

Corporate Governance Report

The Company has set up a relatively standard and sound corporate governance system, and abided by the corporate governance principles of transparency, accountability and protection of the rights and interests of all the Shareholders.

The Board believes that good corporate governance is very important to the operation and development of the Company. The Board regularly reviews the corporate governance practices to ensure that the Company's operation is in compliance with the laws, regulations and supervisory rules of the jurisdiction of the stock exchange, and constantly endeavors to implement high quality corporate governance.

The Company has adopted the following documentation on corporate governance practices, including, but not limited to: the Articles, the Rules of Procedure for Shareholders' Meetings, the Rules of Procedure for Board Meetings, the Rules of Procedure for Supervisory Committee Meetings, the System of Work of the Independent Directors, the Rules for Disclosure of Information, the Rules for the Approval and the Disclosure of the Connected Transactions of the Company, the Rules for the Management of the Investors' Relationships, the Code for Securities Transactions of the Management, the Standard of Conduct and Professional Ethics of the Senior Employees, the Measures on the Establishment of Internal Control System and the Measures on Overall Risk Management. As at 31st December, 2006, and as of the date of this Annual Report, the documentation on corporate governance practices and the operations of corporation governance adopted by the Company are in compliance with the principles and the code provisions set out in the Code on Corporate Governance Practices (the "Model Code") contained in Appendix 14 of Hong Kong Listing Rules.

The following are the major aspects of corporate government practices adopted by the Company which are more stringent than the Model Code:

- The provisions set out in the Code for Securities Transactions of the Management and the Standard of Conduct and Professional Ethics of the Senior Employees are stricter than those of the Model Code;
- The Board held 6 meetings during the year 2006;
- The Company is improving the infrastructure of its internal control system according to the requirements of the US Sarbanes-Oxley Act and Guidance on Internal Control for Listed Companies of the Shanghai Stock Exchange, in which the standards of the internal control contained therein are more specific than those of the Model Code.

During this reporting period, the company has strictly complied with the above documentation on corporate governance practices and has not deviated from any requirements under such documentation.

SECURITIES TRANSACTIONS OF DIRECTORS

Having made specific enquiry of all Directors, during this reporting period, the Directors have strictly complied with the Model Code.

On 21st April, 2006, the Code for Securities Transactions of the Management was approved at the Fifth Meeting of the Third Session of the Board. The relevant requirements relating to the securities transactions under the PRC domestic laws, regulations and requirements on supervision are included in the Code for Securities Transactions of the Management which is drafted based on the Model Code, but stricter than the Model Code.

BOARD OF DIRECTORS

The Board comprises thirteen Directors including four independent non-executive Directors. The names and positions of the Directors are described in the paragraph headed "Shareholding of Directors, Supervisors and Senior Management of the Company" of the section headed "Report of the Board of Directors" in this Annual Report.

The Board is mainly responsible for the strategic decision-making of the Company and the supervision of operations of the Company and the management. The Board primarily has the powers to decide on the operation plans and investment policy, to formulate the policy for financial clearing and the policy for the allocation of profits, to implement and review the internal control system, and to confirm the management organization and the basic management system of the Company etc. The duties and powers of the Board and the management have been set out in the Articles in detail.

Corporate Governance Report (Cont'd)

According to the Articles and the Rules of Procedure for the Board Meeting, all the Directors are entitled to raise matters to be included in the agenda for Board meetings. The Company shall deliver a notice of the ordinary Board meeting or extraordinary Board meeting to the Directors 14 days before the ordinary Board meeting or 3 days before the extraordinary Board meeting; and the agenda and information for discussion have to be circulated to the Directors for their review 5 days before the ordinary Board meeting or 3 days before the extraordinary Board meeting. Draft and final versions of minutes of Board meetings should be sent to all Directors for their comments and records respectively, in both cases within a reasonable time after the Board meeting is held. Any of the Directors are entitled to inspect the recorded minutes of Board meetings at any reasonable time.

The Company has set up a Special Secretary Department of the Board, through which all Directors are able to access the services of the Board secretary. The Board is entitled to resolve to seek independent professional advice for its Directors in appropriate circumstances, at the Company's expense. When the Board considers any connected transaction, the interested Director shall abstain from the voting on such a transaction.

During the year 2006, six Board meetings were held, and the Directors attended the meetings in person or by means of electronic communication. As at the Sixth Meeting of the Third Session of the Board dated on 18th August, 2006, one Director, Mr. Chen Guangshui, did not attend the meeting due to work reasons. As for the other five Board meetings during this reporting period, all Directors attended the meetings, representing 100% attendance of the Board.

