

Corporate Governance Report

Corporate Governance Practices

The Board of Directors of the Company firmly believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure its strict compliance with relevant regulatory requirements, a high level of transparency in corporate governance and an excellent performance in operation.

During the year, the Board of Directors are of the view that the Company had complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Code") except for code provision A.2.1 concerning the requirements to separate the roles of the chairman and chief executive officer. The Company is of the opinion that segregation of duties and responsibilities between the Board of Directors and the senior management has been well maintained and there exists no problem of over-centralization of management power on one particular individual.

The Company will observe the latest development of corporate governance requirements and will review and update the existing practices as and when required.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Further to the Company's enquiry, all Directors confirmed that they had complied with the Model Code throughout the year 2006.

Board of Directors and Supervisors

As at the date of this report, the Board of Directors consists of executive directors, namely Mr. Xu Jianguo, Mr. Chen Longxing, Mr. Huang Dinan, Mr. Wang Qiang, Ms. Li Manping, Mr. Yu Yingui, and non-executive directors, namely Mr. Zhu Kelin, Mr. Yao Qun, Mr. Lin Haitao and Mr. Wang Minwen, as well as independent non-executive directors, namely Dr. Yao Fusheng, Dr. Cheung Wai Bun and Mr. Lei Huai Chin. Mr. Wang Chengming, Mr. Zhang Rongkun and Mr. Han Guozhang resigned as directors of the Company on 18 August 2006. Mr. Cheng Xinhua and Mr. Li Songjian resigned as directors of the Company on 24 January 2006 and 6 February 2007 respectively.

All Independent Non-executive Directors have confirmed their independence to the Company as required under Rule 3.13 of the Listing Rules. The Company considered such directors to be independent during the year.

The Company has convened 13 board meetings during the year, the attendance of each director is detailed as follows:

Directors	Number of Meetings	Actual Attendance
Mr. Xu Jianguo	4	4
Mr. Chen Longxing	13	13
Mr. Huang Dinan	13	13
Mr. Wang Qiang	13	13
Mr. Li Manping	13	13
Mr. Yu Yingui	13	13
Mr. Zhu Kelin	13	12
Mr. Yao Qun	13	13
Mr. Lin Haitao	13	13
Mr. Wang Minwen	13	13
Dr. Yao Fusheng	13	13
Dr. Cheung Wai Bun	13	13
Mr. Lei Huai Chin	13	13

The Board of Directors is responsible for the formulation of overall development strategy of the Group, monitoring of its financial performance and maintaining an effective supervision over the management team's work. The board members aim to maximize shareholders' value in the discharge of their duties and responsibilities. When determining the Group's business objectives and development direction, the Board takes into account the latest economic and market situations. Daily operations and management of the Company are entrusted to the management team.

Every board member has the right to inspect various documents and relevant materials of the board of directors, to consult the joint Company Secretaries on regulatory and compliance matters and to seek external professional advice when necessary. The joint Company Secretaries continuously advise all directors on continuing obligations under the Listing Rules and other applicable laws and regulations to ensure the Company's compliance with such requirements and to ensure an excellent corporate governance of the Company.

As at the date of this report, the Supervisors of the Company are Mr. Cheng Zuomin, Mr. Xie Tonglun, Ms. Ling Feifei, Mr. Zheng Weijian and Ms. Miu Xiufeng. Mr. Chen Zhenhao and Mr. Zhang Jun resigned as supervisors of the Company on 24 January 2006 and 22 January 2007, respectively.

Nomination of Directors

The Board of Directors has not established the Nomination Committee. Pursuant to the Company's Articles of Association, shareholders of the Company are entitled to propose candidates. The proposal for the appointment of directors should be submitted to the annual general meeting for approval. The intention for proposing director candidates and the acceptance of nomination by the candidates should be submitted in writing to the Company no earlier than the date of dispatch of annual general meeting notice and no later than commencement of the annual general meeting. Time limits for nomination and acceptance of nomination should not be less than 7 days.

Chairman and Chief Executive Officer

Pursuant to code provision A.2.1, roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. At present, Mr. Xu Jianguo is the Chairman of the Board and the Chief Executive Officer of the Company. However, Mr. Huang Dinan, an Executive Director and the President, is fully responsible for the day-to-day operations of the Company and execution of instructions from the Board of Directors. The Company is of the opinion that segregation of duties and responsibilities between the Board of Directors and the senior management has been well maintained and there exists no problem of over-centralization of management power on one particular individual.

Tenure of Non-executive Directors

All directors of the Company are elected at general meetings, with a tenure of three years, and can be re-elected and re-appointed with office tenure extended accordingly.

