



Report on Corporate Governance

The Company believes that the incessant enhancement of the standard of corporate governance is the underlying cornerstone for safeguarding the interests of investors and enhancing corporate value. Since its listing in February 2003, the Company, with reference to the Company Law of the People's Republic of China, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Articles of Association of the Company and other relevant laws and regulations and taking into considerations of its own attributes and requirements, has made huge efforts in enhancing the standard of corporate governance.

CONTINUOUS IMPROVEMENT ON CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices (the "CG Code") issued by the Stock Exchange of Hong Kong Limited (the "Stock Exchange") formally came into effect on 1 January 2005. The Company has reviewed the CG Code and adopted it as our code on corporate governance practices. Meanwhile, the rules of procedure of the Company's Audit Committee and Remuneration Committee were amended in March 2005 to incorporate certain provisions of the CG Code.

The Company has complied with most of the code provisions of the CG Code, except for the following:

Code provision A1.1 stipulates that at least four Board meetings shall be held every year at quarterly basis. In 2005, the Company held a total of three regular Board meetings. The regular Board meeting scheduled to be held in December 2005 was postponed to January 2006 in order to give the Company additional time to finalise its work to be reviewed by the Board in relation to Company's application for the waiver in respect of the Company's continuing connected transactions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the Company's directors.

The directors have confirmed, following specific enquiry by the Company that they have complied with the required standards set out in the Model Code throughout the reporting period for 2005.

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BOARD OF DIRECTORS

The Board is accountable to the general meetings under its commitment to pursue the best interests of the Company. Board members collectively and individually accept the responsibility for the management and control of the Company in the interest of shareholders and spared no efforts in the performance of their duties as a director. The Company's independent directors are professionals in the field of accounting, finance or management with extensive experience in accounting or financial management and other professional areas, and all of them act in diligent manner to uphold the interests of the Company and the shareholders by maintaining their independence of their opinions given with respect to their review of the Company's connected transactions and significant events, and by providing professional advice on the stable and disciplined operation and long-term development of the Company.

As at 31 December 2005, the Board of the Company comprised 12 directors, of which 4 were executive directors, 5 were non-executive directors and 3 were independent non-executive directors, whose names are as follows:

Chairman: Mr. Zhang Bin*;

Executive directors: Mr. Zhang Bin*, Mr. Zhang Jianwei, Ms. Tao Suyun, Mr. Li Jianzhang;

Non-executive directors: Mr. Yang Yuntao, Ms. Liu Jinghua, Mr. Jerry Hsu, Mr. Ken Torok, Mr. Lee Chong Kwee*.

Independent non-executive directors: Mr. Sun Shuyi, Mr. Lu Zhengfei, Mr. Miao Yuexin

* Mr. Zhang Bin resigned from his position as the Company's executive director and chairman on 10 January 2006 and Mr. Zhao Huxiang was appointed as the Company's executive director and chairman at the general meeting held on 3 March 2006.

* Mr. Miao Yuexin was appointed as the Independent non-executive director at the general meeting held on 30 August 2005.

* Mr. Lee Chong Kwee resigned from his position as Company's non-executive director on 27 March 2006.

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The main duties of the Board include determining the operating plans and investment proposals of the Company, convening general meetings and executing the resolutions of general meetings, formulating the Company's profit distribution proposals and formulating and amending the Articles of Association of the Company.

The Board delegates the authority of the management of the Company's daily operation to the management, whose scope of authority of management is set out in the Articles of Association of the Company.

The directors acknowledged their responsibilities for the preparation of the Group's financial statements, and ensured that the financial statements are prepared in accordance with the requirements of laws and regulations and applicable accounting standards. The directors also ensured the timely publication of the Group's financial statements.

So far as is known to the Company, there is no financial, business, family or other material relationship between the Board members of the Company. Save as disclosed herein, there is also no any relationship between chairman of the Board and CEO of the Company.

The Company has received, from each of the independent non-executive directors, a written confirmation of his/her independence to the Company pursuant to the requirements of the Listing Rules. The Company considers that all of the independent non-executive directors are independent of the Company.

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In order to illustrate its focus on the Company's business management, the Board sets out in the table below the attendance of meetings of the Board and its subordinated committees in 2005.

