

Corporate Governance Report

The Company is committed to comply with all the rules prescribed by China Securities Regulatory Commission and the Hong Kong Stock Exchange, as well as requirements of other regulatory bodies. During the year ended 31 December 2005, the Company had complied with the Code of Corporate Governance Practices contained in Appendix 14 of the Listing Rules which came into effect in January 2005 and met with all reasonable governance and disclosure requirements. The Company will strive for continuously enhancing its corporate governance standard and transparency to shareholders.

I. Board of Directors

1. Chairman of the board and Chief Executive Officer (CEO)

The chairman of the board is the authorized representative of the Company. The chairman is responsible for development direction and effective running of the board, and ensuring the board acts in the best interests of the Company.

The CEO is accountable to the board, and is delegated with the responsibility for running the Company's business and implementing the resolutions of the board.

The chairman and CEO of the Company are Mr. Zhang Cong and Mr. Wang Zhen respectively. Their respective duties and scopes of responsibilities have been clearly defined in the Company's articles of association.

2. Composition of the board

The board currently comprises the following members:

Chairman: Zhang Cong (appointed as chairman of the board on 27 January 2006)

Executive Directors: Wang Zhen, Huang Qiu, Gunnar Moller (appointed as director on 14 December 2005)

Non-executive directors: Zhang Han'an, Kjeld Binger

Independent non-executive directors: Xu Bailin, Xie Zhuang, Fung Ching Simon

Information of the directors listed above is set out in the section headed 'Directors, Supervisors and Senior Management' and the sub-section headed 'Service contracts, interests in share capital and contracts by directors and supervisors' in the section 'Report of the Directors' of annual report 2006.

Three independent non-executive directors of the Company have met the criteria of Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of independence.

For the year ended 31 December 2005, the composition of the board had the following changes:

On 14 December 2005, Mr. Gunnar Moller was appointed as an executive director in replacement of Mr. Kristian Bjerneboe.

There is no relationship between directors that is discloseable under applicable rules and regulations.

3. Nomination of directors

- i. The Company does not have a nomination committee at present.
- ii. The board had adopted a nomination procedure and process during the year, according to which a qualified shareholders group may nominate a candidate for directorship and put the nomination onto the board for vote. If more than a half of the directors have voted for the nomination, it would then be put onto a general meeting as an ordinary resolution seeking for shareholders' approval.
- iii. Criteria for director selection and nomination:
 - 1) the candidate shall meet the conditions for a listed company director as required by the Company Law and Securities Law;
 - 2) the candidate shall meet the requirements as prescribed in the Company's articles of association;
 - 3) the candidate shall be regarded as having a high moral standard and relevant professional expertise, and being able to act in good faith, prudence and diligence, and to avoid any material and potential conflict of interest or of role with the Company.
- iv. Non-executive directors shall hold office for a term of 3 years, and shall then be eligible for re-election and, if re-elected, their tenures may continue thereafter.
- v. For the year ended 31 December 2005, Mr Gunnar Moller had been appointed as an executive director in replacement of Mr Kristian Bjorneboe, and Mr Kjeld Binger had been re-elected as a non-executive director. The selection, nomination and appointment of Mr Gunnar Moller and Mr Kjeld Binger were in line with the director nomination criteria mentioned above.

4. Board meetings

- i. The board of the Company held 5 meetings in 2005.
- ii. The attendance records of the members of the board are set out below:

	<i>Chen Wenli</i>	<i>Wang Zhen</i>	<i>Huang Qiu</i>	<i>Kristian Bjorneboe</i>	<i>Zhang Han'an</i>	<i>Kjeld Binger</i>	<i>Xu Bailin</i>	<i>Xie Zhuang</i>	<i>Fung Ching Simon</i>
2nd term, 9th meeting	√	√	√	√	√	√	√	√	√
2nd term, 10th meeting	√	√	√	√	√	√	√	√	√
2nd term, 11th meeting	Voting of this meeting was by telecommunication means.								
2nd term, 12th meeting	√	√	√	√	√	√	√	√	√
2nd term, 13th meeting	√	√	√	√	√	√	√	√	√

