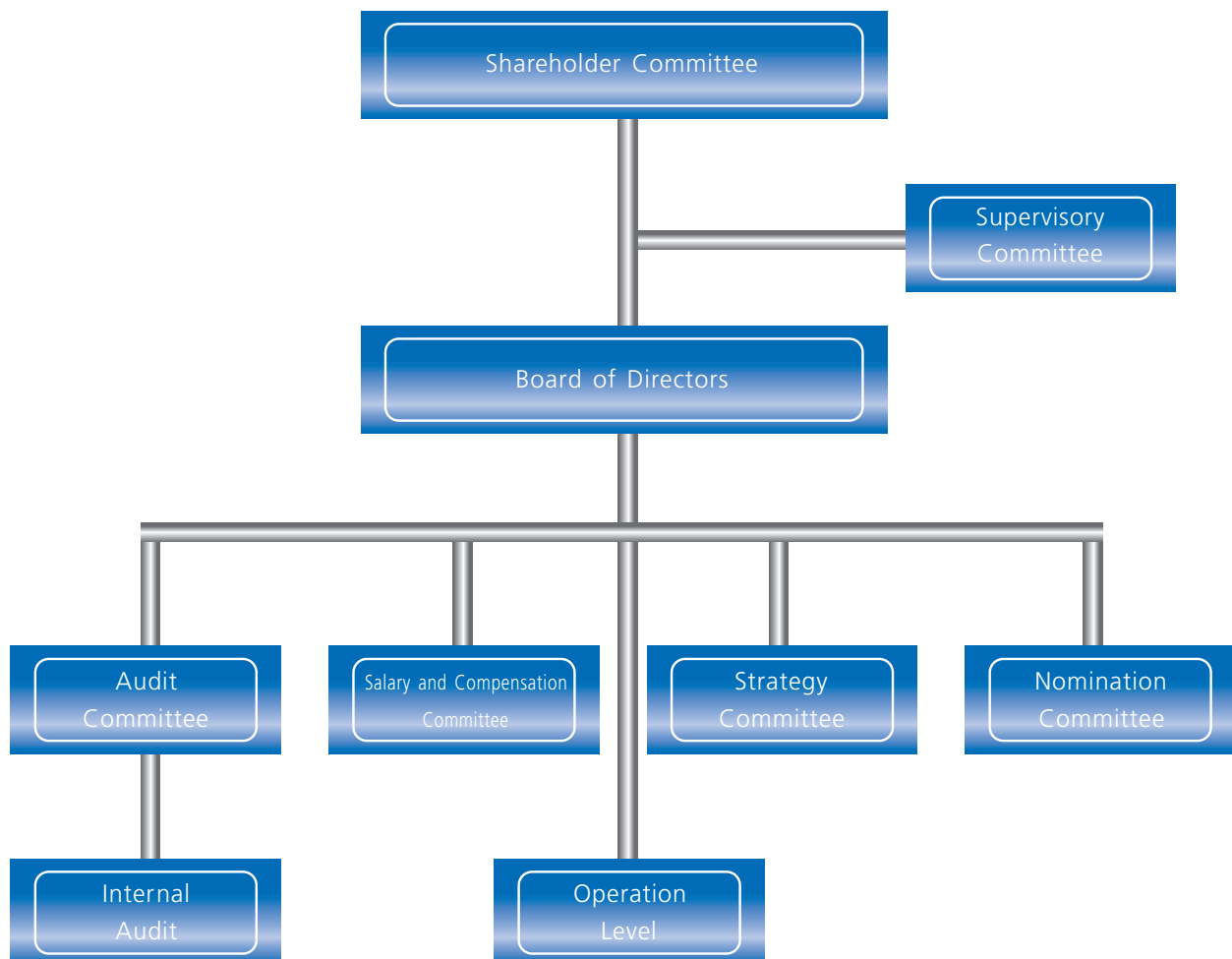


Corporate Governance Report

The Company is committed to establish a mechanism of governance with order, high efficiency and transparency to constantly improve its corporate governance, the Board believe that through the adoption of high level corporate governance and its serious implementation, the accountability and transparency of the Company can be enhanced and the Company can strike a balance amongst the interests of the interested parties of the public, shareholders, customers, employees and investment partners of the Company, so as to maximize the interests of the shareholders.

