

## CODE ON CORPORATE GOVERNANCE PRACTICES

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The Code on Corporate Governance Practices and Corporate Governance Report issued by the Hong Kong Stock Exchange was effective for the accounting periods commencing on or after 1 January 2005. The exception was in respect of Code Provision C.2 on internal controls and the proposed disclosure requirements in the Corporate Governance Report relating to the internal control. The Board noted the changes and will apply them to the Company (as applicable).

The Company attaches great importance to the excellence, soundness and reasonableness of its corporate governance structure. The Company, currently and within the reporting period ended 31 December 2005, adopted and applied the principles of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (abbreviated as “CG Code”). The Company has complied with all the provisions in the CG Code except as stated below.

The Board and management of the Company make every effort to comply with the CG Code in order to protect and enhance the benefits of shareholders. Following sustained development and growth of the Company, we will continue to monitor and revise the Company’s governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders.

In accordance with relevant laws and regulations, the Company had established inter-restricting management systems comprising general meeting, Board, Board committees, supervisory committee and management, which were characterized by clear division of work and responsibility. In practical operation, the Company had been perfecting its corporate governance structure, regulating itself and strengthening information disclosure.

## DIRECTORS’ SECURITIES TRANSACTIONS

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For the reporting period ended 31 December 2005, the Company has adopted a code of conduct regarding directors’ and supervisors’ securities transactions on terms no less exacting than the required standard set out in the Model Code For Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (abbreviated as “Model Code”).

The Company having made specific enquiry to Directors and supervisors, its Directors and supervisors have complied with the required standard set out in the Model Code regarding directors’ securities transactions.



# Corporate Governance Report

## BOARD

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### (a) Board composition

In accordance with the relevant provisions under the Listing Rules, the Board of the Company comprises nine directors, one of them is the chairman of the Board and there are six executive Directors and three independent non-executive Directors. The details are as follow:

Executive Directors :

Chen Zhaoxiong (*Chairman*)

Lu Ming

Tam Man Chi

Wang Jincheng

Yang Jun

Li Weisheng

Independent non-executive Directors :

Li Sanli

Li Xiaoru

Wang Qinfang

The above Directors will hold office until the conclusion of the Company's 2006 annual general meeting.

Directors of the Company had observed strictly their commitments made public and performed their obligations with faithfulness, integrity and diligence. The composition of the Board of the Company was accordant with relevant laws and regulations. The Board of the Company had held itself responsible to shareholders for the leading and steering of the Company. The Board convened regular meetings and extraordinary meetings according to legal procedures exercised its powers of office according to laws, regulations and Articles of Association and taken good care of interests of the Company and shareholders as a whole.

### (b) Independent non-executive Directors

The Company has complied with the provisions of Rules 3.10 (1) and 3.10 (2) of the Listing Rule that at least three independent non-executive Directors be appointed by listed issuers and that at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. All independent non-executive Directors are financially independent from the Company and any of its subsidiaries.

All independent non-executive Directors have entered into service contracts with the Company. None of the independent non-executive Directors has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation other than under statutory compensation

The Company had received an annual confirmation of independence from each of the independent non-executive Director pursuant to Rule 3.13 of the Listing Rules. The Company was of the view that all the independent non-executive Directors met the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.



## (c) Attendance record at board meetings

A total of four Board meetings were held during the year ended 31 December 2005.

Attendance rates of individual Board members during the year are as follows:

Name of Board members	Attendance rates for the year ended 31 December 2005
<i>Executive Directors</i>	
Mr. Chen Zhaoxiong ( <i>Chairman</i> )	4/4
Mr. Lu Ming	4/4
Mr. Tam Man Chi	4/4
Mr. Wang Jincheng	4/4
Mr. Yang Jun	2/4
Mr. Li Weisheng	2/4
Ms. Huang Rongfang	2/4
Mr. Gao Keqin	2/4

*Note:* Ms. Huang Rongfang and Mr. Gao Keqin resigned as Executive Directors of the Company in June 2005 for personal reasons and the appointments of Mr. Yang Jun and Mr. Li Weisheng as Directors of the Company were approved on the annual general meeting held in June 2005.

