





# CORPORATE GOVERNANCE STRUCTURE

## (1) CORPORATE GOVERNANCE REPORT PREPARED IN ACCORDANCE WITH CHINESE SECURITIES REGULATORY REQUIREMENTS

### 1. Status of corporate governance

*Shareholders and general meetings:* The Company has established a corporate governance structure to ensure that all shareholders can fully exercise their rights and enjoy equal status, in particular, for minority shareholders. Sufficient time should be provided at general meetings of shareholders, which are to be convened legally and validly, for the discussion of each proposal, to provide a good opportunity for communications between the Board and the shareholders. In addition, shareholders may contact the Company through its shareholder hotline during normal working hours or through its designated e-mail address for any enquiries.

*Controlling shareholder and the listed company:* the Company's controlling shareholder is Zhongxingxin. The controlling shareholder exercises its rights as an investor in strict compliance with the law, without adversely affecting the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with laws and regulations and the terms and procedures as set out in the Articles of Association. The staffing, assets, financial affairs, organisation and business of the controlling shareholder are independent to those of the listed company, with the controlling shareholder and listed company each carrying out independent auditing and assuming its own responsibilities and risks. The controlling shareholder has not directly or indirectly interfered with the decision-making and business activities of the Company beyond the general meeting.

*Directors and Board of Directors:* the Company appoints directors in strict compliance with the procedures set out its Articles of Association, ensuring that the directors are appointed in an open, fair, just and independent manner. In order to fully reflect the opinions of minority shareholders, a cumulative voting scheme is adopted for the appointment of directors. The Board of Directors has a reasonable professional structure, acting in the best interests of the Company and in good faith. The Company has formulated a set of rules of procedure for Board of Directors meetings, and board meetings are convened and held in strict compliance with the Articles of Association and Rules of Procedure of the Board of Directors Meetings. To optimise the corporate governance structure, three specialist committees - the Nomination Committee, Audit Committee and Remuneration and Evaluation Committee - have been established by the Board of Directors in accordance with the Governance Standards for Listed Companies. The majority of members and the convenors in each of these committees are Independent Directors, providing scientific and professional opinions and reference for the decision-making by the Board of Directors.

*Supervisors and Supervisory Committee:* The Supervisors possess professional knowledge and work experience in legal, accounting and other areas and are elected by way of cumulative voting. They monitor the financial affairs and supervise the lawful and regulatory performance of duties by the Company's Directors, the President and other members of the senior management, and safeguard the legal rights and interests of the Company and shareholders. The Company has formulated a set of rules of procedure for the Supervisory Committee meetings. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles of Association and the Rules of Procedure for Supervisory Committee Meetings.

*Results appraisal and incentive binding mechanism:* during the reporting period, the Remuneration and Evaluation Committee of the Board of Directors has linked the salaries of the senior management with the results of the Company and personal performance of the individual, in accordance with the Proposal on the Management of Remuneration and Performance of the Senior Management. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of Association. In order to establish a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy, so as to help optimise the overall remuneration structure and create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of the Company's operation, the Remuneration and Evaluation Committee of the Board of Directors of the Company has formulated Phase I of the Share Incentive Scheme of the Company, which has been approved by the general meeting of the Company and has started to take effect.



## CORPORATE GOVERNANCE STRUCTURE

*Stakeholders:* the Company respects the legal rights and interests of banks and other stakeholders such as creditors, employees, consumers, suppliers, and the community, and works actively together with these stakeholders to promote the sustainable and healthy development of the Company.

*Information disclosure and transparency:* the secretary to the Board of Directors and relevant professional officers are responsible for the Company's information disclosure obligations and reception of visits by shareholders and handling of shareholder enquiries. The Company discloses relevant information in strict compliance with Fair Information Disclosure by Companies Listed on the Shenzhen Stock Exchange and the Articles of Association in a true, accurate, complete and timely manner, and ensures that all shareholders have an equal opportunity to obtain access to information.