The overall governance structure of the Company



Corporate Governance Report (Continued)

1. Corporate Governance Practices

Improvement of the internal control system was made by reviewing the Code with effect from 1 January 2005 to cater for the constant development and evolvement of corporate governance.

The Code sets out the principles of good corporate governance and two levels of recommendation, namely, Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviation; and Recommended Best Practices, which are for guidance only, save that issuers are encouraged to comply with. The Board has reviewed the Company's corporate governance practices. For the year ended 31 December 2006, the Company has adopted all the principles and Code Provisions and nearly all the Recommended Best Practices set out in the Code.

The Company's corporate governance framework incorporates all the Code Provisions and nearly all the Recommended Best Practices in the Code. The Company's code on corporate governance practices includes, without limitation to, the Articles of Association passed at the shareholders' general meeting on 9 September 2004 and Work Rules for the Board, Organisation Rules for the Audit Committee, the Articles of the Nomination Committee, Organisation Rules for the Strategic Committee and Organisation Rules for the Remuneration Committee passed on 25 August 2005. All the documents mentioned above are set out on the Company's website. The Board also formulated Management Methods for Information Disclosure, Management Mechanism for Investor Relations and Management Mechanism for Implementation of Resolutions of the Board as relevant work rules of the Company.

The Company's code on corporate governance practices exceeds the requirements of the Stock Exchange and is more strict than the Code Provisions set out in the Code in many aspects, which mainly include the following:

- Apart from the Audit Committee and the Remuneration Committee, the Board has two other governance committees, namely, the Nomination Committee and the Strategic Committee.
- Apart from one Non-Executive director, all other members of the Audit Committee are Independent Non-Executive Directors.
- Each year, the President submits the Work Report to the Board, personally reporting the details of the management and their subordinates' compliance with the Company's internal control system, regulations and work process.

2. The Board

Duties of the Board:

The Board is responsible for providing leadership and monitoring the Company's affairs. All directors are liable to act in the best interests of the Company and collectively assume the responsibility for overseeing and monitoring the Company's affairs. The Board makes regular assessment on the management's business prospects and results as well as exercises other power in accordance with the Articles of Association, which mainly includes:

- To oversee the implementation of resolutions passed at shareholders' general meetings;
- To approve the Company's business plans and investment schemes;
- To formulate the Company's annual financial budget schemes;
- To formulate the Company's profit distribution plan;
- To formulate the Company's basic management system;
- To approve the Company's accounting policies and adjustment to the same;
- To approve various announcements including financial statements.

Corporate Governance Report (Continued)

2. The Board (*continued*)

Constitution:

At 31 December 2006 the Board was composed of 12 Directors, including 5 Executive Directors, 5 Independent Non-executive Directors and 2 Non-executive Directors. All directors must retire at the third annual general meeting after being appointed and are then eligible for re-election. Newly appointed Directors are subject to election at the first general meeting after being appointed. The personal information of the Directors are set out in the section headed Profile of the Directors, Supervisors and Senior Management on pages 23 to 29 of this report. The same information is also set out in the website of the Company.

Directors are elected in general meetings with a term of three years from the date of their elections until the expiry of their terms.

Executive Director	Xing Daoqin Tao Kui Guo Mengquan Zhang Shaowen Niu Xinan	Chairman Vice Chairman President
Non-executive Director	Zhang Xingxi Yun Dah Jiunn	Member of the Audit Committee
Independent Non-executive director	Feng Fei Xu Xinzhong Feng Bing Wang Jialu Zha Jianqiu	Member of the Audit Committee Member of the Audit Committee Member of the Audit Committee Member of the Audit Committee

Note: Yun Dah Jiunn was re-designated from an Executive Director to a Non-executive Director on 27 December 2006.

Corporate Governance Report (Continued)

2. The Board (*continued*)

Constitution: (*continued*)

All directors shall, upon their initial appointment, report to the Board in respect of the number and nature of any office assumed by them in other companies or institutions and the term of office, as well as disclose to the Company names of such companies or institutions. If the Board considers a director has a conflict interest in any proposal under consideration, such director shall report his/her interests and abstain from voting and may, when necessary, apply for absence. The Board requires directors to confirm whether there is any connected transaction between the Directors or their respective associates and the Company or its subsidiaries at each financial reporting period. Any material transactions relating to connected parties, which have been confirmed, will be disclosed in notes to the financial statements of an annual report.