<i>Independent non-executive Directors</i>	
Mr. Li Sanli	4/4
Mr. Li Xiaoru	4/4
Ms. Wang Qinfang	4/4

Code Provision A.1.1 provides that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. In addition, Code Provision A.1.3 provides that notice of at least 14 days should be given of a regular board meeting. On the other hand, according to Article 102 of the Company's Articles of Association, meetings of the Board shall be convened at least twice every year. Such meetings shall be convened by the chairman of the board by giving notice to all the directors not less than 10 days before the meeting date. For the year ended 31 December 2005, four Board meetings were held and notices of at least 14 days before the meeting date were given, thus the Company complied with the requirements under Code Provisions.



# Corporate Governance Report

## (d) Role and function

Major functions of the Board under the leadership of the Chairman are as follow:

1. to formulate business development strategies;
2. to review and monitor the Group's financial performance;
3. to prepare and approve the Group's financial performance and financial statements;
4. to approve the Group's annual budget, material funding proposals, investment and divestment proposals and operation plans;
5. to monitor and evaluate the Group's internal control, risk management, financial reporting and compliance;
6. to formulate the profit distribution plan and loss recovery plan of the Company;
7. to decide on proposals such as merger, division and dissolution of the Company;
8. to formulate the basic management system of the Company;
9. to formulate proposals concerning amendments to the Company's Articles of Association; and
10. to exercise the Company's powers of raising funds and borrowing money, deciding on the charge, lease, subcontract or transfer of the Company's major assets and to authorize the president or vice presidents to exercise these powers mentioned herein within a certain scope, provided that the relevant laws, statutes, the Company's Articles of Association and relevant regulations are complied with.

The Directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, Directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that board procedures, and all applicable rules and regulations, are followed.

Senior management are responsible for the daily operations of the Group. The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

For the year ended 31 December 2005, the Board:

- i. reviewed and monitored the performance of the Group;
- ii. reviewed and approved the annual results of the Group for the year ended 31 December 2004 and the interim results of the Group for the period ended 30 June 2005;
- iii. reviewed and approved notifiable/discloseable transactions.

To the best knowledge of the Company, there is no financial, business and family relationship among our Directors and between the Chairman and the Chief Executive Officer. All of them are free to exercise their independent judgment.

## Chairman and Chief Executive Officer

The positions of Chairman of the Board and Chief Executive Officer of the Company are assumed by different individuals to achieve effective delineation of the operation of the Board and the management of the Group's daily operations. Mr. Chen Zhaoxiong and Mr. Lu Ming are the Chairman of the Board and Chief Executive Officer of the Company respectively.

Mr. Lu was appointed Chief Executive Officer of the Company in October 2005. Despite the fact that the Chairman of the Board and Chief Executive Officer of the Company are assumed by the same individual before the appointment of Mr. Lu, the operation management of the Board of the Company and the management of the Group's daily operations was in fact separated from each other in accordance with the Code Provisions and those practical works are not conducted by the same individual.

The Chairman of the Board shall ensure the efficient operation of and satisfactory performance of its obligations by the Board, which mainly include:

1. to preside over general meetings and to convene and preside over the Board meetings;
2. to check on the implementation of resolutions of the Board meetings;
3. to sign securities certificates issued by the Company;
4. to ensure all key and appropriate issues are properly briefed and discussed by the Board in a timely manner; and
5. to perform such other duties authorized by the Board.

Chief Executive Officer heads the management and is responsible for daily operation of the Group. He is responsible for the implementation of policies adopted by the Board and reporting to the Board in respect of the overall operation of the Company.



# Corporate Governance Report

## BOARD COMMITTEES

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The Board has also established the following Board committees:

- Audit Committee
- Nomination and Remuneration Committee
- Strategic Development and Risk Management Committee

Each Board committee makes decisions on matters within its term of reference and applicable limits of authority to monitor the Company's business in particular aspects and assist directors' performance of their duties. The terms of reference as well as the structure and membership of each committee will be reviewed by the Company from time to time.

### a) Audit Committee

In December 1999, the Audit Committee had been established. It currently consists of three independent non-executive Directors.

#### *Composition of Audit Committee*

Mr. Li Xiaoru (*Chairman*)

Mr. Li Sanli

Ms. Wang Qinfang

## ROLE AND FUNCTION

The Audit Committee is mainly responsible for, inter alia:

1. to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
2. to discuss with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved;
3. to develop and implement policy on engagement of an external auditor to supply non-audit services;
4. to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half year report and to review significant financial reporting contained in them;
5. to discuss problems and reservations arising from the interim and annual audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary);
6. to review the Group's financial and accounting policies and practices;
7. to review the Company's financial control, internal control and risk management systems;
8. to discuss the Company's internal control system with the management to ensure that the management has discharged its duty to have an effective internal control system.

