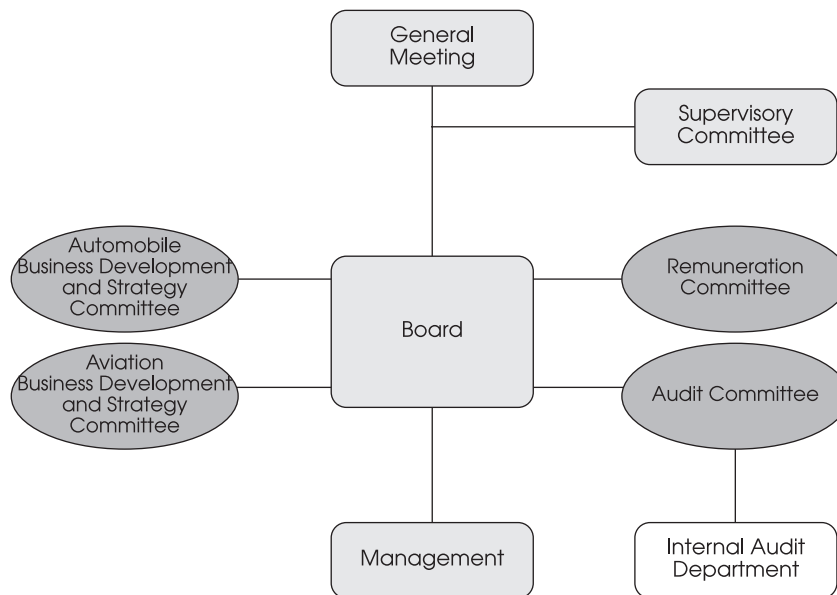




# Corporate Governance Report

The Company strictly complies with various laws, rules and regulations as well as the Articles of Association to standardize its operation. In 2006, the Company re-elected/elected members of the Board, the Supervisory Committee, special committees under the Board and senior management respectively for a new term in accordance with the Articles of Association, revised the Articles of Association, set out Working Guidelines for the Audit Committee of the Board and further improved regulations and rules for the Company's internal control system. Under guidance of the Articles of Association, Procedural Rules for General Meetings, Procedural Rules for Board Meetings, Procedural Rules for Meetings of Supervisory Committee, Working Guidelines for the Management, Working Guidelines for the Audit Committee, Terms of Reference of the Remuneration Committee and Rules on Information Disclosure, the Company has constantly enhanced its governance level through the well-balanced work of general meetings, the Board and relative special committees of the Board, Supervisory Committee and the management.

Governance structure of the Company is set out as follows:



## CODE ON CORPORATE GOVERNANCE PRACTICES

In the 2006 Interim Report, the Company disclosed that, from 16th June to 28th August 2006, the Company temporarily failed to comply with Rule 3.10 of the Listing Rules which prescribes that at least three independent non-executive directors should be appointed. The Company convened an extraordinary general meeting on 28th August 2006 to approve the appointment of Mr. Lau Chung Man, Louis as independent non-executive director of the Company, thereafter, the constitution of the Board is in compliance with the applicable requirement of the Listing Rules. Certain continuing connected transactions as disclosed under the paragraph "Continuing Connected Transactions" of the Report of the Board exceeded their respective 2006 annual caps. The Board reviewed the corporate governance practices adopted by the Company and is of the view that save for the deviation mentioned above and the matters discussed under the paragraph "Continuing Connected Transactions" of the Report of the Board, the Company has complied with principles and code provisions set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Listing Rules.



## THE BOARD

The Board is responsible for the leadership and supervision of the Company. The Directors assume the role to promote the business of the Company through directing and supervising the affairs of the Company.

### DIRECTORS

The Board comprises thirteen directors, including three executive directors, seven non-executive directors and three independent non-executive directors. The directors have contributed their comprehensive knowledge, skills and experience for the effective management of the Group. With extensive professional knowledge and experience, the independent non-executive directors have taken the supervisory and balancing roles in order to protect the interests of shareholders of the Company and the Company as a whole. The Board believes that the independent non-executive directors are capable of making judgments independently and comply with the guidelines on the independence of independent non-executive directors set out in Rule 3.13 of the Listing Rules.

