

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CODE

The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Practices (“the Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the financial year ended 31 December 2005, except for the deviation from code provision A.2.1 in respect of the segregation of duties of the roles of chairman and chief executive officer by two different individuals, which are explained in the following paragraphs.

KEY CORPORATE GOVERNANCE PRINCIPLES AND THE COMPANY’S PRACTICES

The Board

Roles of Directors

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for appointing and supervising senior management to ensure that the operations of the Group are conducted in accordance with the objectives of the Group. The principal roles of the Board are:

- to lay down the Group’s objectives, strategies, policies and business plan;
- to monitor and control operating and financial performance through the determination of the annual budget; and
- to set appropriate policies to manage risks in pursuit of the Group’s strategic objectives.

The Board is directly accountable to the shareholders and is responsible for preparing the accounts.

The Board has delegated the day-to-day management responsibility to the management staff under the instruction/supervision of Chief Executive and various Board committees.

COMPOSITION

As at the date of this report, the Board consists of 13 members, comprising 8 executive Directors namely Mr. Wu Guang Quan, Mr. Lai Wei Xuan, Mr. Sui Yong, Mr. Yan Hai Zhong, Mr. Liu Rui Lin, Mr. Xu Dong Sheng, Mr. You Lei, Mr. Wang Bao Ying, 2 non-executive Directors namely Mr. Wang Bin Bin, Mr. Li Cheng Ning, and 3 independent non-executive Directors namely Mr. Poon Chiu Kwok, Mr. Eugene Liu and Mr. Liu Xian Fa. One of the independent non-executive Directors, Mr. Eugene Liu, is a qualified accountant with substantial experience in accounting and financial matters. Mr. Wu Guang Quan is the Chairman and Chief Executive of the Company. Biographical details of the Directors are set out in the “DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT” section on pages 15-17 of this annual report.

Although the Company does not set up a Nomination Committee, the Board is mandated to assess annually the independence of all independent non-executive Directors, and affirms that all independent non-executive Directors satisfy the criteria of independence, as set out in the Listing Rules. Board members are totally unrelated in every aspect including financial, business, or family.

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COMPOSITION *(continued)*

Appointment and Re-election of Directors

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing directors.

Those directors appointed by the Board during the year shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

Other than the rules governing the appointment, re-election and removal of Directors laid down in the Articles of the Company, details of the procedures for nominating candidates to stand for election at the 2005 annual general meeting as well as detailed biography of all directors standing for election or re-election are set out in the notice of the annual general meeting or the circular to the Shareholders to be sent together with the Annual Report.

In the selection process, the Board makes reference to criteria including, inter alia, reputation, accomplishment and experience in the relevant industry, professional and educational background, and commitment in respect of available time and relevant interest.

The Board has considered in a board meeting the policy for the nomination of directors, and selection of candidate to fill a casual vacancy in the year 2005.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Wu Guang Quan is the Chairman and Chief Executive of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decision promptly and efficiently. The Board has full confidence in Wu Guang Quan, and believes his appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects of the Company.

Term of non-executive Director

The non-executive Directors are appointed for a fixed term of 3 years. The current term of the existing non-executive Directors will expire at the conclusion of the 2005 annual general meeting of the Company.

COMPOSITION *(continued)***Board Process**

The proceedings of the Board are well defined and follow all the code provisions of the Code.

Regular Board meetings are held normally every 3 months, with additional meetings arranged, if and when required. Five Board meetings were held in 2005 and the average attendance rate was 91 per cent. Individual attendance records are set out below.

Board Attendance

No of meetings held during the year	5
<i>Executive Directors</i>	
Wu Guang Quan	4/5
Lai Wei Xuan	5/5
Sui Yong	5/5
Yang Hai Zhong	5/5
Liu Rui Lin	5/5
Xu Dong Sheng	5/5
You Lei	5/5
Wan Bao Ying (Appointed on 9 August 2005)	2/2
Xu Ye Chun (Deceased)	0/3
<i>Non-executive Directors</i>	
Wang Bin Bin	4/5
Li Cheng Ning (Appointed on 29 March 2005)	4/4
Ji Gui Rong (Resigned on 29 March 2005)	1/1
<i>Independent Non-executive Director</i>	
Poon Chiu Kwok	5/5
Eugene Liu	5/5
Liu Xian Fa	5/5
 Average attendance rate	 91%

Directors are free to contribute alternative views at meetings and major decisions would only be taken after deliberation at Board meetings. Directors who are considered having conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution. Minutes of the Board/committee meetings are kept by the Company Secretary and are open for inspection by Directors.

All Directors have access to the Company Secretary who is responsible for ensuring that the Board procedures are complied with, and advising the Board on compliance matters.

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COMPOSITION *(continued)*

Directors' Duties

Every Director is kept abreast of his responsibilities as a director of the Company and of the conduct, business activities and development of the Company:

- A comprehensive director's handbook is issued to every Director, which sets out guidelines on conduct by making reference to the relevant sections of the statutes or the Listing Rules, and reminds Directors of their responsibilities in making disclosure of their interests and potential conflict of interests.
- Orientation programmes are organised for providing induction to new Directors to help them familiarise with the Company's management, business and governance practices.
- Management provides appropriate and sufficient information to Directors and the committee members in a timely manner to keep them apprised of the latest development of the Group and enable them to discharge their responsibilities. Directors also have independent and unrestricted access to senior executives of the Company.