The Company has received an annual confirmation provided by each of the independent non-executive Directors concerning his independence pursuant to Rule 3.13 of the Listing Rules. The Company confirms that all of the four independent non-executive Directors comply with the qualification requirements as independent non-executive Directors of the Hong Kong Listing Rules.

Except for relationship established at work, there is no financial, business, family or any other material relationship between the Directors, Supervisors and senior management.

The Directors are responsible for preparing the financial accounts of the Company for the relevant accounting period of the Company, to truly and fairly reflect the Company's financial situation, operating results and cash flows.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Wang Xin serves as the Chairman of the Company, and Mr. Yang Deyu is the General Manager. The authorities and responsibilities of the Chairman and the General Manager are clearly divided between them. Details of such authorities and responsibilities of the Chairman and the General Manager are set out in the Articles.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors has entered into a service contract with the Company. Pursuant to the Articles, the term of appointment of the members of the Board (including the non-executive Directors) is three years. The members of the Board can be reappointed consecutively after expiry of the term. However, the term of reappointment of independent non-executive Directors cannot exceed six years.

REMUNERATION OF DIRECTORS

As approved at the First Board Meeting of the Third Session of the Board held on 28th June, 2005, the Company set up the Remuneration Committee of the Third Session of the Board (the "Remuneration Committee") which comprises two independent non-executive Directors Mr. Wang Quanxi and Mr. Wang Xiaojun, and one non-executive Director Mr. Dong Yunqing. Mr. Wang Quanguangxi serves as the Chairman of the Remuneration Committee.

The Remuneration Committee is mainly responsible for formulating the remuneration policy for the Directors, supervisors and the senior management, and recommending to the Board the remuneration plans for the Directors, Supervisors and the senior management. The details of the responsibilities of the Remuneration Committee are disclosed on the Company's website.

Corporate Governance Report (Cont'd)

As at the Tenth Meeting of the Third Session of the Board held on 20th April, 2007, the Remuneration Committee made a report on the remuneration standard of the Directors, supervisors and senior management for year 2006 and the operation assessment targets for the year 2007 to the Board, and submitted the relevant proposals regarding remuneration of the Directors, supervisors and senior management for year 2007 to the Board. Such proposals were considered and approved by the Board.

The remuneration policy, remuneration calculation and payment methods of the Directors, Supervisors and senior management have been included in the paragraph headed "Remuneration Policy" under the section headed "Report of the Board of Directors" in this Annual Report. Details of the remunerations of the Directors, supervisors and senior management have been included in Note 14 to the financial statement of this Annual Report which was prepared in accordance with the IFRS contained herein

NOMINATION OF DIRECTORS

The Company has not set up a Nomination Committee of the Board.

The Company has set up and has been strictly implementing the transparent and fair nomination and election procedures for the Directors. Pursuant to the Articles, the candidates for directorship are generally proposed to the Shareholders' meeting by the Board by way of a resolution. The Shareholders and the Supervisory Committee may nominate the candidate/s for directorship in accordance with the requirements under the Articles.

During this reporting period, at the Seventh Meeting of the Third Session of the Board, Mr. Zhang Baocai was nominated and by-elected as a Director. All Directors of the quorum duly attended the meeting. Details relating to the by-election of Director are set out in the paragraph headed "By-Election of Director & Appointment of Secretary to the Board, Company Secretary, Authorized Representative and Deputy general manager" under the section headed "Disclosure of Significant Events" in this Annual Report.

AUDITORS' REMUNERATION

For the year 2006, the Company has retained Deloitte Touche Tohmatsu (Certified Public Accountants in Hong Kong) and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (Certified Public Accountants in the PRC (excluding Hong Kong)) as its international and domestic auditors, respectively. In 2006, the Company has paid an annual financial audit, review and other related services fee of HKD12 million, which covering the services of auditing the consolidated financial statements of the year 2006, reviewing the Company's adjusted statement differences of consolidated shareholder's equity in accordance with the new PRC accounting standards and the old standards and audit of internal controls over financial reporting required by US Sarbanes-Oxley Act, and paid RMB0.3 million as audit fee for acquisition of Shanxi Nenghua. Save as disclosed above, the auditors did not provide any other non-auditing services to the Company in 2006.

The auditors of the Company have not been changed in the last three years. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. have been the Company's international and domestic auditors for ten years consecutively. There was no registered accountant of Deloitte Touche Tohmatsu Certified Public Accountants Ltd. providing audit services to the Company for more than five years.