A copy of the terms of reference of the Audit Committee is available upon request.

## Attendance Record at Audit Committee Meetings

The Audit Committee met twice during the year, particular in reviewing the interim and annual results of the Group.

The following was an attendance record of the Audit Committee meetings for the year ended 31 December 2005:

Committee member	Attendance rates for the year ended 31 December 2005
Mr. Li Xiaoru ( <i>Chairman</i> )	2/2
Mr. Li Sanli	2/2
Ms. Wang Qinfang	2/2

During the meetings, the Audit Committee discussed the following matters:

### 1. Financial Reporting

The Audit Committee discussed the interim and annual financial statements and system of control of the Group. The auditors, the chief executive officer and the company secretary, and the financial controller of the Company were also in attendance to answer questions on the financial results. The management of the Company provided breakdown, analysis and supporting documents to the Audit Committee members in order to ensure that the Audit Committee members were fully satisfied and make proper recommendations to the board.

### 2. External Auditors

The appointment and remuneration of the external auditors were considered by the Audit Committee and recommendations were made to the Board on the selection of external auditors of the Company.

The Audit Committee has given its consent with respect to the resignation of Deloitte Touche Tohmatsu as auditors of the Company and the appointment of Ernst & Young as auditors of the Company to fill in the casual vacancy. Ernst & Young shall hold office until the conclusion of the next annual general meeting.



# Corporate Governance Report

## b) Nomination and Remuneration Committee

The Nomination and Remuneration Committee was established on 8 April 2005. It currently consists of two independent non-executive directors and one executive director.

### *Composition of Nomination and Remuneration Committee*

Mr. Li Sanli (*Chairman*)

Mr. Li Xiaoru

Mr. Wang Jincheng

## ROLE AND FUNCTION

The Nomination and Remuneration Committee is mainly responsible for, inter alia, the following directors' nomination and appointment issues:

1. to identify and nominate qualified individuals, subject to the approval of the Board, to be additional directors or to fill vacancy in the Board as and when they arise;
2. to review on an annual basis the Board structure, size and composition and the independent element of the Board;
3. to develop the criteria for selection of directors;
4. to assess the independence of independent non-executive directors; and
5. to make recommendations to the Board on all new appointments or re-appointments of directors, the establishment of a succession plan for directors, in particular the chairman and chief executive officer and the composition of the Board.



The Nomination and Remuneration Committee is mainly responsible for, inter alia, the following directors' remuneration issues:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
2. to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors;
3. to consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;
4. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;
5. to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
6. to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
7. to ensure that no director or any of his associates is involved in deciding his own remuneration; and
8. to advise the shareholders on how to vote in respect of any service contract of director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

A copy of the terms of reference of the Nomination and Remuneration Committee is available upon request.



# Corporate Governance Report

## Attendance Record at Nomination and Remuneration Committee Meetings

The Nomination and Remuneration Committee met once during the year ended 31 December 2005.

The following was an attendance record of the Nomination and Remuneration Committee meetings for the year ended 31 December 2005:

Committee member	Attendance rates for the year ended 31 December 2005
Mr. Li Sanli ( <i>Chairman</i> )	1/1
Mr. Li Xiaoru	1/1
Mr. Wang Jincheng	1/1

During the meeting, the Nomination and Remuneration Committee mainly discussed and determined the payment of bonus to the whole senior management.

The remuneration of the Directors, supervisors and senior officers of the Company is determined with reference to State policies, the Company's profit realized in the corresponding period and individual achievement.

### c) Strategic Development and Risk Control Committee

The Strategic Development and Risk Control Committee was established on 8 April 2005. It currently consists of five executive directors and three independent non-executive directors.

The Strategic Development and Risk Control Committee met once during the year ended 31 December 2005.