The Independent Non-executive Directors of the Company possess wide professional expertise and experience, and can fully perform their important function of supervision and balance to protect the interests of the shareholders and the Company as a whole. Five out of the seven Non-executive Directors (over one-third) are Independent Non-executive Directors. In determining the independence of a Non-executive Director, the Director is considered independent only after the Board have confirmed that there is not any direct or indirect material relationship between the Director and the Company. A Director is considered not independent after he/she has been a Director over nine years. The Board considers that the Independent Non-executive Directors are able to make independent judgment effectively and satisfy the guideline on assessing independence set out in Rule 3.13 of the Listing Rules.

The Company complies with the requirement concerning the appointment of sufficient Independent Non-executive Directors and that at least one of them should possess appropriate professional qualification or accounting or relevant financial expertise set out Rule 3.10(1) and 3.10(2).

The Company has made appropriate arrangement to insure against the possible legal action that the Directors and senior management may be involved. The Board reviews annually on the insurance arrangement.

Corporate Governance Report (Continued)

2. The Board (*continued*)

The Chairman and the Chief Executive:

The Chairman is responsible for operation and management of the Board while the Chief Executive takes charge of the day-to-day management of the Company's business. To ensure a balanced distribution of functions and authorisations, roles of the Chairman and the Chief Executive are explicitly differentiated. The Chairman is taken up by Xing Daoqin and the Chief Executive is taken up by Guo Mengquan. Under the assistance of the Vice Chairman, the Chairman leads and oversees the operation of the Board to ensure the Board's performance being in the best interests of the Company.

Under the assistance of the Vice Chief Executive, the Chief Executive is responsible for managing the day-to-day affairs of the Company, organising and implementing resolutions of the Board and reporting to the Board on the Company's overall operation. As the chief manager of the Company's day-to-day affairs, the Chief Executive is responsible for the annual business plan and investment schemes and formulation of the Company's basic management rules. He/She also takes the direct responsibility for the Company's operation.

The Chief Executive, the Vice Chief Executive and the Chief Financial Controller make concerted efforts to collaborate with administrative departments of the Company to ensure the Board's and the Board committees' access to complete, reliable and proper information so that the Directors can make decisions with adequate information and to ensure proper implementation of the Board's resolutions. The Chief Executive monitors the Company's operation and financial results with a view to plans and budget and passes on their opinions to the Board on material events.

2. The Board (*continued*)

Joint Company Secretary:

The Joint Company Secretary reports to the Board. All directors are entitled to the Joint Company Secretary's services. He / She shall notify the Board the latest information on governance and oversight on a regular basis, assist the Chairman of the Board in preparation of the agenda, and prepare and despatch meeting documents on a timely and comprehensive basis so as to ensure the efficiency and validity of the Board meetings. Under the assist of the Company's lawyer, the Joint Company Secretary is in charge of announcement of annual and interim reports and information disclosure in accordance with the Listing Rules and relevant rules of the Company. He / She makes a regular enquiry to the Company's financial department for information on connected transactions to secure the compliance with Listing Rules in respect of such transactions.

The Joint Company Secretary is also in charge of preparing and keeping minutes of meetings of the Board and the Board committees together with any relevant documents, which will be provided and disclosed to all directors for their inspection at any reasonable time. All matters under consideration including any enquiry and objection by directors shall be minuted in details. In proper time upon close of a meeting, a minute draft shall be despatched to all directors for their modification opinions.

Board meetings

The Chairman is responsible for approving agenda of each Board meeting and effectually convenes the Board meeting, taking into consideration, where appropriate, other matters proposed by directors for inclusion in the agenda. Assisted by the Company Secretary, the Chairman seeks to ensure all directors' proper access to accurate, timely and sufficient information on the proposals to be considered by the Board to enable their wise decisions. While a ten days' notice of a regular Board meeting is given, the agenda and the meeting documents attached are circulated at least 3 days prior to the holding of a Board meeting or a meeting of any special committee.

The Chairman encourages the Directors to be fully engaged in the Board's affairs and make contributions to the Board's function. In addition to regular Board meetings, the Chairman and Non-executive Directors hold at least one meeting without Executive Directors' presence each year. During the year under review, such meeting was convened once. The Board adopts sound corporate governance practices and procedures and takes appropriate steps to inspire the Directors' open and frank communication so as to ensure Non-executive Directors' enquires to each Executive Director and the effective communication between them.

