

# Corporate Governance Report

## APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

The Group is committed to promoting good corporate governance, with the objectives of (i) the maintenance of responsible decision making, (ii) the improvement in transparency and disclosure of information to shareholders, (iii) promoting the respect the rights and legitimate interests of shareholders, and (iv) the improvement in management of risk and the enhancement of performance by the Group. The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing Rules throughout the year ended 31 December 2005, save for the deviation discussed below. The following sections set out the principles in the Code as they have been applied by the Company, including any deviations therefrom, for the year under review.

## BOARD COMPOSITION

The overall management and control of the business of the Company is vested in the Board. It is the duty of the Board to create value to the shareholders of the Company, establish the Company’s strategic direction, set the Company’s objectives and plan in accordance therewith, and provide leadership and ensure availability of resources in the attainment of such objectives. The Board endeavour to manage the Company in a responsible and effective manner, and strive to ensures that each of the Directors carries out his duty in good faith and in compliance with the applicable laws and regulations, and acts in the best interests of the Company and its shareholders at all times.

The Board and management (the “Management”) have clearly defined responsibilities under various internal control and checks-and-balance mechanisms. The Board has delegated certain responsibilities to the Management of the Company, including: implementation of the decisions of the Board and organisation and direction of the day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board; preparation and monitoring of annual business plans and operating budget; and control, supervision and monitoring of capital, technical and human resources. The Board will review these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The Board held four meetings during the year under review.

The Board comprises a total of seven Directors, with two Executive Directors, namely, Mr Guo Deying (Chairman) and Mr Jiang Chao; and two Non-executive Directors, namely Ms Yang Xiao and Ms Ma Dehui; and three Independent Non-executive Directors, namely, Mr. Chan King Chung, Dr. Huang Dazhan and Mr. Xie Weixin. The Directors are well-versed in respective areas such as accounting, business management and industry knowledge.

To the best of the Company’s knowledge, there is no financial or family relationship among the Board members except that Ms Yang Xiao, a non-executive Director, is the spouse of Mr. Guo Deying, an executive Director, the chairman of the Board and the Chief Executive Office. In addition, Ms Ma Dehui, a non-executive Director, is the mother of Ms Yang Xiao thus the mother-in-law of Mr. Guo Deying.

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### 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. Currently, Mr. Guo Deying is the chairman of the Board and the Chief Executive Officer of the company. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management and believes that this structure enables the Group to make and implement decision promptly and efficiently. In addition, the Board is of the view that, in view of the current scale of operations of the Group, the separation of the role of the chairman and chief executive officer of the company may hinder administrative efficiency and is neither suitable to the Group nor in the interests of shareholder as a whole.

### INDEPENDENT NON-EXECUTIVE DIRECTORS (“INEDS”)

The INEDs have the same duties of care and skill and fiduciary duties as the executive Directors. They are expressly identified as such in all corporate communications that disclose the names of the Directors.

The INEDs have expertise in respective areas of accounting, business management and process in-depth industry knowledge. With their professional knowledge and experience, the INEDs advised the Company on its operation and management; participated in the Company’s audit committee meetings and remuneration committee meetings. The INEDs have contributed to provide checks and balance to protect the interests of the Company and the Company’s shareholders as a whole, and to promote the development of the Company.

The Company has received an annual confirmation of independence from each of the INEDS pursuant to Rule 3.13 of the Listing Rules and on this basis, considers that all INEDs to be independent as at the date of this report.

Under the Code Provision A.4.1, non-executive directors should be appointed for specific terms, subject to re-election. Currently, all INEDS are appointed for a period of 1 year subject to renewal and retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s articles of association.

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### BOARD OPERATION

The Board meets regularly over the Company's affairs and operations. In 2005, the Board held four meetings. The attendance record of each member of the Board is set out below:

	Attendance
<b>Executive Directors</b>	
Guo Deying	4/4
Jiang Chao	4/4
<b>Non-executive Directors</b>	
Yang Xiao	4/4
Ma Dehui	1/4
<b>Independent Non-executive Directors</b>	
Mr. Chan King Chung	4/4
Dr. Huang Dazhan	4/4
Mr. Xie Weixin	4/4

### REMUNERATION COMMITTEE

The Company has established a remuneration committee with written terms of reference on 22 August 2005 for, inter alia, the following purposes:

- (a) to make recommendations to the Board on policies and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- (b) to determine the remuneration packages for executive directors and senior management and to make recommendations to the board on the remuneration of non-executive directors.