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5. Duties of Directors

- i. For the year ended 31 December 2005, the Company had engaged legal advisory professionals to provide training for newly-appointed directors, ensuring that they had sufficient knowledge to its business and activities, and were fully aware of their duties and responsibilities under prevailing regulations, Listing Rules, applicable provisions of law and other regulatory requirements, as well as the operational and management policies of the Company.
- ii. For the year ended 31 December 2005, two non-executive directors of the Company, Mr Kjeld Binger and Mr Zhang Han'an had discharged their duties as non-executive directors.
- iii. For the year ended 31 December 2005, each director of the Company had dedicated adequate time and effort to attend the Company's board meetings and considered the affairs of the Company.
- iv. For the year ended 31 December 2005, all directors of the Company had complied with the Model Code as set out in Appendix 10 of the Listing Rules.
- v. The directors shall be responsible for preparing the financial statements.
- vi. For the year ended 31 December 2005, the directors have no aware of any material affairs or circumstances which are able to gravely influence the capability of continuing operation of the Company.
- vii. The Board of directors has reviewed the internal control system of the Company and subsidiaries and acknowledged the system effective.

6. Authority and practice of the board

The board has established the remuneration committee and audit committee. Each of these committees has established its own written terms of reference and functions effectively on this basis.

Details of terms of reference of the board and the management and the respective areas to exercise their authority are set out in the articles of association of the Company.

The board has the power to make decision or formulate plan on the following:

- i. to decide on the operational plan and investment plan of the Company;
- ii. to formulate the Company's proposed annual financial budget and final accounts;
- iii. to formulate plans for profit distribution and recovery of losses;
- iv. to formulate plans for increases in or reductions of the Company's registered capital and the issue of corporate bonds;
- v. to prepare plans for merger, division and dissolution of the Company;
- vi. to decide on the set up of the Company's internal management structure;
- vii. to appoint or dismiss the Company's general manager and pursuant to the general manager's nominations to appoint or dismiss the vice general managers and other senior officers of the Company (includes financial officers) and decide upon their remuneration;

- viii. to formulate the Company's basic management system;
- ix. to formulate proposals for amendment of the articles of association of the Company;
- x. to formulate proposals for major acquisitions or disposals of the Company.

The management may make decisions on the following:

- i. to coordinate the implementation of the Company's annual business and investment plans;
- ii. to formulate plans for the establishment of the Company's internal management structure;
- iii. to formulate the basic administration system of the Company;
- iv. to formulate the basic rules of the Company;
- v. to recommend the appointment and dismissal of vice managers and other senior officers (include financial officers) of the Company;
- vi. to appoint or dismiss other managerial staff (other than those required to be appointed or dismissed by the board).

The board of the Company acts in strict compliance with relevant requirements of the Company Law, its articles of association and the Listing Rules.

7. Securities transactions by the directors

- i. The Company has not adopted a code for securities transactions by directors on terms more exacting than the required standard of the Model Code due to the fact that most directors of the Company are Mainland China persons whose investment in H shares are subject to legal restriction from the PRC government;
- ii. Following specific enquiry made with all directors, none of the directors of the Company failed to comply with the required standard set out in the Model Code regarding securities transactions by the directors.

II. Remuneration of Directors and Senior Management

1. **A remuneration committee has been set up by the Company.** It is a sub-committee under the board which is responsible for giving advice to the board on overall remuneration policies of directors and senior management of the Company.
2. **Composition of the remuneration committee:** Mr. Xie Zhuang, an independent non-executive director, is the chairman. The other members of the committee are Mr. Fung Ching Simon, an independent non-executive director, and Mr. Huang Qiu, an executive director.
3. For the year ended 31 December 2005, no meeting had been held by the remuneration committee as the remuneration policy for the directors, supervisors and senior management had been determined. The year 2005 meeting of the remuneration committee would be held immediately before the board meeting for year 2005 is convened. On that meeting, matters related to directors' remuneration for 2006 would be discussed and disclosed in its report of next year.