Independent non-executive directors of the Company have submitted written confirmation of their independency as required by Rule 3.13 of the Listing Rules.

The Company follows the formal procedures in the appointment of new directors. The Company has not established any nomination committee. The Board will consider referrals from the shareholders and nominate new directors pursuant to certain standards. These standards include relevant professional knowledge and experience, personal ethics, integrity and skills of directors, as well as their time commitment to affairs of the Company.

Each director (including non-executive director) holds office for a period of three years. Pursuant to the Articles of Association of the Company, the term of office of the first Board expired at the 2005 annual general meeting of the Company (the "AGM") and they were eligible for re-elections. The Company held an annual general meeting on 16th June 2006 to re-elect/elect directors for a new term. The term of the new Board is three years, commencing from the date of the annual general meeting and expiring on the date of the 2008 annual general meeting. Dr. The Hon. Li Kwok-Po, David resigned his position as independent non-executive director of the Company due to personal reasons. His resignation became effective on the date of the AGM. Mr. Lau Chung Man, Louis was appointed as independent non-executive director of the Company at an extraordinary general meeting held on 28th August 2006. His term of office commenced from the date of the extraordinary general meeting and will expire on the date of the 2008 annual general meeting. The terms and conditions mentioned above have been stipulated in directors' respective formal appointment letters.

The respective profiles and roles in the Board and special committees of the directors of the second session are set out in section "Directors, Supervisors and Senior Management" of the Annual Report. Relevant information will also be published on the website of the Company.

The Company has arranged for appropriate insurance coverage in respect of legal actions which may be instituted against its directors and senior management in relation to their services.

### RESPONSIBILITIES OF THE BOARD

The Board manages and supervises the Group on behalf of the shareholders of the Company. Each director is deemed to act in the best interest of the Company with prudence and honest.

The Board regularly reviews the Group's overall strategy, its business targets and operation results. The Board exercises its power to formulate the objectives and strategies of the Group, and to monitor operational and financial performance of the Group.



## Corporate Governance Report

The Board will ensure integrity of the financial information therein and the effectiveness of internal control and risk management procedures of the Group. The Board is also responsible for preparing the financial statements of the Group. All Group policies, material transactions or transactions leading to conflicts of interest are decided by the Board. On the other hand, the chief executive officer is responsible for attaining the business target of the Company and managing its daily operations. Duties reserved to the Board and those delegated to management are clearly set out in the Procedural Rules for Board Meetings and Work Guidelines for the Management. The Board regularly reviews the duties and powers delegated to the chief executive officer to ensure such arrangements are appropriate.

### **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

The roles of the chairman and the chief executive officer have been clearly segregated to ensure a balance of power and authority. The current chairman of the Company, Mr. Zhang Hongbiao, is responsible for leading the Board to ensure the effective operation of the Board. The chief executive officer, Mr. Wu Xiandong, is responsible for business operation of the Company. The roles and duties of the chief executive officer are clearly set out in the Working Guidelines for the Management.

### **BOARD MEETINGS**

The Board meets regularly four times a year, in April, June, August and December respectively. Matters to be considered at these regular board meetings have been put into writing. Further, additional board meetings are held when required.

The company secretaries assist the chairman in preparing the agenda for each board meeting and consider the matters proposed by other directors for inclusion in the agenda. The agenda and relevant materials are usually delivered to the directors at least three days before the relevant board meeting date. The chairman should ensure that all directors are properly briefed on issues to be discussed at the board meeting and provided with relevant documents which contain analysis and background information.

The management has provided the directors and committee members with adequate and sufficient information on a timely basis. This will ensure that the directors and committee members are well-informed of the Company's latest development so that they may discharge their duties effectively. Every director has received comprehensive induction training upon his appointment. Directors are encouraged to constantly update their skills, knowledge and understanding of the business of the Group through induction training, regular attendance at board meetings and committee meeting and meetings with key personnel of the head office and various departments of the Group.