Corporate Governance Report (Continued)

2. The Board (continued)

Board meetings (continued)

It is expressly provided in the Work Rules for the Board of Directors that, in the event that a substantial shareholder or director of the Company has a conflict of interests in the matter to be considered at the Board meeting, such matter shall not be dealt with by Board committees or by way of circulation. Any director who has a conflict of interests in the matters to be considered shall abstain from voting.

Four Board meetings are held in 2006, with an average attendance of approximately 85%. The details of attendance at Board meetings are as follows:

Directors	Board meeting (times of attendance / times of meetings held)
Executive Directors	
Xing Daoqin	4/4
Tao Kui	4/4
Guo Mengquan	4/4
Zhang Shaowen	2/4
Niu Xinan	4/4
Non-executive Director	
Zhang Xingxi	4/4
Yun Dah Jiunn	3/4
Independent Non-executive Director	
Feng Fei	3/4
Xu Xinzhong	4/4
Feng Bing	2/4
Wang Jialu	3/4
Zha Jianqiu	4/4

In accordance with the Articles of Association, directors, when necessary, may propose to convene an extraordinary Board meeting. They may also, when they consider necessary, obtain the Company's information and independent expert opinion, where expenses incurred are borne by the Company.

2. The Board (*continued*)

Board committees:

In order to ensure good corporate governance, four specialized committees are established under the Board, namely the Strategic Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee. Their terms of reference are determined in accordance with the principles set out in the Code. The Board committees report to the Board. In order to perform their duties, the Board committees have the authority to appoint to lawyers, investment bank, accountants or other professionals to provide professional advice if necessary, the expenses of which are borne by the Company.

Nomination Committee

The Nomination Committee is chaired by Mr. Xing Daoqin. The committee members include Mr. Tao Kui, Mr. Guo Mengquan, Mr. Feng Bing, Mr. Feng Fei, Mr. Xu Xinzong and Mr. Wang Jialu. The committee provides the Board with its advice on appointment of directors, assessment of the Board's composition and re-election of the Board in accordance with certain agreed standards. The relevant standards include a director's proper professional knowledge and experience in the industry, personal integrity and commitment of adequate time. The Nomination Committee is responsible for choosing and recommendation of director candidates, including consideration of recommendations by others and, when necessary, making use of public recruitment.

By reference to the Recommendation A.4 of the Code, the Board formulated the Organisation Rules of the Nomination Committee, specifying the terms of reference of the Nomination Committee. The Organisation Rules of the Nomination Committee is set out on the Company's web-page: <http://www.irico.com.cn/cn/investor/guicheng.htm>.

In 2006, the Nomination Committee held one meeting to discuss mainly on the confirmation of the person selected for the position of chief financial controller.

Corporate Governance Report (Continued)

2. The Board (continued)

Nomination Committee (continued)

The attendance details are as follows:

Directors	Meetings of Nomination Committee (times of attendance / times of meetings held)
Executive Directors	
Xing Daoqin	1/1
Tao Kui	1/1
Guo Mengquan	1/1
Independent Non-executive Director	
Feng Fei	0/1
Xu Xinzhong	1/1
Feng Bing	1/1
Wang Jialu	1/1

Audit Committee

The Audit Committee assumes the responsibilities for audit of the Company's financial reports, review of internal control and corporate governance work and provision of relevant advice to the Board. Independent Non-executive Directors represent four fifths of the members of the Audit Committee. The Audit Committee is chaired by Mr. Zha Jiangiu, an Independent Non-executive Director. Mr. Zha has proper qualifications and financial experience.

