



Chapter V Structure of Corporate Governance

Section 1 Present Structure of Corporate Governance

Since its establishment, the Company has been committed to optimizing the structure of corporate governance by making constant efforts towards a sound corporate structure to govern the Company's operations pursuant to legislations, including the Company Law and the Securities Law.

1. Shareholders and General Meetings. The Company has been able to ensure the equal status of all its shareholders, in particular the minority shareholders. The Company disclosed significant events in compliance with the legislative and administrative requirements in a timely, accurate and complete manner in newspapers and websites specified by the securities regulatory bodies in Hong Kong and the PRC, so as to ensure the rights of the shareholders at large to information and participation in decision-making. The Company convened and held general meetings in strict compliance with the relevant requirements. The Company's connected transactions had been conducted on fair and reasonable terms and the basis for pricing had been adequately disclosed.
2. Controlling shareholder and listed companies. The controlling shareholder has exercised its rights as an investor in strict compliance with law. It has not overridden the power of general meetings, nor has it, directly or indirectly, intervened with the Company's decision-making and business operation. The Company is independent of the controlling shareholder in terms of manpower, finance, institutional structure, businesses and assets. Each of the Company and the controlling shareholder is subject to separate auditing and assumes its own responsibilities and risks. The Company has been engaging in fully independent business and possesses self-operating capability. Election of Directors and Supervisors as well as employment and dismissal of senior management staff of the Company are made in strict compliance with the procedures required by law, administrative regulations and the articles of association of the Company.
3. Directors and the Board. Directors had been elected in strict compliance with the procedures stated in the Articles of Association of the Company. Each of the Directors of the Company has demonstrated his or her diligence and commitment in attending the meetings of the Board. Directors are well aware of their rights, obligations and duties as Directors of the Company. Independent Non-Executive Directors of the Company have performed their duties conscientiously in accordance with relevant laws and regulations and the Articles of Association of the Company and had preserved the interests of the Company as a whole, with particular concern that the lawful rights of the minority shareholders be intact. Pursuant to China Securities Regulatory Commission's Guiding Opinions for Listing Companies on the Appointment of Independent Directors, three Independent Non-Executive Directors have been nominated for election at the 2003 annual general meeting and the 2004 Board of Directors, in which the number of Independent Non-Executive Directors of the Company has reached five to make up for the shortfall.
4. Supervisors and the Supervisory Committee. Supervisors of the Company possess the expertise in different disciplines such as law, finance and accounting, and are able to carry out their duties professionally and monitor the Company's finance and that the duties of the Company's Directors and senior management be performed lawfully in a way that they are responsible to the shareholders.
5. Performance appraisal, incentive awards and check & balance. Election, engagement and remuneration of Directors, Supervisors and senior management staff were made in compliance with the PRC Company Law and the relevant provisions in the Articles of Association of the Company. The Company will continue to improve the mechanisms of performance appraisal, incentive awards and check & balance.
6. Stakeholders. The Company respects the lawful interests of its bankers and other creditors, staff and workers, consumers, suppliers and community. It cooperates with these interested parties to promote the Company's sustained and healthy development.
7. Information disclosure and transparency. The Company Secretary is particularly made responsible for information disclosure as well as the shareholders' visits and enquiries. The Company had ensured the truth, accuracy and completeness as to the disclosure of information which may have material impact on the decision of the investors at large and the extent and presentation of such disclosures had been made in strict compliance with relevant laws and regulations and the articles of association of the Company.

By reference to the Standards for Governance of Listed Companies issued by the China Securities Regulatory Commission ("CSRC"), the Company will continue to improve its structure of governance to upgrade the standard and to ensure the equal status of all shareholders, in particular the minority shareholders.

Section 2 Performance of Duties by Independent Non-Executive Directors

The Company has newly appointed three Independent Non-Executive Directors during the reporting period so that the number of the Independent Non-Executive Directors has increased from two to five. The Independent Non-Executive Directors have conscientiously fulfilled their duties in accordance with relevant laws and regulations and the Articles of Association of the Company. They have participated in the work of the Board and have been involved in the discussions in respect of significant matters. They also provided advice on regulating the operation and business activities of the Company based on their professional knowledge and experience. The Independent Non-Executive Directors offered their independent opinion as to whether certain connected transactions were fair and equitable. They also participated in the Audit Committee to review on the Company's financial statements. The Independent Non-Executive Directors preserved the overall interests of the Company as well as the lawful interests of the shareholders as a whole and made positive contribution to the development of the Company.

The attendance at board meetings by the Independent Non-Executive Directors during the year is as follows:

Name of Independent Non-Executive Directors	Number of board meetings held during the year	Attendance in person (number)	Attendance by proxy (number)	Absence (number)	Remark
Wang Zengjing	8	8	–	–	
Kon Hiu King, Kenneth	8	5	3	–	
Gao Yong	4	4	–	–	
Chen Zhong	4	4	–	–	
Yu Shiquan	6	6	–	–	

Section 3 The establishment and implementation of the assessment and incentive mechanisms for senior management

On 16th June 2004, the Company adopted the “Implementation Measures of Equity Interest Incentive for the Company's Senior Management Staff” (“Implementation Measures”) at the general meeting of the Company. Accordingly, the Company could allocate a certain number of pseudo-shares to the Operators of the Company (including Executive Directors, management, business entities of the Company as well as chairman of the Board of Directors, General Manager and Chief Financial Officer of each major subsidiary of the Company) as a kind of appreciation for the three years' period from 1st January 2004 to 31st December 2006. During the reporting period, no pseudo-shares have been allocated to operators in accordance with the “Implementation Measures”.