### 2. Performance of duties by Independent Non-executive Directors

During the reporting period, the Independent Directors' function in perfecting the corporate governance structure of the Company and protecting the interests of minority shareholders was particularly evident. During the reporting period, the Independent Directors of the Company raised no objections on the resolutions passed by the Board of Directors meetings and other matters of the Company. In relation to important matters for which they were required to give independent opinions (including connected transactions, third-party guarantees, the appointment of Directors and senior management and the Share Incentive Scheme), the Independent Directors have seriously considered the matters and have issued written independent opinions. The Independent Directors provided valuable and professional recommendations on major decisions by the Company, improving the rationality and objectiveness of the Company's decisions. Attendance of Independent Directors of the Company at Board of Directors meetings during 2006 was as follows:

Name of Independent Director	Number of Board Meetings requiring attendance	Attendance in person	Attendance by proxy	Absent
Zhu Wuxiang	5	3	2	0
Chen Shaohua	5	5	0	0
Qiao Wenjun	5	3	2	0
Mi Zhengkun	5	4	1	0
Li Jin	5	5	0	0

### 3. "Five Separations"

The Company is independent of its controlling shareholder Zhongxingxin in respect of the staff, assets, finance, organisation and business. Each of the Company and Zhongxingxin is audited independently and assumes its own responsibilities and risks.

With respect to staffing, the Company is fully independent in matters including the management of labour, human resources and salaries. Members of the senior management receive their remuneration from the Company and do not receive any remuneration from the controlling shareholder or take up other major positions other than as directors.

With respect to assets, the Company's assets are fully independent and the Company has clear ownership of its assets. The Company has an independent production system, a supplementary production system and associated facilities. Intangible assets such as industrial property rights, trademarks, and other non-patentable technologies are owned by the Company. The Company's procurement and sales systems are independently owned by the Company.

With respect to finance, the Company has an independent financial department. It has established an independent accounting and auditing system and a financial management system, and maintains an independent bank account.

## CORPORATE GOVERNANCE STRUCTURE

With respect to business, the Company's business is fully independent from the controlling shareholder. Neither the controlling shareholder nor its subsidiaries are engaged in any business identical or similar to that of the Company.

With respect to organisation, the Board of Directors, the Supervisory Committee and other internal organisations of the Company operate in complete independence from the controlling shareholder. There are no subordinate relationships between the controlling shareholder (and its functional departments) and the Company (and its functional departments).

#### **4. Establishment and Implementation of the Appraisal and Incentive Mechanism for Senior Management of the Company**

The Company has established a performance appraisal system for senior management and an incentive mechanism linking remuneration to the Company's results and the individual staff member's performance. The Remuneration and Evaluation Committee is mainly responsible for formulating and examining proposals for the management of remuneration and performance of the Directors and senior management of the Company, conducting annual performance appraisals for the senior management of the Company and determining the remuneration of the senior management based on the results of the appraisal.

### **(2) CORPORATE GOVERNANCE REPORT PREPARED IN ACCORDANCE WITH THE REQUIREMENTS OF THE LISTING RULES OF THE STOCK EXCHANGE OF HONG KONG**

The Group is dedicated to raising the corporate governance standards and improving the accountability and transparency of the Group by adopting stringent corporate governance practices, with a view to maximising value for its shareholders in the long term.

The Group had fully complied with all the principles and code provisions of the Code on Corporate Governance Practices set out as Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") in 2006.

#### **I. Shareholders**

The Board of Directors and the senior management understand that it is their responsibility to act in the interest of the shareholders as a whole and to use their best effort to enhance value for shareholders. To comply with the new Company Law of the People's Republic of China ("Company Law") enacted on 1 January 2006, the Company had made comprehensive revisions to the Articles of Association and the revision was reviewed and passed by the shareholders by way of special resolution at the annual general meeting of the Company held on 14 June 2006.

The Company Law and the Articles of Association provide that shareholders holding more than 10% of the shares of the Company alone or in aggregate shall have the right to request the Board of Directors to convene an extraordinary general meeting; shareholders holding more than 3% of the shares of the Company alone or in aggregate shall have the right to propose ex tempore motions and submit the same in writing to the convenor 10 days prior to the convening of the general meeting.

The Company has always maintained sound communications with its shareholders by reporting the Group's results and operations to Shareholders through numerous official channels, such as disclosures in annual reports, interim reports and quarterly reports. Shareholders may also express their views or exercise their rights through communication channels set up by the Group, such as the investors' hotline and e-mail contacts. In particular, the Company regards the convening of its annual general meeting as one of the most important events for the Company. All Directors and members of the senior management will attend the meeting on a best effort basis and engaged in direct dialogue with the shareholders who will be given time to raise questions.

Please refer to the Articles of Association posted on the website designated for information disclosure (<http://www.cninfo.com.cn>) on 7 April 2006 for information relating to the procedures of general meetings, voting by shareholders and the appointment of proxies.