A resolution to reappoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. as the Company's international and domestic auditors for the year 2007 will be proposed at the forthcoming 2006 AGM.

Corporate Governance Report (Cont'd)

AUDIT COMMITTEE

As approved at the first Board Meeting of the Third Session of the Board held on 28th June 2005, the Company set up the Audit Committee of the third Board (the "Audit Committee"). The Audit Committee comprises four independent non-executive Directors, namely Mr. Cui Jianmin, Mr. Pu Hongjiu, Mr. Wang Xiaojun and Mr. Wang Quanxi, and two non-executive Directors, namely Mr. Chen Changchun and Mr. Dong Yunqing. Mr. Cui Jianmin serves as the Chairman of the Audit Committee.

The Audit Committee is mainly responsible for proposing the appointment or replacement of the external audit agencies; reviewing the accounting policies of the Company, the disclosure of the financial information and the procedures for preparing financial reports; and reviewing the internal control system and risk management system of the Company. The details of the responsibilities of the Audit Committee have been disclosed on the Company's website.

Five meetings were held by the Audit Committee in the year 2006, details of the meeting are as follows:

Date	Main Topics	Member	Attendance
20th April	Review the results of the Company for the year 2005; discuss the reappointment of the auditors and their remunerations for the year 2006; debrief the auditors' report on financial report.	Cui Jianmin, Pu Hongjiu, Wang Xiaojun, Wang Quanxi, Chen Changchun Dong Yunqing	√ √ √ √ √ √
17th August	Review the interim financial report of the Company for the year 2006.	Cui Jianmin, Pu Hongjiu, Wang Xiaojun, Wang Quanxi, Chen Changchun Dong Yunqing	√ √ √ √ √ √
7th December (morning)	Debrief the report on internal control system infrastructure of the Company by the accountants of PricewaterhouseCoopers	Cui Jianmin, Pu Hongjiu, Wang Xiaojun, Wang Quanxi, Chen Changchun, Dong Yunqing	√ √ √ √ √ √
7th December (afternoon)	Report on the auditing of internal controlled projects and the financial auditing works by the auditors to the Audit Committee	Cui Jianmin, Pu Hongjiu, Wang Xiaojun, Wang Quanxi, Chen Changchun, Dong Yunqing	√ √ √ √ √ √
29th December	Debrief the report on the second round of testing on the Company's internal control by the accountants of PricewaterhouseCoopers, review and discuss relevant systems and methods of the Company	Cui Jianmin, Pu Hongjiu, Wang Xiaojun, Wang Quanxi, Chen Changchun, Dong Yunqing	√ √ √ √ √ √

The Audit Committee of the Board has reviewed the results of the Company for the first half of 2006, the results of the Company for the year 2006 and the performance of the internal control system of the Company for the year 2006.

Corporate Governance Report (Cont'd)

INTERNAL CONTROLS

The Board and the management has paid much attention to the setting up and improvement of the internal control system, and confirm that they have made evaluations on the internal supervisory and control system of the Company and its subsidiaries. The Company has preliminarily set up an internal supervisory and control system on the basis of normalizing the system structure and exploiting the professional advantages of the internal organization.

Since 2005, the Company started setting up a uniform internal supervisory and evaluation system and a business flow control system in respect of the finance control, business operation, corporate compliance, and risk management, etc. pursuant to the listing requirements of the United States, Hong Kong and the PRC (Mainland).

The Company has made arrangements on internal control procedure and internal control system for the headquarters, the subordinated departments and companies, and the business of the Company. The auditing department, the planning and finance department, the information management center, risk management department and other departments of the Board serve as the internal control organizations and the inspecting and supervisory divisions. As at the tenth meeting of the third session of the Board dated on 20th April, 2007, the Audit Committee of the Board submitted Report of Self-Assessment on Internal Control, and the Board made assessment on the effectiveness of the performance of the Company's internal control system.

As at this reporting date, Deloitte Touche Tohmatsu Certified Public Accountants is still making assessment on the Company's internal control system to determine whether it is in conformity with the requirements of the US Sarbanes-Oxley Act.

INFORMATION DISCLOSURE

The Company emphasizes the truthfulness, timeliness, fairness, impartiality and publicity of information disclosure, and has observed the disclosure requirements set forth in the Hong Kong Listing Rules. For the financial report and related information to be disclosed, the Chief Financial Officer shall ensure the truthful and fair reflection of the Company's business operation and financial status according to the applicable Accounting Rules and relevant rules and regulations.