Audit Committee

On 27 March 2006, the terms of reference of the Audit Committee were duly approved in the extraordinary general meeting of shareholders. The Audit Committee is mainly responsible for reviewing and overseeing the financial reporting procedures and internal controls of the Group, reporting the results of such review and recommendations for improvement, if any. Our Audit Committee is also

responsible for reviewing the interim and full year financial statements, the appointment of and remuneration for auditors. Our Audit Committee, currently comprising Dr. Cheung Wai Bun, Dr. Yao Fusheng, Mr. Lei Huai Chin and Mr. Wang Minwen, is chaired by Dr. Cheung Wai Bun.

Three meetings of the Audit Committee were convened in April, August and November 2006 and were attended by all committee members. During these meetings, the Audit Committee has reviewed the Auditors' Report and financial statements for 2005, the interim financial statements for 2006, Regulations Governing the Financial Services Connected Transactions of the Group and the Detailed Implementation Rules, and level of credit facilities granted; approved the engagement of the "Big Four" international accounting firms to carry out review of accounting records and internal control system of the Group; reviewed the actual financial results as compared against the budgeted figures; provided suggested measures to tighten control over accounts receivable; and discussed internal control over cost management of the Company, functions of internal audit, revenue recognition for and potential risks with overseas contracts, and control over reporting of connected transactions.

Remuneration Committee

On 27 March 2006, the terms of reference of the Remuneration Committee were duly approved in the extraordinary general meeting of shareholders. The Remuneration Committee is mainly responsible for making recommendations to the Board of Directors regarding the overall compensation policy and structure for directors and senior management of the Company, and the formulation of proper and transparent procedures accordingly.

The Remuneration Committee comprises Mr. Lei Huai Chin, Dr. Yao Fusheng and Mr. Wang Qiang. Mr. Lei Huai Chin is the chairman of the Remuneration Committee.

A meeting of the Remuneration Committee has been convened in April 2006 during which all members of the committee were present. The Remuneration Committee has reviewed and approved the proposed resolution in respect of remuneration of directors and supervisors of the Company to be approved by the shareholders at the forthcoming annual general meeting.

Auditors' Remuneration

In 2006, remuneration to Ernst & Young, auditors of the Company, is summarized as follows:

For services provided	Amount paid/payable
	RMB' 000
Annual audit for 2006 for the Group	12,599
Statutory audit for subsidiary companies	6,821
Review of connected transactions	400
Review of internal control system	4,210
Training	360
Total	24,390

Directors' and Auditors' Responsibilities for Accounts

The Directors acknowledge their responsibilities for the preparation of accounts for each financial year which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that year. In preparing these accounts for the year ended 31 December 2006 the Directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. The responsibilities of the external auditors to the shareholders are set out on page 38.

Internal Control

The Board of Directors has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such an internal control system was designed to manage various risks of the Group within certain acceptable risk level, rather than the complete elimination of the risk of failure to achieve the business objectives of the Group. Therefore, it can only provide reasonable but not absolute assurance against material misstatement of the management as well as financial information and records, or financial losses or fraud.

The management has been assisting, and will continue to assist, the Board of Directors in implementing the Board's policies and measures on risk management and internal control, determining and evaluating the confronted risks, and participating in design, operation and supervision of appropriate internal control measures in order to mitigate and control such risks.

The Group has established major procedures to review the adequacy and completeness of the internal control system, including:

- Checks on internal control procedures of various enterprises within the Group at regular intervals
- Review of the applicability and implementation of such procedures to the relevant enterprises at regular intervals

- Examination of the effectiveness of such procedures at regular intervals
- Modifying or supplementing the internal control procedures in force (including procedures of relevant subsidiaries) as necessary
- Setting up standardized internal control system for the Group as a whole

During the year, the Company has conducted reviews on the effectiveness of the internal control system as required by paragraph C.2.1 to Appendix 14 of the Listing Rules. The reviews cover all material controls, including financial, operational and compliance controls and risk management functions. To assist the Board in carrying out such reviews, a "Big Four" international accounting firm was engaged to carry out a review on the financial controls and risk management functions of the Company. No major deficiency was noted in the review report and the Company has set up a task force to address the shortcomings identified.

Risk Management

The directors of each of our subsidiary companies are responsible for the monitoring of various risks of the relevant companies as well as the establishment and effective implementation of risk management policies, while internal audit department of the Group carries out routine internal check to ensure effective implementation of such policies. In addition, some of our Executive Directors and members of the senior management of the Group are also directors of some of our major operating subsidiaries hence we are able to enhance the management over various risks of relevant companies.

During the year, a "Big Four" international accounting firm has been engaged to carry out a review which covers also the risk management functions of the Company. The Company will take necessary steps to strengthen its risk management functions based on the recommendations provided.

Disclosure of Information and Investor Relations

The Company recognizes the importance of good communications with its investors. Requests for meetings and factory visits from investors have been handled with great care by our investor relations team upon receipt. To help investors' further understanding of the Company's various strategies and plans for future development, we attend investment conferences and carry out non-deal roadshows at regular intervals. The Company has been awarded the "Best Investor Relations" in China by FinanceAsia for 2006. The Company will continuously make great efforts in its investor relations work and to further enhance transparency of the enterprise.