

Corporate Governance Report

Corporate Governance Practices

The Company is committed to comply with all the rules prescribed by China Securities Regulatory Commission and the Stock Exchange, as well as requirements of other regulatory bodies. The Company has adopted a code on corporate governance practices on terms no less exacting than the standard of the Code of Corporate Governance Practices contained in Appendix 14 to the Listing Rules (the "Code of Corporate Governance") which came into effect in January 2005. During the year ended 31 December 2006, the Company had complied with the Code of Corporate Governance and met with all governance and disclosure requirements. The Company will strive for continuously enhancing its corporate governance standard and transparency to shareholders.

Directors' Securities Transactions

The Company has adopted a code for securities transactions by the directors on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of the directors of the Company (the "Directors") all of the Directors have complied with the required standard set out in the Model Code regarding directors' securities transaction during the time of the accounting period.

Board of Directors Composition of the Board

As at 31 December 2006, the Board of the Company comprised nine directors:

Chairman

Mr. Zhang Cong (appointed on 27 January 2006)

Executive Directors

Mr. Wang Zhen (re-appointed on 9 May 2006)

Mr. Dong Guiguo (appointed on 25 May 2006)

Mr. Gunnar Moller (appointed on 14 December 2005)

Non-executive Directors

Mr. Zhang Han'an (re-appointed on 19 January 2004)

Mr. Kjeld Binger (re-appointed on 14 December 2005)

Independent non-executive Directors

Mr. Xu Bailing (re-appointed on 30 June 2004)

Mr. Xie Zhuang (appointed on 19 January 2004)

Mr. Fung Ching, Simon (appointed on 11 October 2004)

The Company has received the annual confirmation letter on independence of each Independent Non-executive Director.

There is no relationship among the Directors that is discloseable under the Listing Rules.

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Board meetings

1. The Board had held 4 meetings during the year ended 31 December 2006.
2. The attendance records of the Board meetings are set out below:

	Chen Wenli (note 1)	Zhang Cong (note 1)	Wang Zhen	Huang Qiu (note 2)	Dong Guiguo (note 2)	Gunnar Moller	Zhang Han'an	Kjeld Binger	Xu Bailing	Xie Zhuang	Fung Ching Simon
2nd term, 14th meeting	√	–	√	√	–	√	√	√	√	√	√
2nd term, 15th meeting	–	√	√	√	–	√	√	√	√	√	√
2nd term, 16th meeting	–	√	√	–	√	√	√	√	√	√	√
2nd term, 17th meeting	–	√	√	–	√	√	√	√	√	√	√

Notes 1: On 27 January 2006, Mr. Zhong Cong was appointed as an Executive Director and chairman of the Board in replacement of Mr. Chen Wenli.

Notes 2: On 25 May 2006, Mr. Dong Guiguo was appointed as an Executive Director in replacement of Mr. Huang Qiu.

Authority and practice of the Board

Details of terms of reference of the Board and the management and the respective areas to exercise their authority are set out in the articles of association of the Company.

The Board is accountable to the shareholders' general meeting, and exercise the following powers:

1. to convene general meetings and report to the shareholder;
2. to carry out the resolutions of the general meetings;
3. to decide on the operational plan and investment plan of the Company;
4. to formulate the Company's proposed annual financial budget and final accounts;
5. to formulate plans for profit distribution and recovery of losses;
6. to formulate plans for increases in or reductions of the Company's registered capital and the issue of corporate bonds;
7. to prepare plans for merger, division and dissolution of the Company;
8. to decide on the set up of the Company's internal management structure;
9. to appoint or dismiss the Company's general manager and pursuant to the general manager's nominations to appoint or dismiss the vice general managers and other senior officers of the Company (including financial officers) and decide upon their remuneration;

10. to formulate the Company's basic management system;
11. to formulate proposals for amendment of the articles of association of the Company;
12. to formulate proposals for major acquisitions or disposals of the Company; and
13. to exercise other powers conferred under the articles of association of the Company and by the general meeting.