## CORPORATE GOVERNANCE STRUCTURE

Details of the shareholding structure of the Company are set out in the section headed “Changes in Share Capital and information of Shareholders” of this Annual Report.

### **II. Board of Directors**

Members of the Board of Directors seek to act in the best interests of the Company, providing leadership and supervision over the Group and assuming joint and individual responsibility to all shareholders of the Company in respect of the management, control and operations of the Company.

#### **(I) Functions of the Board**

The Board of Directors is responsible for convening general meetings, reporting its work to the general meeting, implementing resolutions of the general meeting in a timely manner, monitoring the development of the overall operational strategy of the Company, deciding on the operational direction and investment plans of the Company, as well as supervising and guiding the management of the Company. The Board of Directors should also monitor the business and financial performance and formulate the annual financial budgets and final accounts of the Company.

The Directors confirm that it is their responsibility to prepare financial statements in respect of each financial year to give a true and fair report on the Group’s conditions, as well as the results and cash flow accounts for the relevant periods. The Directors have consistently applied appropriate accounting policies and complied with all applicable accounting standards in preparing the financial statements for the year ended 31 December 2006. After due enquiries, the Directors are of the opinion that the Group has sufficient resources to carry on operations in the foreseeable future, and as a result it is appropriate for the Group to prepare its financial statements on an ongoing concern basis.

#### **(II) Composition of the Board**

The Board of the Company comprises fourteen Directors, including a Chairman and two Vice Chairmen. All Directors (save for the Chief Executive Officer and two Executive Directors) are Non-executive Directors independent of the management, including five Independent Non-executive Directors who have substantial experience and possess academic and professional qualifications in the telecommunications, financial, legal and banking sectors and who are able to exercise influence in a proactive manner, and six Non-executive Directors who have extensive business and management experience. Their presence enables stringent review and control of the management procedures and ensures that the interests of shareholders as a whole, including minority shareholders, are safeguarded. The profile and terms of office of the Directors are set out under the section headed “Directors, Supervisors, Senior Management and Staff” of this annual report.

The Company confirms that it has received written confirmations of independence from all the Independent Directors regarding their independence in accordance with Rule 3.13 of the Listing Rules. The Company is of the opinion that all such Directors are independent persons.

#### **(III) Appointment and Removal of Directors**

The term of office of each Director is 3 years for each session, which may be extended upon expiry, and the term of office of each Independent Non-executive Director must not be longer than 6 years. Each of the Directors has entered into a Director’s Service Contract with the Company for a term of three years (the term of office of a Director appointed during a session would be less than 3 years). The appointment and removal of Directors is subject to the approval of the general meeting of the Company. Details of the Directors of the Fourth Session of the Board of Directors of the Company to be re-elected are set out under the section headed “Changes in the Directors, Supervisors and Senior Management” of this annual report.

## CORPORATE GOVERNANCE STRUCTURE

### (IV) Board Meetings

1. The Articles of Association requires that the Board of Directors should convene at least four meetings a year. In 2006, the Board of Directors of the Company convened five working meetings in 2006, the details of which are set out under the section headed "Daily Work of the Board of Directors" of this Annual Report. Attendance of Directors at the on-site meetings of the Board of Directors in 2006 was as follows:

Members of the Board of Directors	Attendance in person	Attendance by proxy
Hou Weigui	5/5	—
Wang Zongyin	3/5	2/5
Xie Weiliang	3/5	2/5
Zhang Junchao	3/5	2/5
Li Juping	4/5	1/5
Dong Lianbo	5/5	—
Yin Yimin	5/5	—
Shi Lirong	3/5	2/5
He Shiyong	2/5	3/5
Zhu Wuxiang	3/5	2/5
Chen Shaohua	5/5	—
Qiao Wenjun	3/5	2/5
Mi Zhengkun	4/5	1/5
Li Jin	5/5	—

2. As required by the Articles of Association, all Directors should be given 14 days' notice prior to the commencement of a regular Board of Directors meeting and 3 days' notice prior to the commencement of an interim Board of Directors meeting. The secretary to the Board of Directors should provide details of a regular Board of Directors meeting (including information in relation to each of the specialist Board committees) not later than 3 days prior to the commencement of the meeting to ensure all Directors are briefed on matters to be considered in the meeting in advance.

