

CORPORATE GOVERNANCE REPORT

The Company always believes that effective and transparent corporate governance system will ensure the decisions made by the Board to be in compliance with the Company and the shareholder's interests as a whole. Therefore, the Company applied the principles of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules to all aspects of the corporate governance system and reflected on all kinds of regulations and managements of the Company.

Throughout the year ended 31 December 2006 and to the date of 25 April 2007, the Company has adopted and complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

BOARD OF DIRECTORS

Composition and Appointment

The third term of the Board was established on 2 June 2005 and elected by the Company's shareholders at the annual general meeting. The term of the office of the Board will end on the date of the conclusion of the 2008 annual general meeting of the Company. The change of directors, the list of directors and their respective biographies are set out on pages 15 to 18.

As per the articles of associations of the Company, the responsibilities of the Board include, but not limited to: to convene shareholders' general meeting and to report its work at the general meeting; to implement resolutions of the general meeting; to determine the business plans and investment proposals of the Company; to prepare the annual financial budgets and final accounts of the Company; to formulate plans for profit distribution and plans for making up losses for the Company; to decide the internal management structure of the Company; to employ or dismiss the manager and to engage or dismiss the deputy manager and the financial controller on the basis of nominations from the manager and to determine their remuneration, other duties authorized by the general meeting or the articles of association.

As at 25 April 2007, the Board was comprised of eight directors, including three executive directors: Mr. Wang Zhanbin, Mr. Wang Jiadong and Mr. Wang Tiefeng; two non-executive directors: Mr. Chen Guoxing and Mr. Gao Shiqing; and three independent non-executive directors: Mr. Long Tao, Mr. Moses Cheng Mo Chi and Mr. Kwong Che Keung, Gordon.

Meetings of the Board shall be held at least four times a year and convened by the chairman of the Board. Notice of the meeting shall be served on all directors at least 14 days before the date of the meeting. In case of any urgent matters, the extraordinary Board meeting could be held with the proposal of no less than one-third of the directors of the Company or the general manager of the Company.

During 2006, the Board held seven meetings in total with the attendance rate of 100% to discuss and determine the strategic development, material operational matters, financial matters and other matters under the articles of association.

Records of attendance at Board meetings in 2006 are as follows:

		Number of attendance
Wang Zhanbin (<i>Chairman</i>)	Chairman, executive director (Resigned on 26 March, 2007)	7 / 7
Wang Jiadong	General manager, executive director (Elected as chairman of the Board on 1 February 2007)	7 / 7
Wang Tiefeng	Finance controller, executive director (Appointed on 8 June 2006)	4 / 4
Kwong Che Keung, Gordon	Independent non-executive director	7 / 7
Moses Cheng Mo Chi	Independent non-executive director	7 / 7
Long Tao	Independent non-executive director	7 / 7
Chen Guoxing	Non-executive director	7 / 7
Gao Shiqing	Non-executive director	7 / 7
Dominique Pannier	Non-executive director (Resigned on 26 March, 2007)	7 / 7
Zheng Hui	Non-executive directors (Resigned on 8 June 2006)	3 / 3

During the financial year ended on 31 December 2006, the number of board meetings, the meeting procedures, the meeting records, rules of procedures and other related matters are all in compliance with the code provisions. The number of board meetings and individual attendance of each director represent each director is diligent, committed to his work and devoted to make contributions to the Company and the shareholder's interests as a whole.

The Board is mainly responsible to the shareholders of the Company in general meeting and makes decisions on the business plans and investment proposals of the Company while the daily operation and management of the Company is the responsibility of the general manager of the Company.

The Board has reviewed the effectiveness of the internal control system of the Company and confirm that it is effective.

CHAIRMAN AND GENERAL MANAGER

For the financial year ended 31 December 2006, two executive directors of the Company, Mr. Wang Zhanbin and Mr. Wang Jiadong, hold the post of Chairman of the Board and General Manager, respectively. The Chairman's responsibilities are to convene and preside at the meeting of the Board and promote corporate governance, while the General Manager is responsible for taking part in implementing decisions made by the Board and the daily operation of the Company. Their duties are separate and there is no financial, business or family relationship between them. As at 25 April 2007, two executive directors of the Company, Mr. Wang Jiadong and Mr. Dong Zhiyi, hold the post of Chairman of the Board and General Manager, respectively. The roles and powers of the Chairman of the Board and General Manager are separated and defined as clearly and balance as the above.

THE TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

All non-executive directors of the Company were elected at the annual general meeting of the Company on 2 June 2005 and the term of appointment will end on the date of the 2008 annual general meeting of the Company.

INSURANCE ARRANGEMENT

Under the Recommended Best Practices A.1.9 of the Code on Corporate Governance Practices i.e., that an issuer should arrange appropriate insurance in respect of legal action against its directors. The Company has arranged the liability insurance for the directors, the supervisors and other senior management.

THE REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established on 2 June 2005 and has to be composed of by five members, including: three independent non-executive directors, one non-executive director and one executive director, namely Mr. Long Tao (the Chairman), Mr. Moses Cheng Mo Chi, Mr. Kwong Che Keung, Gordon, Mr. Gao Shiqing and Mr. Wang Jiadong. The meeting shall be convened at least once a year and attended by at least three members.

The duties of the Remuneration Committee, include but not limited to: to review and approve the general policies concerning strategic compensations; to give advice to the Board concerning the remuneration policies and structure of all the Company's directors and senior management, as well as the establishment of formal and transparent procedures aiming at formulating remuneration policies; to be responsible for determining all the executive directors and senior management's specific remuneration packages and to recommend the remuneration of non-executive directors. Factors that the Remuneration Committee should take into consideration include: the remuneration paid by similar companies, time spent and responsibilities taken by the directors and senior management, remuneration level of the Company, and whether there is a need for combining remuneration and bonus on performance.