By reference to the recommendations in A Guide for Effective Audit Committees issued by Hong Kong Institute of Certified Accountants and C.3 of the Code, the Board has formulated the Organisation Rules of the Audit Committee, stipulating the terms of reference of the Audit Committee, which is set out on the Company's web-page: <http://www.irico.com.cn/cn/investor/guicheng.htm>

Corporate Governance Report (Continued)

2. The Board (*continued*)

Audit Committee (*continued*)

In 2006, the Audit Committee convened two meetings with an average attendance rate of 90%. The senior management and external auditors were invited to these meetings. In 2006, the Audit Committee

- audited the Company's accounts and interim results announcement for the six months ended 30 June 2006, together with the proposals to be approved by the Board;
- audited the Report of the Board of Directors, accounts and the annual results announcement of the Company for the year ended 31 December 2006, together with the proposals to be approved by the Board;
- audited the audit fees and remuneration payable to the external auditors for the year ended 31 December 2006, together with the proposals for the auditors' re-appointment to be approved by the Board;
- audited the Company's implementation of connected transactions in 2006, together with the proposals to be approved by the Board;
- reviewed matters in relation to audit, internal control and financial policies with the senior management and external auditors of the Company.

Corporate Governance Report (Continued)

2. The Board (continued)

Audit Committee (continued)

The attendance details are as follows:

Directors	Meetings of Audit Committee (times of attendance / times of meetings held)
Non-executive Directors	
Zhang Xingxi	2/2
Independent Non-executive Director	
Feng Fei	2/2
Xu Xinzhong	2/2
Feng Bing	1/2
Zha Jianqiu	2/2

Remuneration Committee

The Remuneration Committee is chaired by Mr. Tao Kui. The committee members include Mr. Zhang Shaowen, Mr. Feng Fei, Mr. Wang Jialu and Mr. Zha Jianqiu. The Remuneration Committee is responsible for approval of remuneration policies for all directors and senior management members, including yearly distribution of share appreciation rights pursuant to the Company's share appreciation rights plan. Each year, the committee reviews the current remuneration policy and proposes to the Board to change the remuneration policy and system. It also assists the Company to formulate fair and transparent remuneration policies for directors and senior management and determination of their remunerations. The terms of reference of the Remuneration Committee has been approved by the Board and set out on the Company's web-page: http://www.irico.com.cn/_info/cn/news_txt_270.htm

During the year, the Remuneration Committee conducted several informal discussion on the remuneration-related affairs and conducted a written resolution on 21 July 2006. All members of the Remuneration Committee issued their written advice and the Directors' and senior management's share appreciation rights plan was passed.

2. The Board (*continued*)

Remuneration Committee (*continued*)

Remuneration policy for Executive Directors: The duties of the Remuneration Committee include the formulation of the remuneration policy of the Executive Directors and the evaluation of their performance and the approval of the terms of their service contracts. The remuneration portfolio policy for Executive Directors is designed to link Executive Directors' remunerations with their performance and the Company's commissions to inspire their performance and re-election. In accordance with the Articles of Association, directors may not determine or approve their own remunerations.

The five Executive Directors of the Company are the functionaries who fall within the management of the state-owned Asset Supervision and Administration of the State Council, and hence are subject to Provisional Management Methods for Remunerations of Enterprise Representatives and Provisional Assessment Methods for Appraisal of Operating Results of Enterprise Representatives issued in 2004. These five directors' remunerations consist of basic salary, performance-linked salary and long-term incentive-linked salary. The basic salary is the annual basic income of a functionary, which is determined by reference to the business scale of the enterprise, responsibilities, and the average salary of local enterprises, the industry and the enterprise itself. The performance-linked salary is linked with the operating results appraisal and based on the performance-linked salary, which is determined by reference to the appraisal grade and scores for the annual operating results of the enterprise representative. After the appraisal results are obtained, 60% of the performance-linked salary is paid while the payment of the remaining 40% will be deferred to the second year of re-election or resignation.

Based on their individual performance and the Company's operating status, the Remuneration Committee approved the share appreciation rights to be granted to the Executive Directors pursuant to the share appreciation rights plan as approved by shareholders.

Remuneration policy for Non-executive Directors: Remunerations of Non-executive Directors are subject to approval by the Company's shareholders' general meeting and determined after taking into consideration of the complexity of the matters to be handled by them and their duties. Pursuant to the service contract entered into between the Company and the Non-executive Directors, the Company pays Non-executive Directors the out-of-pocket expenses incurred in performance of their duties (including attendance at the Company's meetings).