As for interim Board of Directors meetings which are convened by means of telephone or video conference as requested by the Company's management, information about the meeting would be provided simultaneously to all Directors via e-mail and facsimile and sufficient time would be given to the Directors to consider the matters. The secretary to the Board of Directors would respond to any questions raised by the Directors and take appropriate action in a timely manner to assist Directors to ensure that the procedures of the Board of Directors is in compliance with the applicable regulations, such as Company Law of the People's Republic of China, the Articles of Association and the Hong Kong Stock Exchange Listing Rules.

3. Minutes of each Board of Directors meeting should be signed by the attending Directors and person taking the minutes, and be kept for a term of 10 years, during which the minutes are available for Directors' inspection from time to time upon their request.
4. When the Board of Directors considers any matters, including connected transactions, that are considered by the Board of Directors as a material conflict of interest, any Directors who are by any means connected would abstain from voting.

## CORPORATE GOVERNANCE STRUCTURE

### **(V) Measures Taken to Ensure the Performance of Duties by Directors**

1. The Company would supply the Director with all the relevant and necessary information when the Director takes office. The Company subsequently provide the Directors with all the newly promulgated laws and regulations as well as information and development concerning the Company, such as its internal publications, and arrange for the Directors to attend relevant continuing professional training courses, in order to assist them in understanding their duties as a director under the requirements of relevant laws and regulations, such as the Listing Rules, as well as gaining comprehensive insight in the Company's operation in a timely manner.
2. Whenever the Directors of the Company are required to provide an opinion in relation to matters including provision of external guarantees, appropriation of funds and connected transactions, the Company would engage relevant independent professional bodies, such as auditors, independent financial advisors and lawyers, to provide independent and professional advice so as to assist the Directors in performing their duties.
3. The Company has purchased liability insurance for Directors, Supervisors and senior management from AIU Insurance Company Shenzhen Branch in respect of potential legal actions arising from the performance of duties by the Directors and the policy was considered and approved at the nineteenth meeting of the third session of the Board of Directors held on 25 October 2006 with the mandate of the general meeting.

### **(VI) Board Committees**

There are three specialist committees under the Board of Directors, namely the Remuneration and Evaluation Committee, the Nomination Committee and the Audit Committee. The terms of reference defining the responsibilities and authority for each of the specialist committees have been formulated. The order of meeting for the specialist committees is implemented by reference to the statutory procedures for meetings of the Board of Directors.

#### 1. *The Remuneration and Evaluation Committee*

##### (1) The role and functions of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee is responsible for determining and reviewing specific remuneration packages and performances of the Directors and senior management based on the management policies and structures for the remuneration and performance of Directors and senior management laid down by the Board of Directors.

##### (2) Members and Meetings of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee comprises seven members, including four Independent Directors, two Non-executive Directors and one Executive Director. The convenor of the Remuneration and Evaluation Committee is Independent Director Mr. Zhu Wuxiang. Members of the committee include Mr. Hou Weigui, Mr. Wang Zongyin, Mr. Yin Yimin, Mr. Chen Shaohua, Mr. Mi Zhengkun and Mr. Li Jin.

At the twentieth meeting of the third session of the Board of Directors of the Company convened on 15 December 2006, the Board of Directors considered and approved the resolution regarding the resignation of Mr Yin Yimin (Executive Directors and President of the Company) as a member of the Remuneration and Evaluation Committee of the third session of the Board of Directors of the Company (mainly owing to the relevant regulations of competent State authorities that remuneration and evaluation committees of listed companies planning to implement share incentive schemes should be formed by external directors). It also approved the amendment of the provision regarding the number of committee numbers in the Working Rules of the Remuneration and Evaluation Committee of the Board of Directors of the Company (namely from seven members to six members).



## CORPORATE GOVERNANCE STRUCTURE

In 2006, the Remuneration and Evaluation Committee convened four meetings. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in person	Attendance by proxy
Zhu Wuxiang	3/4	1/4
Hou Weigui	3/4	1/4
Wang Zongyin	3/4	1/4
Yin Yimin	2/4	2/4
Chen Shaohua	4/4	—
Mi Zhengkun	3/4	1/4
Li Jin	4/4	—

(3) The decision-making process and criteria for determining remuneration for Directors and senior management

The Remuneration and Evaluation Committee makes recommendations to the Board of Directors on the allowances for Directors by reference to the work performance of the Directors of the Company as well as the levels offered by other listed companies in the industry. Such recommendations shall be confirmed upon consideration and approval both by the Board of Directors and the general meeting.