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4. Directors' remuneration policies: each of the chairman and executive directors receives director's fee of RMB 70,000. Each of the non-executive directors receives director's fee of RMB 50,000. Each of the independent non-executive directors receives director's fee of RMB 80,000. Salaries to executive directors are paid by reference to their respective positions in the salary scale. Non-executive directors and independent non-executive directors are not entitled to any salary. Details of remunerations for each member of the board and senior management are disclosed in the 2005 annual report. Such remuneration policies came into effect after review by the board and approval granted in general meeting prior to the Company's listing. These policies are subject to review and approval in each year's annual general meeting.

Payment of performance bonus and other incentive bonuses is based on actual financial results achieved by the Company, such that as much as 2 per cent of consolidated net profit for previous financial year as audited by international auditors would be allocated and paid-out to directors, supervisors and members of senior management. Incentive bonus for 2005 had not yet been released.

Remuneration of Auditors

During the year ended 31 December 2005, the external auditors of the Company had not provided any non-audit service to the Company. Proposed auditors' remuneration to be paid by the Company would come into effect only after discussion in the audit committee and review of the board and further approval granted in a general meeting. The remuneration of auditors for the year ended 31 December 2005 was RMB2.38 million.

III. Audit Committee

1. An audit committee has been set up under the board. The duties of the audit committee are to review the appointment of external auditors, to determine the auditors' remuneration, to monitor the work of auditors and to review the Company's internal control and reporting system. The audit committee comprises three independent non-executive directors, namely Xu Bailing, Xie Zhuang and Fung Ching Simon, with Xu Bailing acting as the chairman.
2. In 2005, the audit committee has hold two meetings; all of the three committee members have attended these meetings.
 - The Audit Committee has reviewed the 2004 annual results and the execution of continuing connected transactions and prepared the work report in the first meeting in 2005.
 - The Audit Committee has reviewed the financial statements for the six months ended 30 June 2005 in the second meeting in 2005.

Furthermore, the Audit Committee has discussed with PricewaterhouseCoopers before the interim audit and annual audit in 2005, respectively.

The Audit Committee suggested re-appointment of PricewaterhouseCoopers as international auditors of the Company. The Board of Directors has no disagreement.

IV. Shareholding Interests of Senior Management

None of the senior management members held any shareholding interests in the Company during the year.

V. Shareholders' Right

In respect of protecting the rights of the Company, the articles of association set out the requirements for shareholders to request a special general meeting to be convened: When two or more shareholders holding in aggregate ten per cent (10%) or more (consists of ten per cent (10%)) of the Company's shares entitling their holders to vote in the proposed general meeting request, by signing one or more copies of a written request in the same form and substance to the board to convene a special general meeting with an agenda of the meeting. A special general meeting is required to be held as soon as practicable upon receipt by the board of such written request.

During the year ended 31 December 2005, the board did not receive any requests from shareholders to convene a special general meeting.

VI. Investors Relations

1. There was no alteration of material nature to the articles of association of the Company during the year;
2. Details of the classes of the Company's shareholders and particulars on shareholding in aggregate are set out in the Directors' Report in the 2005 annual report;
3. The last general meeting of the Company was held on 27 January 2006 at the conference room at 3rd floor of the Company's complex. The agenda were 1) to consider and approve the appointment of Mr Zhang Cong as the Company's director; 2) to consider and approve the appointment of Mr Chen Kewen as the Company's supervisor;
4. As at 31 December 2005, 226,913,000 H shares of the Company were held by the public, and the market value attributable to such public float was HK\$936,016,125.
5. The Company has engaged a professional financial public relations firm as the daily communication channel between the Company and its investors. The financial public relations firm will answer the queries brought by investors and maintain active communications with investors and fund managers. The Company will publish the key operation data on a monthly basis and report the Company's latest development in relevant media and at the Company's website by means of press releases and announcements.