

(1) Corporate Management Practice

The Company complies with Appendix 14 “Code on Corporate Governance Practices” of listing rules issued by the Stock Exchange of Hong Kong Limited and targets to improve its quality of management.

The implementation of practice of the Company is as follow:

A. Directors

A.1 Directors' Meeting

The Company holds at least one Directors' Meeting in each quarter. Eleven Directors' Meetings were held during 2005 and seven of them were in written, please refer to page 26 for details of Directors' attendance. The Company Secretary would consult each director for issues that he would like to cover during the meeting and include them in the agenda. Notification and preliminary agenda will be distributed to directors 14 days before the meeting date.

All directors keep close contact with the Company Secretary. The Company Secretary is responsible for ensuring that the operation of Directors' Meeting fulfills the required procedures. He would express his opinion regarding corporate management and conformation with regulations. The minutes of Directors' Meeting are kept by the Company Secretary. Minutes are passed to all directors for reference. Directors may seek for professional advice and the cost is borne by the Company.

If a substantial shareholder or a director has a major conflict of interest, the matter should not be dealt with by way of circulation or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a board meeting) but a board meeting should be held. The director involved should give up his voting right and his attendance should not be included.

A.2 Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Office have different duties and are fulfilled by two individuals.

A.3 Formation for the Board of Directors

The Company discloses the composition of members of directors' meeting in all notices regarding the category of directors including Chairman, Executive Directors, Independent Non-Executive Directors and Non-Executive Directors. There are 4 independent non-executive directors in the Board and it shares 1/3 of total number of directors. During 2005, 3 directors took up the role of management and it shared 1/4 of total number of directors. This has enhanced the review and control of the Company's management procedures. In order to enrich the understanding of directors about the Company, the Company has uploaded the role of directors and their responsibilities in relevant media.

A.4 Appointment, Election and Removal

Directors of the Company (including non-executive directors) have specific appointment. According to the Articles of Association, directors are elected in Shareholders' meeting and each appointment lasts for three years. After the completion of appointment, directors should be re-nominee and re-appointed. Appointment for independence non-execute officers should not exceed 6 years. Approval from shareholders should be obtained before taking up the position.

CORPORATE MANAGEMENT REPORT

A.5 Directors' Responsibilities

In order to ensure that directors have a sufficient understanding of the operation and business of the Company, every new director after appointment would be given a comprehensive set of introductory material. This set includes a brief introduction of the Company's business, responsibilities and obligations of directors and other legal requirements. Each non-executive director would receive strategic issues from management regularly.

The Company Secretary is responsible for ensuring that all listing rules and legal requirement obtained are updated.

A.6 Provision and Usage of Information

In order to ensure that the directors of the Company could perform their responsibilities effectively and making decision regarding relevant information, agenda of directors' meeting and documents would be distributed to all directors within ten days before the meeting. Directors could meet the senior management formally or informally before the directors' meeting. Directors and committee members could review the minutes of directors' meeting and relevant material.

B.1 Remuneration of Director and Senior Management

Since the establishment of Remuneration and Assessment Committee, remuneration and assessment of directors, supervisor and senior management are based on decisions made in committee meetings. Consultation fee payable to independence professional bodies for opinion is borne by the Company.

C. Accountability and Auditing

C.1 Financial Reporting

Directors would receive integrated reporting including strategic issues, latest information of business, financial goal, plan and measures from the management regularly. During annual or interim reporting, the Board would assess, analyses and understand the assessment on sensitive issues such as share prices. Disclosure would be made.

C.2 Internal Control

The Company's supervisory body is established for protecting the legal rights of shareholders, the Company and employees. The size and combination of supervisory body can fulfill the legal requirement. During 2005, 5 meetings are held and full attendance were noted in every meeting. Shareholder representatives would supervise the directors and senior management to ensure their performance of responsibilities by attending the directors' meeting.

The Board of Director is responsible for creation and maintenance of internal control system for checking the financial, operational and supervisory control procedures. The right of shareholders and company's assets are protected. The Board could delegate the authority to management level for implementation of internal control system. Audit committee would inspect the effectiveness of the Board.

Audit committee would carry out inspection, supervision and assessment on risk and possibility regarding various businesses and flows. Internal management system and procedures are established for monitoring, operation, construction, finance and administration. Inspection would be carried out on a random basis.