The Remuneration and Evaluation Committee reviews remuneration appraisals on an annual basis to determine the annual remuneration budget. It also conducts annual performance appraisals in respect of each senior management personnel of the Company and determines the remuneration of such senior management personnel based on the results of such appraisals.

(4) Work of the Remuneration and Evaluation Committee during the year

The Remuneration and Evaluation Committee held four meetings in 2006 to review the remuneration packages for 2005 and the remuneration budget of the Company for 2006. It also reviewed the Performance of the President and other senior management of the Company for 2005 and determined their remuneration for 2005.

As a specialist committee under the Board of Director, the Remuneration and Evaluation Committee formulated Phase I of the Share Incentive Scheme of the Company and The Performance Appraisal System for Phase I of the Share Incentive Scheme, to establish a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy, so as to help optimise the overall remuneration structure and create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of the Company. The scheme has started implementation upon approval by the general meeting of the Company. The Remuneration and Evaluation Committee will deal with matters pertaining to the Share Incentive Scheme within its scope of authority mandated by the general meeting.

### 2. The Nomination Committee

(1) The role and functions of the Nomination Committee

The Nomination Committee is primarily responsible for considering standards and procedures for the selection of Directors and senior management of the Company. The committee considers the criteria, procedures and duration of appointment for Directors and senior management of the Company in accordance with relevant laws and regulations and the Articles of Association and taking into account the actual conditions of the Company. The Nomination Committee then submits a proposal to the Board of Directors for its approval, and implements the decisions made by the Board of Directors.

## CORPORATE GOVERNANCE STRUCTURE

### (2) Members and Meetings of the Nomination Committee

The Nomination Committee comprises seven members, including four Independent Non-executive Directors and three Non-executive Directors. The convenor of the Nomination Committee is Independent Director Mr. Mi Zhengkun. Members of the committee included Mr. Hou Weigui, Mr. Xie Weiliang, Mr. Li Juping, Mr. Zhu Wuxiang, Mr. Qiao Wenjun and Mr. Li Jin.

In 2006, the Nomination Committee convened two meetings. Attendance of the meetings was as follows:

Members of the Nomination Committee	Attendance in person	Attendance by proxy
Mi Zhengkun	1/2	1/2
Hou Weigui	1/2	1/2
Xie Weiliang	1/2	1/2
Li Juping	2/2	—
Zhu Wuxiang	2/2	—
Qiao Wenjun	1/2	1/2
Li Jin	2/2	—

### (3) Procedures for the election and appointment of Directors and the senior management

The Nomination Committee conducts extensive searches for candidates of Directors and senior management both internally in the Company, its subsidiaries or associate companies and externally in the open market after considering the Company's requirements for new Directors and senior management. With the consent of the potential candidates, a meeting of the Nomination Committee will be convened to examine the qualifications of the initial nominees based on the conditions for appointment of Directors and senior management. One month prior to the election of new Directors, the Nomination Committee will propose candidates for directorship to the Board of Directors and furnish the Board with relevant information. Prior to the appointment of any new senior management staff, the Nomination Committee will also propose to the Board of Directors candidates to be appointed as senior management staff and furnish the Board with relevant information.

### (4) Work of the Nomination Committee during the year

In 2006, the Nomination Committee held two meetings to approve resolutions on the appointments of Mr Pang Shengqing, Mr Zhong Hong, Mr Fan Qingfeng, Mr Yu Yong and Mr Zeng Xuezhong as Vice Presidents of the Company and submit the same to the Board of Directors for review and approval.

## 3. The Audit Committee

### (1) The role and functions of the Audit Committee

The Audit Committee is primarily responsible for making recommendations to the Board of Directors on the appointment and dismissal, remuneration and terms of engagement of external auditors, supervising the implementation of the Company's internal audit system, reviewing the financial information of the Company and its disclosure (including the inspection of the Company's financial statements and annual reports and accounts, interim reports and quarterly reports as to whether they are complete, as well as the review of significant opinions on financial reporting contained in the statements and reports), assessing the financial controls, internal controls and risk management system of the Company, and reviewing material connected transactions.