Conduct on Share Dealings

The Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules has been adopted as a code of securities transactions for directors and supervisors of the Company. The Company, having made specific enquiries to its directors and supervisors, confirms that, throughout the financial year ended 31 December 2005, all directors and supervisors met the criteria laid down in the said code for securities transactions by directors.

COMPOSITION *(continued)***Board Committees**

The Board is supported by two committees, namely Remuneration Committee and Audit Committee. Each of them has defined terms of reference covering its duties, powers and functions.

The Board and the committees are provided with sufficient resources to discharge their duties including, retention of outside advisers, if necessary, at the cost of the Company, to provide advice on any specific matter.

All committees comprise mainly independent non-executive Directors. The chairmen of the respective committees report regularly to the Board, and, as appropriate, make recommendations on matters discussed. The governance structure and meetings attendance record of the Committees are set out below.

	Major roles and functions	Composition during 2005	Attendance in 2005
Audit Committee	<ul style="list-style-type: none"> To serve as a focal point for communication between Directors, the external auditors and internal auditors To assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, and the effectiveness of the Group's internal control system To review the appointment of external auditors on an annual basis as well as to ensure independence of the continuing auditor 	Poon Chiu Kwok (Chairman) Eugene Liu Liu Xian Fa	2/2 2/2 2/2
Total number of meetings held in 2005: 2			
Remuneration Committee	<ul style="list-style-type: none"> To formulate remuneration policy and make recommendations on the annual remuneration review To determine the remuneration of Executive Director and members of the Senior Management 	Wu Guang Quan (Chairman) Sui Yong Poon Chiu Kwok Eugene Liu Liu Xian Fa	1/1 1/1 1/1 1/1 1/1

Total number of meetings held in 2005: 1

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COMPOSITION *(continued)*

Remuneration Committee

The Board has established a Remuneration Committee with specific written terms of reference which set out its authority and duties. The terms of reference of the Remuneration Committee have included the specific duties set out in Code Provision B.1.3(a) to (f) of the Code, with appropriate modifications where necessary. The Remuneration Committee determines the Group's remuneration policy and reviews, in particular, the remuneration packages of the Chief Executive and the Senior Management. It also makes recommendations to the Board on the annual salary adjustment and provision of the performance bonus, if any.

The Remuneration Committee has held one meeting during 2005 to determine the Group's remuneration policy for executive Directors, and the terms of the service contract of the executive Director appointed in that year. A general description of the emolument policy and long-term incentive schemes as well as the basis of determining the emolument payable to the directors is set out on page 80 of the Annual Report.

ACCOUNTABILITY AND AUDIT

Financial reporting

The Directors are responsible for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs of the results and cash flow for the year. In preparing the accounts for the year ended 31 December 2005, the Directors have:

- selected suitable accounting policies and applied them consistently; and
- made judgements and estimates that are prudent and reasonable; and ensured the accounts are prepared on the going concern basis.

The company recognises that high quality corporate reporting is important in reinforcing the trustworthy relationship with the Company's stakeholders and aims at presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects in all corporate communications. The annual and interim results of the Company are announced in a timely manner within the limits of 4 months and 3 months respectively after the end of the relevant periods.

A statement by the auditors about their reporting responsibilities is included in the Report of the Auditors on pages 96-97.

Internal Control

The Board, through the Audit Committee, has reviewed the effectiveness of the Company's system of internal control over financial, operational and compliance issues for the year 2005. The Audit Committee concluded that, in general, the Company has set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance. The Board, through the review of the Audit Committee, is satisfied that the Group in 2005, fully complied with the code provisions on internal controls as set forth in the Code.

ACCOUNTABILITY AND AUDIT *(continued)***External Auditors**

The Company's external auditors are PricewaterhouseCoopers. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguard independence of the auditors, and it has reviewed the type and authorisation of non-audit services for which the external auditors may provide.

During 2005, the fees paid to the Company's external auditors for audit services amounted to RMB1,600,000 and for non-audit related activities amounted to RMB30,000.

Audit Committee

The Board has formed an audit committee in compliance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company. The committee members currently comprises all the Independent Non-executive Directors, namely Mr. Poon Chiu Kwok (as Chairman), Mr. Eugene Liu and Mr. Liu Xian Fa. The terms of reference adopted by the Audit Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and modified to incorporate the relevant code provisions as set out in the Code.

The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee meets at least twice a year for review of the audited annual accounts and the unaudited interim accounts.

During 2005, the Audit Committee met twice to discuss the annual results of 2004 and interim results of 2005. The adequacy and effectiveness of the Group's internal control are also discussed in these meetings. The committee has complete and unrestricted access to the external auditors and all staff of the Group.

Corporate Communication

The Group recognises the importance of shareholder feedback and the need for ongoing communication with its stakeholders, including the general public, investors, and the institutional and individual Shareholders. The Company published annual and interim reports which contained detailed information about the Group. Inquiries by shareholders are directed and dealt with by senior management of the Group.