C.3 Audit Committee

Since the establishment of the audit committee, improvements were made on financial reporting and the transparency of financial arrangement has been improved. The Company pays great attention to the documentation systems of minutes of Audit Committee meetings. A specific person is responsible for drafting minutes and distributing to members of the committee after the meetings. The draft is prepared for collection of members' opinion, once finalized these will be minutes kept for record.

D. Transfer of Right of the Board of Directors

D.1 Management Function

The scope of the Board of Directors and management is clearly defined and listed out in the Articles of Association.

D.2 Provincial Committee of the Board of Director

The Strategic Committee, Audit Committee, Nomination Committee, Remuneraton and Assessment Committee of the Company are established with respective scope of right and obligations. Each committee performs its duties separately during the reporting period.

E. Communication with Shareholders

E.1 Effective Communication

The Board of Directors focuses on communication with shareholders. During the Annual General Meeting in 2004, all Executive Directors, Independent Non-Executive Directors, Non-Executive Directors and specialized committee participated and enhanced the communication with shareholders.

E.2 Decision by Voting

Shareholders would be informed regularly about the voting issues, procedures for decision by voting is listed in the annual general meeting notice and attachment. Explanation on relevant procedures would be performed.

(2) Securities Transaction of Directors

During the reporting period, the Company followed the Appendix 10 "Model Code for Securities Transactions by Directors of Listed Issuers" of listing rules issued by the Stock Exchange of Hong Kong as regulation for securities transaction of directors.

CORPORATE MANAGEMENT REPORT

(3) The Board of Directors

(1) Formation of the Board of Directors

Currently, there are 12 directors in the Company and 4 of them are independent non-executive directors. This is the fifth term of Board of Director since the established of the Company. The current term of directors begins on 1st November, 2005 or at date of election to the next election of directors.

Eleven directors' meetings have been held during the year and members of the boards are as follow:

Name	Position	Required attendance	Attended in person	Attended by representative	Absence	% of attendance
Lei Jinlu	Chairman, Executive director	8	8	–	–	100
Zhang Hanrong	Vice-Chairman, Executive director	11	11	–	–	100
Cheng Yunchuan	Vice-Chairman, Executive director	11	11	–	–	100
Wu Ketian	Executive director	11	11	–	–	100
Yu Chengting	Independent non-executive director	11	9	2	–	82
Tong Yunhuan	Independent non-executive director	11	10	1	–	91
Dong Juan	Independent non-executive director	11	9	2	–	82
Yu Weifeng	Independent non-executive director	8	8	–	–	100
Wang Shangjin	Non-executive director	11	11	–	–	100
Wen Peixiong	Non-executive director	8	8	–	–	100
Luo Guowei	Non-executive director	2	2	–	–	100
Guo Shangwu	Nn-executive director	11	10	1	–	91
Yue Huafeng	Former Chairman, Executive director	3	1	–	2	33
Jiang Zhuangde	Former Non-executive director	3	2	1	–	67
Zhang Chao	Former Non-executive director	9	7	2	–	78

It is expected that such regular board meetings will normally involve the active participation. Representative would participate the board meeting if the directors were unable to attend due to business issue.

According to the Article of Association, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. In practice, the Company comply with Appendix 14A.1.3 of listing rules of the Stock Exchange of Hong Kong.

The Company Secretary is responsible for distributing detail information of directors' meeting regularly to directors not less than 5 days before the date of meeting to ensure that all directors understand the issues to be covered during the meeting.

Information of temporary Directors' Meeting on need of management or meetings held in form of communication should be sent to all directors by e-mail and fax. Discussions with directors should be performed. The Company Secretary should respond to directors' queries on time. Proper actions should be taken to assist the directors to ensure the compliance with regulations such as the Company Ordinance, Articles of Association and Listing Rules.

Minutes of board meetings should be signed by recorder and directors who attended the meeting. Such minutes should be open for inspection at any reasonable time on reasonable notice by any director.

Where discussion arises on related party transactions with conflict of interests during the board meeting, directors involved in the matter should give up their voting rights.

(2) Appointment of Directors

Each appointment of director lasts for three years. Re-election and re-appointment are allowed. Appointment for independent non-executive directors should not exceed six years. Directors' servicing contract for three years between the Company and directors should be signed (Appointment for any additional directors appointed during the period should last for less than three years). Appointment of directors should be approved by annual general meeting. The appointment of directors during this report period is recorded on page 19 "Change of Directors, Supervisors and Senior Management during the Reporting Period and Reasons thereof" of this annual report.