Corporate Governance Report (Continued)

2. The Board (continued)

Remuneration Committee (continued)

A director's remuneration includes the amount paid by the Company and its subsidiaries for their management of affairs of the Company and its subsidiaries. Remunerations paid to each director of the Company in 2006 are as follows:

Name	Position	Currency	Remuneration and allowance	2006 Director's fee	Retirement benefits contribution	Remark
Xing Daoqin	Executive Director	RMB	226,630.00		9,346.86	
Tao Kui	Executive Director	RMB	239,032.40		9,346.86	
Guo Mengquan	Executive Director	RMB	210,291.50		9,346.86	
Zhang Shaowen	Executive Director	RMB	207,413.20		9,346.86	
Niu Xinan	Executive Director	RMB	203,189.70		9,346.86	Not received remuneration from the Company
Zhang Xingxi	Non-executive Director	RMB	320,199.00		16,800	Not received remuneration from the Company
Yun Dah Jiunn	Non-executive Director	HKD	810,000.00		—	
Feng Fei	Independent Director	RMB		100,000	—	
Xu Xinzhong	Independent Director	RMB		100,000	—	
Feng Bing	Independent Director	RMB		100,000	—	
Wang Jialu	Independent Director	RMB		100,000	—	
Zha Jianqiu	Independent Director	RMB		100,000	—	
Sub-total		RMB	1,406,755.80	500,000.00	63,534.30	
		HKD	810,000.00			

Pursuant to applicable regulations of the PRC, the Company currently participates in a series of pension schemes organized by the provincial and municipal governments, pursuant to which all production plants of Company must contribute to such pension schemes according to certain proportions of the salaries, bonus and various allowance of the employees. As the production plants are located in different regions, the proportion of the contributions to the remuneration of the employees are also different.

Corporate Governance Report (Continued)

3. Statement of financial responsibility of the Board

The Board prepares the Company's financial statements and takes the responsibility for the completeness and legitimacy of the financial statements as well as the efficiency of the Company's internal control system and risk management process. The Chief Executive is responsible of the daily management of the operation of the Company. The Board makes periodic reviews on the functions of and the rights authorised to the Chief Executive to ensure such arrangements are proper and in compliance with the Articles of Association.

The Directors confirmed their responsibility to prepare financial statements for the Company for each financial year, to report truly and fairly on the financial status of the Group, and to comply with applicable accounting standards and adopt appropriate accounting policies in the preparation of the financial statements. The Directors is responsible for the safe-keeping of the accounts of the Company which disclose the financial status of the Company in reasonable accuracy and assist the Company in preparing financial statements in accordance with laws, regulations and applicable accounting standards.

4. Securities transactions by Directors

The Board has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors of the Company. The Modal Code is also applicable to special employees who may have certain price sensitive information that has been not disclosed, including such employees in the Company's subsidiaries and parent company. Upon appointment, any director of the Company is delivered a Model Code. After that, the Model Code is delivered twice a year, namely, one month prior to the Board meeting to approve the Company's interim results and one month prior to the Board meeting to approve the Company's annual results, together with an indicative notice to remind the Directors that they may not deal in the Company's shares until the results announcement.

All directors of the Company confirm that as at 31 December 2006, all directors and the special employees who may have certain price sensitive information that has been not disclosed complied with the Model Code and none of the said persons has interests or short positions which are required to notify the Company and the Stock Exchange, or incur any conduct in violation of regulations.

5. Control mechanism

Internal control and internal audit

Internal control system

The Board is fully in charge of the Group's internal control system. It is responsible for ensuring the Company has adequate internal control systems to monitor its overall financial status, hence avoiding material financial omission or loss. Through its Audit Committee, the Board makes periodic review on the effectiveness of the internal control system. In 2006 the Company reviewed the efficiency of the internal control system, which includes control over finance, operation, regulation compliance and risk management. Relevant results have been reported to the Board through executive directors.

The Company's internal control system plays a key role in risk management which is crucial for the achievement of business objectives. The internal control system and work process is formulated to prevent unauthorised use or disposal of the Company's assets and to ensure the keeping of true and adequate accounting records and relating financial information. While the internal control procedures are designed to manage and properly control, but not remove, the risks of failing to achieve business prospects. The Company's internal control provides reasonable, but not absolute, assurance against material mis-statement or loss.

The Board confirms that the Company has set up procedures and systems for recognising, assessing and managing material operating risks with support from Board committees and the senior management. Based on the evaluations made by the senior management, the internal audit department of the Company and independent auditors in 2006 and as at the date of approval of this annual report, the Audit Committee believes that the Company's internal control system and accounting system are aimed to enable the security of material assets, the recognition and monitoring of the Company's operating risks, the execution of material transactions under the management's authorisation and the reliable disclosure of financial statements; and that the established control system is functioning constantly to identify, evaluate and manage the material risks faced by the Company.