## CORPORATE GOVERNANCE STRUCTURE

### (2) Members and Meetings of the Audit Committee

The Audit Committee comprises seven members, including four Independent non-executive Directors and three Non-executive Directors. The convenor of the Audit Committee is Independent Director Mr. Chen Shaohua. Members of the committee included Mr. Hou Weigui, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Zhu Wuxiang, Mr. Qiao Wenjun and Mr. Mi Zhengkun. The Audit Committee was in compliance with Rule 3.21 of the Hong Kong Stock Exchange Listing Rules.

In 2006, the Audit Committee convened two meetings. Attendance of the meetings was as follows:

Members of the Audit Committee	Attendance in person	Attendance by proxy
Chen Shaohua	2/2	0
Hou Weigui	1/2	1/2
Zhang Junchao	1/2	1/2
Dong Lianbo	2/2	0
Zhu Wuxiang	2/2	0
Qiao Wenjun	1/2	1/2
Mi Zhengkun	1/2	1/2

### (3) Work of the Audit Committee during the year

The Audit Committee convened two meetings in 2006 to:

- Review the financial report of the Company for the year ended 31 December 2005, which was then submitted to the Board of Directors for its consideration and approval;
- Review the internal audit and internal control reports of the Company for the year ended 31 December 2005;
- Review the interim financial report of the Company for the six months ended 30 June 2006, which was then submitted to the Board of Directors for its consideration and approval;
- Review whether actions taken by the management in litigations in which the Company or any members of the Group is a defendant are appropriate;
- Review the audit fees payable to the PRC and international auditors for the year ended 31 December 2005 and submit the same to the Board of Directors for review and approval;
- Review resolutions of the Company on the appointment of PRC and international auditors for 2006 and submit the same to the Board of Directors and general meeting for review and approval.

The Audit Committee reviewed the accounting principles and standards adopted by the Group in close collaboration with the management, investigated, audited and improved the internal control systems of the Company, the effectiveness testing for operations and financial reporting, including the audited financial report for the year ended 31 December 2006.

## CORPORATE GOVERNANCE STRUCTURE

### **(VII) The Division of Responsibilities between the Board of Directors and Management**

The responsibilities and duties of the Board of Directors and the management have been clearly defined. Duties of the Board of Directors are set forth in Article 160 of the Articles of Association, while the management should be accountable to the Board of Directors by furnishing adequate information to the Board of Directors and the specialist committees to enable them to make informed decisions. Each Director is entitled to obtain further information from the management of the Group.

### **(VIII) Chairman and the Chief Executive Officer**

The Chairman of the Company is Mr. Hou Weigui and the President of the Company is Mr. Yin Yimin. The role of the Chairman is separated from that of the President of the Company and this is clearly defined in the Articles of Association. Duties of the Chairman and the President of the Company are set forth in Articles 164 and 180 of the Articles of Association, respectively.

The Chairman is responsible for the operation of the Board of Directors and advising the Board of Directors and the Group on the overall strategy and policies of the Company so as to ensure that all Directors act in the best interest of the shareholders.

The President of the Company is responsible for leading the management team of the Group to take charge of the day-to-day management and operation of the Company according to the objectives and directions set up by the Board of Directors and the internal control policy and procedure of the Company.

The President of the Company should maintain on-going communications with the Chairman and all Directors and report his work to the Board of Directors regularly to ensure that all Directors are well informed of all material business development of the Group.

### **III. The Supervisory Committee**

#### **(I) Members and Meetings of the Supervisory Committee**

The Supervisory Committee of the Company comprises Mr. Zhang Taifeng (Chairman), Mr. Wang Wangxi, Ms. He Xuemei, Mr. Qu Deqian and Ms. Wang Yan. For details of re-election of the fourth session of supervisory committee please refer to the section headed "Changes in the Directors, Supervisors and Senior Management" of the Annual Report.

Attendance of meetings of the Supervisory Committee in 2006 is set out as follows:

<b>Name of Supervisor</b>	<b>Attendance in person</b>	<b>Attendance by proxy</b>
Zhang Taifeng	4/4	—
Wang Wangxi	2/4	2/4
He Xuemei	3/4	1/4
Qu Deqian	4/4	—
Wang Yan	3/4	1/4

**(II)** Details of the Supervisory Committee meetings convened during the year and the work of the Supervisory Committee in 2006 are set out in the section headed "Report of the Supervisory Committee" of this Annual Report.

## CORPORATE GOVERNANCE STRUCTURE

### IV. Remuneration and Interests of Directors, Supervisors and the President

#### (I) Remuneration

Please refer to the section headed “Changes in Shareholdings and Remunerations of Directors, Supervisors and Senior Management for the year” of this Annual Report for details of the annual remuneration of the Directors, Supervisors and senior management of the Company.