(3) Function of the Board of Directors

Function of Board of Directors and scope of responsibility was listed in the Company's Articles of Association.

(4) Nature and Independence of Independent Directors

Members of independence board of directors have different professional backgrounds. They have sufficient experience and professional knowledge in areas including corporate management, financial accounting and manufacturing of machine tools.

Independence of independence non-executive directors complies with listing rule 3.13 of the Stock Exchange of Hong Kong Limited.

(5) Implementation of Measures for Ensuring the Performance of Directors' responsibilities

All directors could obtain information on regulations for directors of listed companies, supervision and contingent responsibilities from the Company Secretary to ensure the understanding of their responsibilities. Procedures of the Board should be implemented and regulations should be properly carried out. The Board of the Company could obtain services from professional bodies for performance its duties.

(6) Relationship between Members of the Board

No relationship exists between members of the Board regarding finance, operation, family and others.

(4) Chairman and General Manager

Different individuals fulfill the positions of Chairman and General Managers and duties are clearly segregated. Chairman is responsible for work related to the Board such as inspecting the implementation progress of issued approved by board meeting. General Manager is responsible for management of operations of the Company and implementation of strategies formulated by the Board. Rights and obligation of General Managers are set out in the Articles of Association of the Company.

(5) Non-Executive Directors

According to the Articles of Association, Rules of Procedure for the General Meetings of the Shareholders and Rules of Procedure for the Meetings of the Board of Directors, the fifth term of non-executive directors lasts until 31st October, 2008.

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- (6) Strategic Committee, Audit Committee, Nomination Committee and Remuneration and Assessment Committee are under the Board of Directors: Details are as follow:

No.	Committee	Major responsibilities	Responsible Person	Committee Members	Workdone during the year
1.	Strategic Committee	Conducting research and providing suggestions on the Company's strategic planning, significant investment and financing issues, significant usage of capital, asset utilization.	Lei Jinlu	Lei Jinlu, Zhang Hanrong, Cheng Yunchuan, Yu Chengting	Nil
2.	Audit Committee	Reporting on regularly, annual achievements and progress on implementation of internal control	Dong Juan	Dong Juan, Tong Yunhuan, Yu Weifeng, Luo Guowei	Meeting was held on 16th March, 2005 for discussion on audit work for 2004.
3.	Nomination Committee	Formulating policy for directors' nomination including nomination procedures, handling steps and criteria for selection of nominated candidates	Tong Yunhuan	Tong Yunhuan, Yu Chengting, Wen Peixiong	Nil
4.	Remuneration and Assessment Committee	Formulating remuneration policy for executive directors, assessing performance of executive directors and approving clauses in directors' servicing contract	Yu Chengting	Yu Chengting, Yu Weifeng, Dong Juan, Guo Shangwu	Discussion on profiles of directors, supervisors and senior management for 2004.

Note: Responsible person for the Company's strategic committee is Mr. Lei Jinlu, the Chairman and executive director

Responsible person for the Company's audit committee is Ms. Dong Juan, Independent non-executive director

Responsible person for the Company's nomination committee is Mr. Tong Yunhuan, Independent non-executive director

Responsible person for the Company's remuneration and assessment committee is Mr. Yu Chengting, Independent non-executive director

(7) Auditor's Fee

Auditor's fee for 2005 includes the following:

Amount of RMB350,000 is paid to Xian Sigema Certified Public Accountants, CPA outside Hong Kong

Amount of HKD1,380,000 is paid to Messrs. Deloitte Touche Tohmatsu Certified Public Accountants, within Hong Kong

Factors affecting the auditor's fee paid by the Company:

- (1) General remuneration offered for auditing service in PRC
- (2) General remuneration offered for auditing service in Hong Kong
- (3) In accordance with work load on audit workdone in previous accounting period
- (4) In accordance with work load on audit workdone in the previous engagement.

(8) Right of Shareholders

The Company keeps good communication with shareholders. The communication channels include the Annual General Meeting, website and electronic mailbox of the Company, facsimile and telephone to Secretary of the Board. Shareholders should express their opinion and exercise their rights.