#### *Composition of Strategic Development and Risk Control Committee:*

Mr. Lu Ming (*Chairman*)  
Mr. Tam Man Chi  
Mr. Wang Jincheng  
Mr. Yang Jun  
Mr. Li Weisheng  
Mr. Li Sanli  
Mr. Li Xiaoru  
Ms. Wang Qinfang



## ROLE AND FUNCTION

The Strategic Development and Risk Control Committee is mainly responsible for, inter alia:

1. to study and make recommendations on the Company's long term development strategies;
2. to study and make recommendations on material investments and financing proposals which are subject to the Board's approval as required under the Articles of Associations;
3. to study and make recommendations on material capital operations, asset operation projects which are subject to the Board's approval as required under the Articles of Associations;
4. to study and make recommendations on any other material issues concerning the Company's development;
5. to examine the implementation of the above issues; and
6. to perform such other duties authorized by the Board.

## Attendance Record at Strategic Development and Risk Control Committee Meeting

The Strategic Development and Risk Control Committee met once during the year ended 31 December 2005.

The following was an attendance record of the Strategic Development and Risk Control Committee meeting for the year ended 31 December 2005:

Committee member	Attendance rates for the year ended 31 December 2005
Mr. Li Sanli ( <i>Chairman</i> )	1/1
Mr. Li Xiaoru	1/1
Mr. Wang Jincheng	1/1
Ms. Huang Rongfang	1/1
Mr. Gao Keqin	1/1
Mr. Li Sanli	1/1
Mr. Li Xiaoru	1/1
Ms. Wang Qinfang	1/1

*Note:* Ms. Huang Rongfang and Mr. Gao Keqin resigned as Executive Directors of the Company in June 2005 for personal reasons and the appointments of Mr. Yang Jun and Mr. Li Weisheng as Directors of the Company were approved on the annual general meeting held in June 2005. Thus Mr. Yang Jun and Mr. Li Weisheng were yet to become Executive Directors of the Company when the meeting was held.

During the meeting, the Strategic Development and Risk Control Committee mainly discussed how to contain and minimize the Group's risks arising from the provision of guarantees and loans to GWBNS.



# Corporate Governance Report

## AUDITORS' REMUNERATION

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It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements. Apart from the provision of audit services, the Company's external auditors also carried out review of the Company's interim results.

For the year ended 31 December 2005, Messrs. Deloitte Touche Tohmatsu, the external international auditors, provided the following services to the Company:

	Remuneration 2005 HK\$ '000
2004 annual accounting statements audit services in accordance with the accounting principles generally accepted in Hong Kong	430
2005 interim results review services	290

For the year ended 31 December 2005, Messrs. Deloitte Touche Tohmatsu CPA Ltd., the external domestic auditors, provided the following audit services to the Company:

	Remuneration 2005 HK\$ '000
2004 annual accounting statements review services in accordance with accounting standards in China	400

Messrs. Deloitte Touche Tohmatsu and Messrs. Deloitte Touche Tohmatsu CPA Ltd. have not provided any material non-audit service to the Company during 2005.

As Messrs. Ernst & Young was appointed the auditors with effect from 18 January 2006, the Company did not make any payment to Ernst & Young during the Period.

*Note:* The audit fee paid to Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA Ltd. in 2003 were to HK\$1.65 million and HK\$0.44 million respectively. Reasons for the substantial decrease of audit fee paid by the Company to Messrs. Deloitte Touche Tohmatsu in 2004 are: in 2004, the Group appointed Deloitte Touche Tohmatsu to conduct a special audit for the disposal of International Information Products (Shenzhen) Co., Ltd. The audit period of which is from January 2004 to September 2004. Thus, the volume of audit work in 2004 decreased and so did the audit fee. However, the above special audit fee was not paid by the Company.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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The Board, supported by the finance department of the Company, is responsible for the preparation of the financial statements of the Group. The Board acknowledges their responsibilities for the preparation of the financial statements of the Group.

The Directors confirm that, to the best of their knowledge, information and belief having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 43.

## INVESTOR RELATION

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The Group is committed to fostering productive and long-term relationships with shareholders and investors through open and prompt communication. The Group adopts a policy of disclosing relevant information to shareholders in a timely manner. The Group's annual general meeting allows the directors to meet and communicate with shareholders. Various channels are established to facilitate transparency. Our corporate website which contains corporate information, interim and annual reports issued by the Group as well as recent developments of the Group enable shareholders and investors to have timely and updated information of the Group.

By Order of the Board

**Chen Zhaoxiong**

*Chairman*

Shenzhen, PRC, 24 April 2006