All directors have access to the services of the company secretaries. The company secretaries are responsible for ensuring that board procedures are followed and advising the Board accordingly. The company secretaries regularly update the Reference Guide for Directors and Supervisors to ensure that the Board is well-informed of the latest information on corporate governance and supervision as well as the development of the Group. Directors, the audit committee and the remuneration committee may seek independent professional advice at the Company's expense in discharging their duties.

Directors are encouraged to discuss issues of the Group openly and frankly at board meetings and every executive director is available for inquires raised by non-executive directors. Independent non-executive directors may convene meetings amongst themselves if necessary to discuss issues related to the Group. Board minutes as well as any materials related to the board meetings are kept by the company secretaries and made available for inspection by any member of the Board.



The Board has established an audit committee and a remuneration committee to ensure good corporate governance. Duties of these committees are set out in accordance with the principles of the Code. In addition, the Company has established Automobile Business Development & Strategy Committee and Aviation Business Development & Strategy Committee to formulate long-term development strategies and to decide on substantial investments. Each committee reports directly to the Board. Minutes of committee meetings are kept by the company secretaries.

Eight meetings were held by the Board during 2006. The chief executive officer and vice presidents, including the chief financial officer, attended these meetings to brief the Board or reply to issues relating to resolutions discussed at those meetings. The attendance of every director (including the circumstance of appointing another director on his behalf) in the board meetings and committee meetings in 2006 is set out below:

Directors	Times of presence/Times of meetings should present		
	The Board	Audit Committee	Remuneration Committee
<b>Executive directors</b>			
Mr. Zhang Hongbiao	8/8		
Mr. Wu Xiandong	8/8		
Mr. Tan Ruisong	8/8		
<b>Non-executive directors</b>			
Mr. Liang Zhenhe	8/8	2/2	
Mr. Song Jingang	8/8		1/1
Mr. Tian Min	8/8		1/1
Mr. Wang Bin	8/8		
Mr. Chen Huaiqiu	8/8		
Mr. Wang Yong	8/8		
Mr. Maurice Savart	8/8		
<b>Independent non-executive directors</b>			
Mr. Guo Chongqing	8/8	2/2	1/1
Mr. Li Xianzong	8/8	2/2	1/1
Dr. The Hon. Li Kwok-Po, David (resigned on 16th June 2006)	3/3	0/1	
Mr. Lau Chung Man, Louis (appointed on 28th August 2006)	4/4	1/1	1/1



### INTERESTS HELD AND SECURITIES TRANSACTIONS BY DIRECTORS

All directors should declare to the Board whether they hold offices or positions in other companies or entities upon their appointments as directors and they are required to update the Board their relevant interests every year. If the Board considers that a director has a conflict of interest in any motion or transaction, the director shall declare his interests and abstain from voting. If required, the director should be excused from the meeting.

Interests of the Company held by the directors as at 31st December 2006 have been disclosed on page 55 of the Report of the Board of the Annual Report. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own guidelines for securities transactions by directors and employees of the Company (the "Securities Code"). All directors and supervisors have been provided with a copy of the Securities Code upon appointments. The directors and supervisors will receive written reminders of the restrictions on dealing in any securities or derivatives of the Company. The written reminders will be provided one month prior to the board meeting for approving annual or interim results. All directors and supervisors of the Company have confirmed their compliance with the Securities Code in 2006 upon specific enquiries with them.

Employees who may likely possess unpublished price sensitive information of the Group are also required to comply with the Securities Code. The Company is not aware of any breach in this regard in 2006.

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Board has established a remuneration committee which comprises one non-executive director Mr. Song Jingang, as the chairman and three independent non-executive directors, Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis. The remuneration committee is responsible for approving policies on remuneration of all directors, supervisors and senior management, as well as making recommendations to the Board on revising policies and structure for remuneration. The remuneration committee reports to the Board after every meeting. Terms of reference of the remuneration committee are published on the website of the Company.