Further details of the remuneration of Directors and Supervisors for the year are set out in note 8 to the financial statements prepared in accordance with HKFRSs.

#### (II) Interests

##### (1) Service contracts and contractual interests of the Directors and Supervisors

None of the Directors and Supervisors of the Company has entered into any service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

##### (2) Interests of Directors and Supervisors in contracts

None of the Directors and Supervisors of the Company was materially interested, either directly or indirectly, in any contracts of significance to which the Group is a party subsisting during or at the end of 2006.

##### (3) Interests of Directors, Supervisors and Presidents in shares or debentures

The interests in shares of the Company held by Directors, Supervisors and the President of the Company as at 31 December 2006 are set out in the section headed “Changes in the Shareholdings and Remuneration of the Company’s Directors, Supervisors and Senior Management” of this Annual Report.

Save as disclosed above, as at 31 December 2006, none of the Directors, Supervisors and the President had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules.

As at 31 December 2006, none of the Directors, Supervisors or the President, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

##### (4) Securities transactions by Directors

The Company has adopted code provisions relating to the dealing in the Company’s shares by Directors contained in the Model Code. After making specific enquiry with all Directors, the Company confirms that all Directors of the Company were in full compliance with the Model Code throughout 2006.

### V. Remuneration Package and Retirement Benefits for Employees

The remuneration package for the Group’s employees includes salary, bonuses and allowances. Our employees also receive welfare benefits including medical care, housing subsidies, retirement and other miscellaneous benefits. In accordance with applicable PRC regulations, the Group participated in social insurance contribution plans organised by the relevant government authorities, under which we paid monthly contributions towards each employee’s social insurance in an amount equivalent to a specified percentage of his/her monthly salaries. Further details of the remuneration of top 5 employees of the company for the year are set out in note 9 to the financial statements prepared in accordance with HKFRSs.

Details of staff retirement benefits provided by the Group are set out in note 33 to the financial statements prepared in accordance with HKFRSs.



## CORPORATE GOVERNANCE STRUCTURE

### VI. Auditors' Remuneration

Ernst & Young Hua Ming and Ernst & Young acted as the Group's domestic auditors and Hong Kong's auditors, respectively.

Shenzhen Dahua Tiancheng Certified Public Accountants acted as the Company's domestic auditors for the year 2004. Ernst & Young Hua Ming has been appointed auditors of the Company's domestic auditors for two consecutive years (2005 and 2006). Ernst & Young has been appointed auditors of the Company's Hong Kong's auditor for three consecutive years since 2004.

The external auditors of the Group did not provide any non-audit services.

	Amount	Auditors
Audit fees 2006	RMB0.8 million	Ernst & Young Hua Ming
Audit fees 2006	HKD4.8 million	Ernst & Young

### VII. Internal Control

The Board of Directors of the Company is responsible for reviewing the Company's internal control systems to ensure its effective implementation. The Board of Directors has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the internal control systems of the Company and its subsidiaries.

With a view to enhancing and improving the internal control system of the Company, an internal control task force was formed in 2006 to streamline and improve the Company's internal control system and institutions in five areas, namely environmental controls, risk assessment, business controls, information and communications and supervision, aiming to further enhance corporate governance and the organisational structure and to ensure the effective implementation of the internal control system.

The Audit Committee under the Board of Directors convened two regular meetings each year to review the effectiveness of and identify rooms for further improvements in financial, operational and supervisory controls and the risk management procedures. Reports were submitted to the Board of Directors of the Company on the implementation of internal control measures.

The internal control system of the Company was designed to provide reasonable (but not absolute) assurance against material misstatements or losses, to manage (but not eliminate) risks arising from the malfunctioning of operating systems or failures to attain the Company's objectives. The Board of Directors is of the view that the internal control system was in normal operation as at 31 December 2006.

### VIII. Investors' Relationship

In 2006, the Company continued to dedicate its efforts to promoting investors' relationship and maintain sound communications with its shareholders. Positive interaction with investors was maintained through the investors' hotline and e-mail communications.

The Company holds results presentation meetings each year after the announcement of its annual, interim and quarterly results. In 2006, the Company held two results presentation meetings and four telephone results presentation conferences.

The Group's website is updated regularly to provide investors and the public with timely information of the Group's latest developments.