	Attendance/No. of meetings		Remuneration
Directors	Board	Audit Committee	Committee
Independent non-executive directors			
Mr. Sun Shuyi	3/3	4/4	1/1
Mr. Lu Zhengfei	3/3	4/4	1/1
Mr. Miao Yuxin ¹			
Non-executive directors			
Mr. Yang Yuntao	3/3		
Ms. Liu Jinghua ²	3/3 ⁴	2/4	
Mr. Jerry Hsu	2/3 ⁵		
Mr. Lee Chong Kwee	3/3		
Mr. Ken Torok	2/3 ⁶		
Executive directors			
Mr. Zhang Bin	3/3		
Mr. Zhang Jianwei	3/3		
Ms. Tao Suyun ³	3/3	2/4	1/1
Mr. Li Jianzhang	3/3		

Description: Except for those with indications shown in the column of attendance, the meetings were attended by the directors in person.

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- ¹ Mr. Miao Yuexin was appointed by the Board as a member of the Audit Committee and the Remuneration Committee on 10 January 2006, and therefore, he did not vote at the meetings of the Audit Committee and the Remuneration Committee in 2005. However, he attended the 4th meeting of the Audit Committee held on 21 November 2005.
- ² Ms. Liu Jinghua was appointed as a member of the Audit Committee at the Board meeting held on 22 March 2005.
- ³ Ms. Tao Suyun resigned as a member of the Audit Committee at the Board meeting held on 22 March 2005.
- ⁴ One was attended by an authorized representative.
- ⁵ One was attended by an appointed proxy.
- ⁶ Both were attended by an authorized representative.

The Company has prepared and properly kept detailed minutes for the matters being discussed in Board meetings.

The directors are minded that they shall devote sufficient time and effort to the business of the Company and that they shall abstain from voting for the approval of any proposals in which they are materially interested.

APPOINTMENT OF DIRECTORS

The directors of the Company are elected at general meetings of the Company. They, including independent non-executive directors, are appointed for a term of office of three years and are eligible for re-election upon the expiry of their terms.

Mr. Miao Yuexin was appointed as a new independent non-executive director during the year. His appointment was first proposed at a meeting of the Board and was subsequently approved at an extraordinary general meeting of the Company.

During the year, some directors and supervisors, whose terms of office were due to expire, were re-elected in accordance with the nominations by the Board and the Supervisory Committee, and the re-elections were approved at subsequent general meeting of the Company. Directors who were re-appointed include Mr. Zhang Bin, Mr. Zhang Jianwei, Ms. Tao Suyun, Mr. Sun Shuyi and Mr. Yang Yuntao, while the supervisors re-appointed were Mr. Wang Xiaozheng and Mr. Zhang Junkuo.

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CHAIRMAN AND PRESIDENT

During the reporting period, Mr. Zhang Bin* was the chairman of the Board and Mr. Zhang Jianwei is President of the Company. The roles of chairman and president are performed by different individuals and each of them has different terms of reference. The Chairman is responsible for the management of the Board's operation, while the President is responsible for the business management of the Company. Details of their respective duties and responsibilities are set out in the Articles of Association of the Company.

* Mr. Zhang Bin resigned from his position as the Company's executive director and chairman on 10 January 2006 and Mr. Zhao Huxiang was appointed as the Company's executive director and chairman at the general meeting held on 3 March 2006.

COMMITTEES

The Board has established two committees, the Audit Committee and the Remuneration Committee, and their respective main duties are published on the Company's website. The Company has no Nomination Committee.

Audit Committee

The principal terms of reference of the Company's Audit Committee include reviewing and supervising the financial reporting system and internal control mechanism of the Company, effectively monitoring and managing the Board, ensuring that the Board is to be held accountable to the Company and the shareholders and proposing and engaging external auditors.

The Audit Committee is chaired by Mr. Sun Shuyi and its members are Mr. Lu Zhengfei and Mr. Miao Yuexin, being independent non-executive directors, and Ms. Liu Jinghua, being a non-executive director. Most of them possess professional qualifications and experience in finance.

