hung Sang	3	3
Chow Chan Lum, Charles	3	3
Luo Zhenbang	3	2

The Directors' fees and any other reimbursement or emolument payable to a Director during the year are fully disclosed in the Company's financial statements.

INTERNAL CONTROL

The Company has gradually established, maintained and operated an effective system of internal control, which has clearly defined the authorities and key responsibilities of each business and operational unit to ensure adequate checks and balances.

The Company has conducted an annual review of the effectiveness of the Group's internal control systems over all material controls, including that financial, operational and compliance controls and risk management functions. The Company considers that the present internal control procedures adopted are sufficient to comply with the requirements under the Listing Rules, but the Company will continue to review, revise and strengthen its internal control from time to time, so as to meet with further requirements of internal management in Listing Rules.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for preparing the accounts of each financial period, which give a true and fair view of the state of affairs, the results and the cash flows of the Group for that period. In preparing the accounts for the year ended 31 December 2006, the Directors have selected suitable accounting policies and adopted Hong Kong Financial Reporting Standards and applied them consistently. Based on judgments and estimates that are prudent, the Directors prepared the accounts on the going concern basis. Auditors' reporting responsibilities are set out on the financial statements by the auditors.

During the year, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt on the Company's ability to continue as a going concern.

The Company aims at presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects in all published documents such as announcements, circulars, interim reports and annual reports. The Company has announced its annual and interim results in a timely manner within the limits of 4 months and 3 months respectively after the end of the relevant period, as laid down in the Listing Rules.

SHAREHOLDERS' RIGHTS

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors. The Company provides sufficient explanation of the procedures for demanding and conducting a poll prior to commencement of the meetings, sufficient time is also given for shareholders attending the general meetings of the Company to raise questions. The shareholders may demand a poll in respect of the resolutions to be put to at any general meeting in accordance with the following Article 74 of the Articles of Association of the Company:

- (i) by the Chairman of the meeting; or
- (ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

Corporate Governance Report

- (iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The procedures for and the rights of shareholders to demand a poll as required under rule 13.39(4) of the Listing Rules are disclosed in the Company's circulars to shareholders. All proxy votes in the meetings are counted.

INVESTORS' RELATIONSHIP

The Company did not amend its Memorandum and Articles of Association during 2006.

As of 31 December 2006, the authorised share capital of the Company was 100,000,000,000 shares at HK\$0.10 each, the issued share capital was 2,142,419,902 shares and the market capitalisation was about HK\$1,435,000,000.

SUFFICIENCY OF PUBLIC FLOAT

According to the public information obtained by the Company and to the best knowledge of the Directors, the Company complied with the sufficiency of public float required by the Listing Rules as of the date of this Annual Report.