The Board has established the remuneration committee and audit committee. Each of these committees has established its own written terms of reference and functions effectively on this basis.

The general management is accountable to the Board, and exercise the following powers:

1. to supervise the management of production and business operations, and organize the implementation of the resolutions of the Board;
2. to coordinate the implementation of the Company's annual business and investment plans;
3. to formulate plans for the establishment of the Company's internal management structure;
4. to formulate the basic administration system of the Company;
5. to formulate the basic rules of the Company;
6. to recommend the appointment and dismissal of vice managers and other senior officers (include financial officers) of the Company;
7. to appoint or dismiss other managerial staff (other than those required to be appointed or dismissed by the Board); and
8. to exercise other powers conferred under the articles of association of the Company and by the Board.

Both the Board and the management act in strict compliance with relevant requirements of the Company Law, the Company's articles of association and the Listing Rules.

Chairman of the Board and Chief Executive Officer (CEO)

The chairman is responsible for development direction and effective running of the Board, and ensuring the Board acts in the best interests of the Company.

The CEO is accountable to the Board, and is delegated with the responsibility for running the Company's business and implementing the resolutions of the Board.

The chairman and CEO of the Company are Mr. Zhang Cong and Mr. Dong Zhanbin respectively. Their respective duties and scopes of responsibilities have been clearly defined in the Company's articles of association.

There is no relationship between the chairman and the CEO that is discloseable under the Listing Rules.

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Non-executive Directors and Independent Non-executive Directors

For the year ended 31 December 2006, the Company had two Non-executive Directors, namely Mr. Zhang Han'an and Mr. Kjeld Binger, and three Independent Non-executive Directors, namely Mr. Xu Bailing, Mr. Xie Zhuang and Mr. Fung Ching, Simon.

Mr. Kjeld Binger subsequently resigned on 27 March 2007.

Mr. Zhang Han'an's current term of appointment is from 19 January 2004 to 18 January 2007. Mr. Xu Bailing's current term of appointment is from 30 June 2004 to 29 June 2007. Mr. Xie Zhuang's current term of appointment is from 19 January 2004 to 18 January 2007. Mr. Fung Ching, Simon's current term of appointment is from 11 October 2004 to 10 October 2007.

Ordinary resolutions to re-appoint Mr. Zhang Han'an as Non-executive Director, and Mr. Xie Zhuang as Independent Non-executive Director, will be proposed by the Board at the forthcoming annual general meeting of the Company to be convened and held on 7 June 2007.

Remuneration of Directors, Supervisors and senior management

A remuneration committee has been set up by the Company. It is a sub-committee under the Board which is responsible for giving advice to the Board on overall remuneration policies of Directors, Supervisors and senior management of the Company.

Mr. Xie Zhuang, an Independent Non-executive Director, is the chairman of the remuneration committee. The other members of the remuneration committee are Mr. Fung Ching, Simon, an Independent Non-executive Director, and Mr. Dong Guiguo, an Executive Director of the Company.

For the year ended 31 December 2006, the Company held one meeting of the remuneration committee on 21 March 2006. On that meeting director's remuneration for 2005 and directors' remuneration policy for 2006 had been determined.

Pursuant to the service contracts entered into between the Company and Directors and Supervisors, for the year 2006, the remuneration paid to the Executive Directors of the Company was RMB70,000 per person; the remuneration paid to the Non-executive Director was RMB50,000 per person; the remuneration paid to the Independent Non-executive Directors was RMB80,000 per person; and the remuneration paid to the Supervisors was RMB20,000 per person. In addition to the aforesaid remuneration, the Executive Directors who are also Company's staff are also entitled to receive salaries in respect of their respective positions taken on full-time basis in the Company. Save for Executive Directors who are full time staff of the Company, none of the Directors or Supervisors is entitled to any other remunerations of the Company. The remuneration policies were approved by the Board and the general meeting prior to the Company's listing. These policies are subject to review and approval in each year's annual general meeting.

Payment of performance bonus and other incentive bonuses is based on actual financial results achieved by the Company, such that at most two per cent of consolidated net profit for previous financial year as audited by international auditors would be allocated and paid-out to Directors, Supervisors and members of senior management.