The Audit Committee held four meetings in 2005 and had considered and reviewed the interim and annual results of the Company and reviewed the internal control system. The tasks performed in 2005 include:

- On 11 January 2005, the Audit Committee held a discussion with the external auditors in respect of the strengthening of their communication and the issues of 2004 preliminary audit;
- On 21 March 2005, the Audit Committee considered and reviewed the Company's 2004 operating results and the amended rules of procedure of the Audit Committee;

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- On 23 August 2005, the Audit Committee considered and reviewed the Company's 2005 interim results and reviewed the work of the Company's internal audit;
- On 21 November 2005, the Audit Committee held a discussion with the external auditors on the approach and principles of annual audit.

The Report of the Directors and accounts and the final results announcement for the year ended 31 December 2005 were reviewed by the Audit Committee on the meeting held on 24 March 2006 and were submitted to the Board for approval.

Remuneration Committee

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies of the Company, assessing the performance of the directors and senior management of the Company and determining policies in respect to their remuneration packages, so as to ensure that none of the directors can determine his/her own remuneration packages.

The Remuneration Committee is chaired by Mr. Lu Zhengfei and its members include Mr. Sun Shuyi and Mr. Miao Yuexin, being independent non-executive directors, and Ms. Tao Suyun, being an executive director.

The Company has formed a set of standardised job evaluation system, performance management system and compensation and benefit system. Through the implementation of the compensation and benefit strategy, a set of compensation and benefit system which balances the external competition and internal fairness, and also in compliance with the development of the Company was built. Such compensation and benefit system is based on the foundation of position appreciation system, through the introduction of system of competition for position, realisation of salary for position, then finally achieved the system of the floating salary; the system of effective incentive and restriction is based on the unified performance management system. Meanwhile, the Company actively launched the compensation culture of "performance coming first" to reach the aim to attract, keep and inspire person of ability so that to realise the final target of the overall enhancement of personal value, corporate value and shareholders' value.

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To tightly connect the interests of management team, core professional staff and important managers with the shareholders' interests, and to inspire and restrict their long term behaviour so that to realise the long term strategic targets of the Company, plans of Stock Appreciation Rights and Key Performance Indicators have been set and have been approved by the general meeting of the Company.

The remuneration committee submits the remuneration plan to the Board of directors. Such plan will be submitted to the general meeting of the Company after being approved by the Board of directors. When approved by the general meeting of the Company, the plan shall be put into implementation

The Remuneration Committee had one meeting in 2005 and had reviewed the remuneration policies of the directors and senior management of the Company.

SUPERVISORY COMMITTEE

The Supervisory Committee comprises three members, one of whom is the independent supervisor while the other two are supervisors representing the staff and shareholders respectively. The Supervisory Committee is responsible for supervising the Board and its members as well as the senior management, so as to safeguard the interests of the shareholders of the Company. In 2005, the Supervisory Committee examined the financial position and the legal compliance of the operations of the Company and conducted the due diligence review of the senior management through convening Supervisory Committee's meetings and attending Board meetings, meetings of the Audit Committee and General meetings, and undertook various duties in a proactive and diligent manner under the principle of due care and good faith.

INTERNAL AUDIT

The internal audit department of the Company is responsible for the monitoring and assessment of the suitability, compliance and effectiveness of the Company's operating activities and internal control system by independent, objective, systematic and professional approaches. Its main duties include:

- formulating the rules and systems of the internal audit of the Company;
- undertaking the duties of internal audit of the Company;
- providing guidance and supervision of the internal audit of its member companies;

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- providing management recommendations;
- reviewing and overseeing the implementation of audit opinions and recommendations.

The Internal Audit Department reports directly to the top management of the Company and attends all of the Audit Committee meetings.

In 2005, the Internal Audit Department of the Company has reported to the Audit Committee on the progress of internal audit, such as the duties and responsibilities in relation to internal audit as well as the objectives, scope and extent of internal audit. It has undertaken various internal audit projects, supervised the Company's overall financial operation through the financial management information system, formulated and implemented a self-evaluation system for the Company's overall internal control, with an aim to assisting the Company to work out of the resolutions of the Audit Committee and to providing advices in its ordinary course of work. It has also had discussions with the external auditors on the schedule, details and results of the audit work.