The remuneration committee met once during 2006 and considered and approved remunerations of directors of the second session of the Board, supervisors of the second session of the Supervisory Committee and the senior management of the Company.

Details of the remunerations of the directors, supervisors and senior management of the Company for the year ended 31st December 2006 are set out in note 14 to the financial statement.



## ACCOUNTABILITY AND AUDIT

### FINANCIAL REPORTS

The Board is responsible for monitoring the preparation of the financial statements for every financial period and ensuring those financial statements give a true and fair view on the results of operations, financial position and cash flow of the Group in the relevant financial period. In preparing the financial statements for the year ended 31st December 2006, the directors have:

- selected and applied consistently appropriate accounting policies;
- adopted all the relevant standards in the International Financial Reporting Standards; and
- made a prudent and reasonable judgment and estimation and prepared financial statements on a going concern basis.

In accordance with the requirements of the Listing Rules, the Company has timely announced its annual and interim results within four and two months respectively after the end of the relevant financial periods.

### INTERNAL CONTROL

The Board is responsible for maintaining a steady, appropriate and efficient internal control system of the Group to secure the safety of the Group's assets. The Board reviews the effectiveness of the internal control system annually through the audit committee.

The Company has established an Internal Audit Department which acts as a daily operation office of the audit committee of the Board to monitor how the Company and its subsidiaries establish and improve their respective internal control systems and give guidance on this respect and to supervise and review the implementation of regulations on internal control systems at proper times. In 2006, the Internal Audit Department prepared and provided an annual assessment list and a questionnaire on internal control system to each of the Company's subsidiaries, based on which the department evaluates the internal control system of the Group in a whole. The department also requested the senior management of each subsidiary to give out statements on the healthiness, reasonability and effective implementation of their respective internal control procedures. In addition, the department conducted independent reviews on disclosure of financial information, operation activities and internal control procedures of subsidiaries of the Company and provided its independent and objective evaluation and recommendations in a form of audit report.

The procedure and the results of the review on the internal control system of the Company in 2006 were reported to the audit committee and the Board. The audit committee and the Board confirmed that the internal control system of the Group could be reasonably put into effective measures on monitoring and controlling material issues of the Group, preventing critical mistakes or severe damages to the Group, securing the safety of the Group's assets, ensuring a good maintenance to meeting minutes and complying with laws and regulations and, save for matters disclosed under the paragraph "Continuing Connected Transactions" of the Report of the Board, was accorded with the requirements on internal control system set out in the Code.

However, due to the inherent limits of the internal control system, the establishment of the Group's internal control system could restrain potential risks but not be able to eliminate risks completely. Therefore, the internal control system could only provide a reasonable guarantee, rather than an absolute guarantee, to the realization of the Group's operation aims, and neither is able to put an end to critical inaccurate statements or damages.



### AUDIT COMMITTEE

The Board has established the audit committee and set out the terms of reference of the audit committee in accordance with the Guide for the Effective Audit Committee issued by the Hong Kong Institute of Certified Public Accountants.

The audit committee is responsible for monitoring financial operation and audit procedures of the Company, assessing efficiencies of internal control system and risk control system of the Company, keeping smoothly communication with the management, internal audit entity and external auditors of the Company, as well as executing other duties and responsibilities assigned by the Board. The majority of the audit committee members are independent non-executive directors, with Mr. Li Xianzong, an independent non-executive director, as the chairman of the committee. The chairman and most committee members have appropriate professional qualifications in accounting or related financial management expertise as required by the Listing Rules.

The terms of reference of the audit committee are published on the website of the Company.