Nomination of Directors

The Company does not have a nomination committee at present.

The Board had adopted a nomination procedure and process during the year, according to which a qualified shareholders group may nominate a candidate for directorship and put the nomination onto the Board for voting. If more than a half of the Directors have voted for the nomination, the nomination would then be put onto a general meeting as an ordinary resolution for shareholders to approve.

Criteria for Director selection and nomination are as follows:

- 1) the candidate shall meet the conditions for a listed company director as required by the Company Law, Securities Law and the Listing Rules;
- 2) the candidate shall meet the requirements as prescribed in the Company's articles of association;
- 3) the candidate shall be regarded as having a high moral standard and relevant professional expertise, and being able to act in good faith, prudence and diligence, and to avoid any material and potential conflict of interest or of role with the Company.

A Director shall hold office for a term of 3 years, and shall then be eligible for re-election and, if re-elected, his/her tenure may continue thereafter for another term.

For the year ended 31 December 2006, Mr. Zhang Cong and Mr. Dong Guiguo had been appointed as Executive Directors, and Mr. Zhang Cong had also been appointed as chairman of the Board. The selection, nomination and appointment of Mr. Zhang Cong and Mr. Dong Guiguo were in line with the Director nomination criteria mentioned above.

Remuneration of Auditors

During the year ended 31 December 2006, the external auditors of the Company had not provided any non-audit service to the Company. Proposed auditors' remuneration to be paid by the Company would come into effect only after discussion in the audit committee and review of the Board and further approval granted in a general meeting. The remuneration of auditors for the year ended 31 December 2006 was RMB2,333,000.

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Audit Committee

An audit committee has been set up by the Company. It is a sub-committee under the Board. The duties of the audit committee are to review the appointment of external auditors, to determine the auditors' remuneration, to monitor the work of auditors, to review the Company's financial reporting process and internal control system and provide advice and comments to the Board.

The audit committee comprises three Independent Non-executive Directors, namely Mr. Xu Bailing, Mr. Xie Zhuang and Mr. Fung Ching, Simon, with Mr. Xu Bailing acting as the chairman.

For the year ended 31 December 2006, the audit committee had held two meetings; all of the three committee members had attended these meetings.

The audit committee had reviewed the 2005 annual report, auditor's report, the report on re-appointment of the external auditors and determination of their remuneration and the report on the connected transactions of the Company in the first meeting of 2006. The audit committee had reviewed the 2006 interim report in the second meeting of 2006.

The audit committee suggested re-appointment of PricewaterhouseCoopers as international auditors of the Company in 2007.

Shareholding interests of senior management

None of the senior management held any shareholding interests in the Company during the year ended 31 December 2006.

Shareholders' right

To ensure better protection of shareholders' interests, the articles of association of the Company set out the requirements for shareholders to request a special general meeting to be convened: When two or more shareholders holding in aggregate ten per cent (10%) or more of the Company's shares entitling their holders to vote in the proposed general meeting request, by signing one or more copies of a written request in the same form and submit to the Board to convene a special general meeting with an agenda of the meeting. A special general meeting is required to be held as soon as practicable upon receipt by the Board of such written request.

During the year ended 31 December 2006, the Board did not receive any requests from shareholders to convene a special general meeting.

Investors relations

1. There was no alteration of material nature to the articles of association of the Company during the year ended 31 December 2006;
2. Details of the classes of the Company's shareholders and particulars on shareholding in aggregate are set out in the Directors' Report in the 2006 annual report;
3. As at 31 December 2006, 226,913,000 H shares of the Company were held by the public.
4. The company has engaged a professional financial public relations firm as the daily communication channel between the Company and its investors. The financial public relations firm will answer the queries brought by investors and maintain active communications with investors and fund managers. The company will publish the key operation data on a monthly basis and report the Company's latest development in relevant media and at the Company's website by means of press releases and announcements.

By the order of the Board

Zhang Cong

Chairman

Hainan Province, the PRC

10 April 2007