In January 2006, the Remuneration Committee of the Company discussed and decided to submit a proposal, which proposed the Board to re-decide the directors' remuneration and senior management remuneration by comparing the remuneration condition of other listed companies and analysing the performance of the Company. The above proposal was passed by the Board by way of written resolutions.

For this term of the Board, each executive director's annual emolument includes fixed section and floating section, which detailed in the note 23 to the Financial Statements as well as other directors' emoluments.

THE NOMINATION COMMITTEE

The Board decided to establish a nomination committee under the Board on 26 March 2007. The members of the nomination committee are appointed from directors by the Board. The committee shall comprise at least 2 members, and the independent non-executive directors shall account for half or more of the members of the nomination committee. The Chairman (the convenor) of the nomination committee is recommended by its member and shall be an independent non-executive director, who is responsible for convening and presiding over the nomination committee meeting.

The current nomination committee is comprised of Mr. Long Tao, Mr. Moses Cheng Mo Chi, Mr. Kwong Che Keung, Gordon and Mr. Dong Zhiyi with Mr. Moses Cheng Mo Chi being the Chairman.

The office term of the nomination committee is the same as that of the Board. The term of office of the members is subject to re-election. The nomination committee shall hold at least one meeting a year.

The duties of the nomination committee include, but not limited to the following:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

CORPORATE GOVERNANCE REPORT (CONTINUED)

- to identify individuals with appropriate qualifications to act as director or manager and to select and nominate the relevant individual to serve as director or manager or to make recommendations to the Board in this regard;
- to assess the independence of independent non-executive directors; and
- to make recommendations to the Board on matters relating to the appointment or re-appointment of directors and managers and succession planning for directors.

AUDITORS' REMUNERATION

The external auditors of the Company are PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) and PricewaterhouseCoopers Zhong Tian CPAs Limited Company. They provide auditing services to the Company. During the reporting period, the Company paid an aggregate of Rmb2,349,000 to its auditors as fees for their professional audit services.

In the annual general meeting of the Company held on 8 June 2006, the renewal of the appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as domestic and international auditors of the Company, respectively was approved, and the Board was authorized to determine the remuneration for the auditors in 2006.

CORPORATE GOVERNANCE REPORT (CONTINUED)

THE AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") consists of three independent non-executive directors of the Company. Mr. Kwong Che Keung, Gordon is the Chairman. The duties of the Audit Committee are as follows: to consider the appointment of the external auditors, the audit fees and any issues relating to their resignation or dismissal; to discuss with the external auditors, before the commencement of the audit procedure, on the nature and scope of the audit; to ensure the co-ordination between the audit firms if there is more than one firm involved; and to review the interim and annual financial statements before they are presented to the Board.

The Audit Committee held two meetings in 2006 and the attendance rate was 100%.

Records of attendance at the Audit Committee meetings in 2006 are as follows:

Committee Member	Attendance at Meetings
Long Tao (<i>Chairman</i>)	2/2
Moses Cheng Mo Chi	2/2
Kwong Che Keung, Gordon	2/2

At the meetings of Audit Committee in 2006, the Audit Committee mainly reviewed the accounting principles and policies adopted by the Company, discussed the internal control matters, reviewed the financial statements prepared under IFRS and PRC's accountant regulations respectively, and also discussed the audit matters as well as the internal auditor of the Company. Based on their respective work during the year of 2006, the Audit Committee has appraised the effectiveness of the Company system of internal control and considered it's effective.

The Audit Committee has also reviewed the 2006 annual results of the Company.

The Audit Committee has considered the appointment of the external auditors and their fee and made recommendations to the Board on the external auditors appointment.

The directors acknowledged their responsibility for preparing the accounts. For the details of the responsibility statement from the external auditors, please refer to the Independent Auditor's Report herein.

THE STRATEGY COMMITTEE

The members of the strategy committee are appointed from the executive directors by the Board. The strategy committee consists of Mr. Wang Jiadong, Mr. Dong Zhiyi and Mr. Wang Tiefeng.

The chairman of the strategy committee will be responsible for convening and presiding over the strategy committee meeting. Mr. Wang Jiadong is the chairman of the strategy committee.

The strategy committee shall hold at least two meetings a year. The strategy committee meeting can be convened with the proposal of any two members of the strategy committee.

The duties of the strategy committee, which reports to the Board, are as follows:

- to investigate the operation environment and resources of the Company, to determine the basic direction, goals and way of implementation for the future development of the Company;
- regularly assess the work of managing staff to ensure that their works are in line with the requirements under the mid-long term development strategy of the Company;
- to analyze and prepare the research report on the capital expenditure items which may pose material impact on the development strategy of the Company, to formulate the basic implementation plan and present it to the Board for approval;
- To consider other matters required by the Board.

COMMUNICATION WITH SHAREHOLDERS

The Company is committed to a policy of open and regular communication with its shareholders and to make reasonable disclosure of information to them. Information of the Company is disseminated to the shareholders in the following manner:

- 1 Delivery of the interim and annual results and reports and publication of the annual and interim results announcement and other discloseable information on the websites of the Hong Kong Stock Exchange and the Company to all shareholders; and
- 2 The general meeting of the Company is also an effective communication channel between the Board and shareholders.
3. The Company maintains effective communications with its shareholders, investors and analysts through, inter alia:
 - establishing dedicated divisions and personnel for liaison with investors and analysts by answering their questions;
 - arranging on-site visits to the Company to facilitate their timely understanding of the situation and latest development of the Company's business operations;
 - gathering, in a timely manner, opinions and comments from analysts and investors on the operations of the Company, selectively adopting them to the operations of the Company, and compiling reports regularly;
 - providing relevant financial and operational information on the Company's website.