The audit committee held two meetings during 2006 with the presence of management, chief financial officer and external auditors of the Company. In 2006, the audit committee perused and reviewed the results of auditing reported by the Company's external auditors, the accounting principles and standards applied by the Group and the internal control system and the financial statements of the Company. The audit committee reported to the Board its scope of work, discussion results and advice after every meeting. During 2006, the audit committee has:

- reviewed the audited financial statements and the relevant annual results announcement of the Group for the year ended 31st December 2005 and resolutions submitted for the approval of the Board;
- reviewed the interim financial information and the relevant interim results announcement of the Group for the six months ended 30th June 2006 and resolutions submitted for the approval of the Board;
- reviewed the resolution relating to appointments of international and PRC auditors of the Company for the financial year 2006 and determination of their respective remunerations;
- reviewed the plan on the accounting treatment for losses rising from the payment of consideration in the share reform; and
- made direct contact with external auditors of the Company, conducted reviews on financial reporting system and internal control procedures of the Group and provided recommendations to the management of the Company.

The audit committee had reviewed the Group's annual results and consolidated financial statements for the year ended 31st December 2006.



## SUPERVISORY COMMITTEE

The Supervisory Committee answers for the general meetings of the Company. Its members comprise four supervisors selected from representatives of the Company's shareholders, three supervisors selected from employees of the Company and two independent supervisors. According to the Articles of Association of the Company, the office term of the first Supervisory Committee expired on the date of the 2005 annual general meeting of the Company and the retired supervisors were eligible for re-election. At the annual general meeting of the Company held on 16th June 2006, supervisors for a new term were re-elected/elected. Ms. Liu Xianping and Ms. Lu Liubao resigned their positions as supervisors of the Company due to personal reasons. Their resignation became effective on the date of the annual general meeting. Mr. Li Deqing and Mr. Han Xiaoyang were appointed as supervisors of the Company for a new term of three years, commencing from the date of the annual general meeting and terminating on the date of the 2008 annual general meeting of the Company.

In 2006, the Supervisory Committee held two meetings and considered and approved 10 resolutions. It supervised, on behalf of shareholders of the Company, the financial position of the Group, the legality of directors and senior management of the Company during the performance of their duties, presented at board meetings and general meetings and seriously fulfilled its duties.

## EXTERNAL AUDITORS

In 2006, the payment to the Company's external auditors in relation to auditing services was RMB5.8 million.

The Board has resolved to propose at the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the international and PRC auditors of the Company to assume statutory auditing work of the Company for the financial year 2007. The resolution is subject to the approval of shareholders at the annual general meeting for the Company in 2007.

## INFORMATION DISCLOSURE AND INVESTOR RELATIONS

The company secretaries are responsible for information disclosure of the Company. The Company has established Rules on Information Disclosure to ensure information disclosed by the Company is accurate, complete and timely made. During the report period, the Company published annual report, interim report and relevant announcements (including those reminding announcements published by A share listed subsidiaries of the Company on other stock markets) in accordance with the Listing Rules and made detailed disclosures on material information and progress of significant issues of the Company.

General meetings of the Company have absolute power to perform its functions according to laws and regulations and make decisions on significant issues. The annual general meeting of each year and extraordinary general meetings of the Company provide an open platform for shareholders to exchange opinions with the Board. In 2006, the Company convened one annual general meeting and one extraordinary general meeting, at which 28 resolutions were considered and approved. Directors and management of the Company managed to present at those general meetings.





## Corporate Governance Report

At the annual general meeting, each resolution such as the appointment of directors would be dealt with and resolved separately. The Company would notify the procedures for voting by poll at the general meeting and the right of shareholders to require a voting by poll in the circular to be dispatched to shareholders. The circular will also contain details of proposed resolutions such as the profile of every candidate for election and a statement regarding the independence of the candidate. Results of voting by poll are published on newspapers and the website of the Company.

The Company has assigned specific employees to assume the role of contacting and communicating with investors. During the report period, the Company had put more efforts on the maintenance of its website, not only renewed and modified the Chinese version but also launched the English version. The Company publishes business news and information regularly on its website to help investors understand the up-to-date situation of the Company clearly and timely. Details on business of the Group and announcements on interim results and annual results could also be downloaded from the website.

The Company has also paid much attention to the mutual communication with its investors. During the whole year of 2006, the Company communicated fruitfully with its investors through receiving investors' visits or holding telecommunication meetings and effectively exchanged opinions with them.