Corporate Governance Report (Continued)

5. Control mechanism (*continued*)

Internal control and internal audit (*continued*)

Internal audit

The Company sets up an internal audit department, which oversees the Company's internal governance and conducts independent reviews as to whether the internal control system is adequate and efficient. The audit department is led by the department manager and composed of 9 professionals including internal auditors. Main duties of the internal audit department include:

- To oversee the Company's all operating activities and internal control on a regular basis;
- Together with other business departments of the Company, to carry out periodic audit on the financial status, income and expenses, operations, work process, and fraud investigations of all business units, branches and subsidiaries of the Company;
- To carry out special audit on matters to which the Board or the management attaches special attention.

In 2006 the internal audit department of the Company enhanced its effort in internal audit. The audit department has good discussion and communication with members of the audit department concerning audit programmes and internal audit to ensure sufficient causal relationship between audit and risk control beforehand, and adopted various measures to ensure the effectiveness of internal audit:

- collected and assessed information on risk control of the Group;
- prepared audit systems and solutions in response to specific cases of risks;
- supervised the whole process of audit and improve the relevant measures of internal control.

The internal audit department gives its prudent opinion as to whether the Company's operations have a complete and efficient risk management system, and reports it to the Chairman or directly contacts the head of the Audit Committee. All internal audit reports and opinions are submitted to the Chief Executive, the Chief Financial Controller and other Executive Directors of the Company as well as the senior management of the department being audited. The audit department also follows up on all reports to ensure that all issues have been satisfactorily resolved. In addition, a regular dialogue is maintained between the audit department and the external auditors so that both are aware of the significant factors that may affect their respective scope of work.

The Company has set up a detailed oversight system for handling the price sensitive information for all employees' reference.

Corporate Governance Report (Continued)

5. Control mechanism (*continued*)

Internal control and internal audit (*continued*)

Risk management

One of the Board's responsibilities is to raise the risk awareness across the Company's business operations. The Board properly implements the operating risk management procedure throughout the Company and formulates policies and procedures which provide a framework for identification and management of risks. The Board fulfils its oversight role over the Company and its subsidiaries in the following areas:

- establishment of the risk management system of the Company;
- identification, assessment and management of the material risks faced by various units of the Company;
- review and assessment of the adequacy of the Company's risk management process, system and internal control;
- review and monitoring of compliance with the Company's risk management process, system and internal control including compliance with prudential and legal requirements governing the business of the Company.

The risk management activities include review of detailed financial and operation reports, budgets and business plans provided by the management, review by the Board of actual results against the budgets, ongoing work of the Group's internal audit function and regular business reviews by Executive Directors and the executive management teams of each core business divisions. While the said procedures are designed to identify and manage the risks which may impose adverse impact on realisation of the Group's business prospects, they do not provide absolute assurance against any material mis-statement or loss.

The Board is fully in charge of overseeing the operation of Company's business units. Personnel with proper experience and skills are appointed to the boards of directors of the Company's subsidiaries and associated companies to attend their Board meetings and to oversee the operations of those companies. Monitoring activities include review and approval of business strategies, budgets and plans as well as setting of key business performance targets. The identification, evaluation and report on the likelihood and potential financial impact of material business risks are left to the management of such companies.

Executive Directors hold monthly meetings with executive and business senior management members to review the integrated financial status and operations against the budgets and estimation and to estimate and evaluate risk factors so as to formulate and adjust business strategies.

Corporate Governance Report (Continued)

5. Control mechanism *(continued)*

Internal control and internal audit *(continued)*

External auditors and their remuneration

The Audit Committee reviewed the letter from PricewaterhouseCoopers to confirm its independence and objectiveness, held meetings with the firm to discuss the audit scope and fees, and approved scope and fees for any non-audit service provided by the firm .

For the year ended 31 December 2006, remuneration payable by the Company to the external auditors amounted to RMB4,182,500, all of which was for audit service. No non-audit service fee was incurred for the year. The audit fee has been approved by the Audit Committee and the Board.