EXTERNAL AUDITORS

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company were engaged as the Company's international and PRC auditors of the Company for the year ended 31 December 2005.

For the year ended 31 December 2005, total fee for audit related and other services amounted to RMB5.8 million. Audit fee for year ended 31 December 2005 is set out in note 9 to the financial statements.

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The directors will propose a resolution at the 2005 annual general meeting for the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the Company's international and PRC auditors of the Company respectively.

The auditors of the Company have not been replaced for the past three financial years.

INTERNAL CONTROL

Through the customised internal control system, the Board can oversee the Company's overall financial and operation conditions and legal compliance and manage the risks to avoid any substantial losses due to failure in internal control.

The Board has introduced various measures to ensure effective internal control:

- The Company has clearly defined the organisational structure of the Company and the duties and responsibilities for every department.
- The Company has established a series of policies, constitutions and workflow in relation to its financial management, operation and legal compliance which are to be perfected through daily supervision and persistent improvement;
- The Company has a well organised accounting management system, which provides accurate financial information and indicators to the management for assessing the Company's financial position and operating performance as well as disclosable financial information.
- The Company's Internal Audit Department is responsible for independent examination and assessment of the Company's internal control mechanism and for providing recommendations for further improvement, to ensure the effective implementation of the approaches and standards formulated by the Board and the management. The scope of internal audit covers the examination of financial, operation, compliance and risk management issues of the Company and the results of which will be reported to the Audit Committee, top management of the Company and the external auditors;

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- The Company carried out internal audit and external assessment on the suitability, completeness and effectiveness of its quality management system based on the ISO9001:2000 standard. The audit procedures include monitoring major projects such as financial, operation and compliance affairs based on their respective procedural documents and cover all aspects of quality management system.
- In 2005, the Company planned and conducted a self-assessment of the Company's overall internal control mechanism and reported the results to the external auditors;
- In addition, by enhancing the training for internal control, the Company provided its management and staff with a better understanding of and knowledge on risk management and the internal control system, thus enhancing its internal control system.

GENERAL MEETINGS

The ultimate goal of the Board and senior management of the Company is to maximise shareholders' value. Under the Articles of Association of the Company, two or more shareholders whose shareholding represents more than 10% of the shares of the Company are entitled to request an extraordinary general meeting.

Any shareholder who holds 5% or above of the total number of the Company's shares conferring the right to vote is entitled to put forward new resolutions in writing to the Company.

The Company held three general meetings in 2005, including the 2004 annual general meeting. The matters considered at the meetings cover the proposals in respect of the accounts, auditors' report, profit distribution proposal, election of directors and amendments to the Articles of Association of the Company. All the resolutions proposed in 2005 for shareholders' approval were passed.

The Company values highly the functions of general meetings, and therefore encourages all shareholders to attend general meetings, which can serve as a direct and effective communication channel between the Board and the investors of the Company.

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FINANCIAL CALENDAR

Announcement of 2005 final results	28 March 2006
Book close date of 2005 annual dividend	29 April 2006 to 29 May 2006
Payment of 2005 annual dividend	16 June 2006 or before
2005 annual general meeting	29 May 2006
Announcement of 2006 interim results	August 2006

The Company will publish an announcement in respect of the above dates in accordance with the relevant regulatory requirements. Should there be any changes to the above, the dates as formally notified by the Company prevail.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

In respect of any disclosable and significant event, the Company will make accurate and complete disclosure in a timely manner in the newspapers and websites as specified by the relevant supervisory authorities for information disclosure pursuant to the disclosure requirements under the Listing Rules. This is to safeguard the right to information and participation of the shareholders.

The Company places strong emphasis on its communications with investors, and considers that maintaining an on-going and open communications with investors can promote investors' understanding and confidence in the Company. The Company has set up an Investor Relations Department which is responsible for investor relations. Management of the Company maintains close communications with investors by means of road shows, conferences and one-on-one meetings to enable them to have a better understanding to the Company's management rationale, operating environment and development strategies, thus enhancing the degree of transparency and investors' understanding to the Company.

The Company's website, www.sinotrans.com, provides information of the Company such as investor relations, corporate governance and other latest news regarding the Company in a timely manner and is updated regularly.