Corporate Governance Report (Cont'd)

INVESTOR RELATIONS

Pursuant to the laws and supervisory regulations of both the domestic and other stock listing places, and based on the day-to-day business practices, the Company has issued the Rules for the Management of Investors' Relationship and the Rules for Disclosure of Information to regulate the investor relationship management.

The Company has set up normative and effective information collection, compilation, examination, disclosure and feedback control procedures to ensure that the disclosure of information is in compliance with the governance requirements of the stock listing places and meet the needs of investors to have a reasonable access to the Company's information. The Company takes an active initiative to consider the needs of investors and strives to enable investors to draw conclusions by themselves based on the disclosed information.

The Company insists on making at least two international road-shows each year. Through face-to-face meetings the Company reports to investors its business operation while collecting opinions and suggestions in relation to the Company from the investors and the capital market.

The Company pays much attention to the communication with Shareholders through Shareholders' meetings, and encourages the medium and minority shareholders to participate in Shareholders' meetings by various means such as internet voting. The Chairman and the Vice Chairman of the Board, the General Manager, the Chairman and the Vice Chairman of the Supervisory Committee, the relevant Directors and Supervisors generally attend the Shareholders' meetings. At the Shareholders' meetings, each individual resolution is proposed separately, all the resolutions are voted by poll.

COMPLIANCE OF AND EXEMPTION FROM CORPORATE GOVERNANCE STANDARDS IMPOSED BY THE NEW YORK STOCK EXCHANGE

As at the date of this Annual Report, 52.86% of the Company's shareholding is owned by Yankuang Group. The Company is therefore exempted from certain requirements under Section 303A of the Listed Company Manual of the New York Stock Exchange (the 「NYSE」): (i) the Company is not required to comply with the requirements under Section 303A.01 to form a Board with a majority of the Independent Directors, (ii) the Company is not required to comply with the requirements under Section 303A.04 to form a nomination and corporate governance committee of the Board with all the members being Independent Directors, and (iii) the Company is not required to comply with the requirements under Section 303A.05 to form a remuneration committee of the Board with all the members being Independent Directors.

Corporate Governance Report (Cont'd)

As a foreign issuer, the Company sets out below the material differences between its corporate governance practices and the NYSE's corporate governance requirements contained in Section 303A of the Listed Company Manual of the NYSE:

	NYSE Listed Company Manual Requirements on Corporate Governance	Differences from the corporate governance practices currently adopted by the Company
Meetings held by non-executive Directors	Section 303A.03 of the NYSE Listed Company Manual requires non-executive directors of each listed company to meet regularly without the participation of executive directors at such meetings.	There is no identical corporate governance requirement in the PRC. The Company has established a reporting system to the Board to ensure that the Directors are kept informed of the Company's business and operations. The Company believes that the convention of Board meetings on a regular basis offers the non-executive Directors a well-established communication forum to put their concerns and engage in full and open discussions regarding the Company's affairs.
Corporate Governance Guidelines	Section 303A.09 of the NYSE Listed Company Manual requires that a listed company must adopt and disclose corporate governance guidelines. In addition, Section 303A.09 lists out the matters that must be addressed in the guidelines which mainly include: <ul style="list-style-type: none"> • qualifications of the directors; • responsibilities and obligations of the director; • communications between the director and the management and independent advisors; • remuneration of the director; • orientation and continuing education of the director; • reappointment of the management, and • annual review of the performance of the board. 	Although the Company has not adopted a separate set of corporate governance guidelines encompassing all corporate governance requirements required by the NYSE, the Company has however, formulated the Rules of Procedures for the Shareholders' Meetings, the Rules of Procedures for the Board, the Rules of Procedures for the Supervisory Committee, the Rules for the Work of the Independent Non-Executive Directors, the Rules for Disclosure of Information, the Rules for the Approval and the Disclosure of the Connected Transactions of the Company and other corporate governance documentation in accordance with the regulations and requirement of listing in China. The above corporate governance documentation has adequately addressed the corporate governance requirements required by the NYSE and provides more extensive and specific corporate governance requirements that can further facilitate the operation of the Company effectively.
Code of Business Conduct and Ethics	Section 303A.10 of the NYSE Listed Company Manual requires that a listed company must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	Although the Company has not adopted a Code of Business Conduct and Ethics which completely conforms to the NYSE requirements, the Company has adopted a suitable Code of Ethics in compliance with the PRC laws and regulations as well as the rules of the relevant listing stock exchanges. The Code of Business Conduct and Ethics is disclosed on the Company's website. The Company believes that the existing Code of Ethics can appropriately protect the interests of both the Company and its Shareholders.