Interests of shareholders and investor relations

General meeting

The Company encourages shareholders' attendance at shareholders' general meetings and gives at least a 45 days' notice of such meetings. The Chairman and Directors attend the meetings to answer questions about the Company's businesses. All shareholders have rights to request the convening of an extraordinary general meeting and put forward proposals for shareholders' consideration in accordance with the Articles of Association. At the annual general meeting, each matter is put forward in form of a separate proposal and voted by way of poll based on the number of shares. Voting results of the annual general meeting are released in form of announcements and set out on the Company's website.

Corporate Governance Report (Continued)

5. Control mechanism (continued)

Interests of shareholders and investor relations (continued)

General meeting (continued)

On 29 June 2006, the 2005 Annual General Meeting was held at the conference room on the 1st floor of the office building of the Company in Xianyang, Shaanxi Province, in which eight ordinary resolutions were passed to consider and approve the Report of the Directors of the Company for 2005, to consider and approve the Report of the Supervisory Committee for 2005, to consider and approve the audited financial report of the Company for the year ended 31 December 2005, to consider and approve the profit distribution proposal of the Company for 2005 (Note), to approve the resignation of Mr. Niu Xinan as a Supervisor of the First Session of the Supervisory Committee and the appointment of Mr. Niu Xinan as an Executive Director of the First Session of the Board with a term of office commencing from the date when his appointment took effect until the end of the term of the First Session of the Board, to approve the appointment of Mr. Zhang Zhankui as a Supervisor of the First Session of the Supervisory Committee with a term of office commencing from the date when his appointment took effect until the end of the term of the First Session of the Supervisory Committee, to consider and approve the reappointment of PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. and PricewaterhouseCoopers, Certified Public Accountants, as the Company's PRC auditors and international auditors, respectively, for the 2006 financial year, and to authorise the Board to determine their remuneration, and to authorise the Board to determine the distribution of the interim profit for 2006.

On 27 December 2006, an extraordinary general meeting was held at the conference room on the 1st floor of the office building of the Company in Xianyang, Shaanxi Province mainly to consider and approve the application caps of the continuous connected transactions of the Company in the three consecutive financial years of 2007 to 2009.

The Company Secretary and financial directors are responsible for day-to-day contacts between the Board and substantial shareholders. Investors and the public may access the Company's website for detailed information on the Company's businesses. The Company's interim and annual results announcements can also be downloaded there.

According to the information available to the Company and as far as the Directors are aware, at least 25% of the Company's total issued share capital is held by public shareholders.

Corporate Governance Report (Continued)

5. Control mechanism (*continued*)

Information disclosure and investor relations

The Company formulated and implemented the Management Methods on Information Disclosure and the Rules for Investor Relations Management, aiming to further standardise its information disclosure system to ensure the accuracy, completeness and timeliness of information disclosure and to provide investors with high-quality services. The Board Office, with the Company Secretary as its head, formulates the procedures for gathering, verification and reporting of internal operating data and other information as well as the procedures for preparation and review of periodic reporting.

The Company undertakes that it shall make impartial disclosure and full and transparent reporting. The ultimate duty of the Chairman is to ensure efficient communication with the investors and the Board's understanding of the opinions of substantial shareholders. After the Company's announcement of its interim and annual results, the Board is committed to provide shareholders with clear and comprehensive results information of the Group by publishing interim and annual reports. The senior management shall preside over presentations and attend the meetings with institute investors and financial analysts for intercommunication in respect of the Company's results and business prospects, which is a regular function of investor relations. In addition, the Company arranges for roadshow for analysts and investors, from time to time, to foster intercommunication and understanding between the investors and the management of the Company. Field visits by analysts and investors are welcomed for inspecting plants and business premises of the Company. In 2006, the Company and investors and/or analysts held 7 meetings and 2 roadshows in Hong Kong.

The Company is committed to increase transparency and improve investor relations and has attached much importance to shareholders' responses to this regard. For any inquiry and advice, shareholders can contact the Company Secretary through the hotline (+86 29 3333 3858) or by email zcn@ch.com.cn or raise the questions at the annual general meeting or the extraordinary general meeting. Inquiry can also be made through the above means to the Company Secretary for procedures concerning convening an annual general meeting or extraordinary general meeting and putting forward a proposal.

By order of the Board
Joint Company Secretaries
Zhang Chunning
Lam ChunLung

Xianyang, Shaanxi
12 April 2007