The Remuneration Committee is made up of all of the Company's Independent Non-executive Directors, namely, Mr. Chan King Chung (Chairman), Dr. Huang Dazhan and Mr. Xie Weixin.

No meeting has been held in 2005 to review the remuneration packages of Executive Directors as the Company does not see a need to review the same.

### PROVISION OF INFORMATION TO DIRECTORS

To assist the Directors in the discharge of their duties, the Company will provide every newly appointed Director with a comprehensive induction program on the first occasion of his appointment, in which the newly appointed Director will be provided with information on the Company's organisation and business, including; the membership, duties and responsibilities of the Board, the various Board committees and the Management; corporate governance practices and procedures; and latest financial information of the Company. Such information shall be supplemented with visits to the Company's key plant sites and meetings with key members of the Management.

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Throughout their tenure, the Directors will be provided with updates on the business of the Company, latest developments of the Listing Rules and other applicable legal and regulatory requirements, corporate social responsibility matters and other changes affecting the Company from time to time.

### SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct for securities transactions and dealings (the “Code of Conduct”) based on the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. The terms of the Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all relevant persons as defined in the Code, including the Directors of the Company, any employee of the Company, or a Director or employee of a subsidiary or holding company of the Company who, because of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.

Specific enquiry has been made of all the Directors of the Company who have confirmed in writing their compliance with the required standards set out in the Code of Conduct during the year under review.

### AUDIT COMMITTEE

The audit committee (the “Audit Committee”) of the Company, comprising all three independent non-executive Directors, namely, Dr. Huang Dazhan, Mr. Xie Weixin and Mr. Chan King Chung (Chairman), has reviewed the accounting principles and practices adopted by the Company and has discussed the auditing, internal control and financial reporting matters.

In 2005, the Audit Committee held four meetings. The attendance record of each member of the Committee is set out below:

	Attendance
Mr. Chan King Chung (Chairman)	2/2
Dr. Huang Dazhan	2/2
Mr. Xie Weixin	2/2

The Audit Committee has carefully reviewed and discussed the Company’s half-yearly and annual results for the year under review and the Company’s system of internal control and has made the commendations for improvement. The Audit Committee also carried out and discharged its duties set out in Code.

### ACCOUNTABILITY AND INTERNAL CONTROL

The Directors acknowledge their responsibility for all information and representations contained in the financial statements of the Company for the year under review. The Directors have reviewed and considered that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and Management with an appropriate consideration to materiality.

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The Board has reviewed and is satisfied with the effectiveness of the Group's internal control system and believe such system is sufficient in providing reasonable assurances that the Group's assets are safeguarded against loss from unauthorised use or disposition, transactions are properly authorised and proper accounting records are maintained. Such system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational system.

### NOMINATION OF DIRECTORS

Directors of the Company are responsible for making recommendations to the Board for consideration and approval on nominations, appointment of Directors and Board succession, with a view to appoint to the Board individuals with the relevant experience and capabilities to maintain and improve the competitiveness of the Company. The Board formulates the policy, reviews the size, structure and composition of the Board, and assesses the independence of the INEDs in accordance with the criteria prescribed under the Listing Rules and the Code.

### EXTERNAL AUDITORS

Ernst & Young as been appointed as the External Auditors of the Company for the year under review. An amount of \$1.5million (2004: HKD 1.2 million) was charged by Ernst & Young for its audit services provided to the Group.

The responsibilities of the external auditors with respect to financial reporting are set out in the section "Report of the Auditors" on page 35.

### COMMUNICATION WITH SHAREHOLDERS

The Company attaches great priority to establishing effective communications with its shareholders and investors. In an effort to enhance such communications, the Company provides information relating to the Company and its business in its annual and half-yearly report and also disseminates such information electronically through its website at [www.chinawireless.cn](http://www.chinawireless.cn) and the website of the Stock Exchange.

The Company regards the Annual General Meeting as an important event as it provides an opportunity for direct communications between the Board and its shareholders. All Directors, Management and the external auditors make an effort to attend the Annual General Meeting of the Company to respond to any queries from shareholders. All shareholders of the Company are given a minimum of 21 days' notice of the date and venue of the Annual General Meeting of the Company. The Company supports the Code's principle to encourage shareholders' participation.