

I. CORPORATE GOVERNANCE

The Company has been strictly complied with the state's Company Law, Securities Law, the relevant rules and regulations required by CSRC, the Listing Rules of Shanghai Stock Exchange and Hong Kong Stock Exchange since its inception, the Company continued to actively improve its corporate governance to build a modern corporate system and regulate its operations in compliance with relevant requirements by CSRC.

The corporate governance documents include "Articles of Association", "Rules of Procedure in Shareholder's General Meeting", "Rules of Procedure In Board Meeting" and "Rules of Procedure In Supervisory Meeting", The Company established four special committees: the Strategic Development Committee, the Assets Management Committee, the Audit and Review Committee and the Remuneration Committee.

II. IN 2006, THE COMPANY FULLY COMPLIED WITH CODE ON CORPORATE GOVERNANCE PRACTICES AS SET OUT IN APPENDIX 14 TO THE LISTING RULES.

III. BOARD OF DIRECTORS

Constitution of the Board

The Board consists of nine directors, of which three are independent directors. This is the fifth Board of Directors since the incorporation of the Company. Term of office of the directors will expire on 27 December 2008.

The main duty of the Board of the directors is to exercise its management right authorized by the shareholders meeting, in relation to the Company's strategic development, management structure, investment planning and financial control.

Directors are elected or re-elected at general meeting by accumulative voting method. Director candidate can be nominated by the Board or Supervisory Committee, single or combined shareholders representing over 1% of the issued shares. Directors are appointed for a term of three years and eligible for re-election upon the expiry of the term of office. Independent directors are persons having no connected relationship with the management members and substantial shareholders of the Company. No independent directors is allowed to serve more than 2 terms.

The positions of Chairman and General Manager are assumed by different individuals with distinct duties. Chairman presides over the work of the Board and superintends the implementation of resolutions of the Board while General Manager is responsible for management, operation and organisation of business of the Company, implementation of strategies determined by the Board and daily decision-making with the assistance of the Board and other senior management members.

The Board members have diversified industry backgrounds, with professional knowledge in corporate management, technology development, finance and accounting, human resources and so forth, their biographical details are set out in the "Directors, Supervisors, Senior Management and Employees" section of the annual report.

In the fifth Board of Directors, two directors undertake specific executive managerial duties, representing 2/9 in the total number of directors.

The Board currently comprises three Independent Directors, representing 1/3 of the total members. All Independent Directors of the Company are aware of the power and obligations of directors and independent directors of listed companies. During the reporting period, Independent Directors attended Board meetings in circumspective, responsible, proactive and earnest manner. Utilizing their experiences and specialisation, they contributed effort in improving corporate management and making major decision and producing relevant and objective opinions on major events and connected transactions of the Company, enhancing the scientific development of the Board's decision and procedure thereof and safeguarding interests of the Company and shareholders effectively. All of the three Independent Directors assume positions in special committees under the Board.

III. BOARD OF DIRECTORS *(continued)*

Constitution of the Board *(continued)*

In 2006, four Board Meetings had been convened with the attendance rate of 100% (including attendance by proxy) to discuss the overall strategy, investment plan, operation and financial performance of the Company. Board Meetings could produce quick and prudent decision through fruitful discussion. Independent Directors of the Company had no objection to the Company's decisions. Details of the attendance of Board Meetings are set out in relevant tables of the section.

In order to keep all directors informed of their duties and ensure the implementation of procedures of Board Meetings and proper compliance with applicable regulations, all directors had timely access to relevant information and the latest information in relation to statutory, regulatory and other ongoing obligations for directors of listing companies through secretary of the Company. In addition, in order to discharge duties or responsibilities or as required by business, Directors and the special committees under the Board are entitled to seeking advice from independent experts at the Company's expense.

The Company strictly observed the relevant restrictive stipulations regarding securities transactions by directors issued by domestic and Hong Kong regulatory institutions.

The Company has adopted the Model Code of the Stock Exchange. The Company has made special enquiries to all Directors for preparation of this annual report, and all Directors has confirmed their compliance with the Model Code during the reporting period.

Auditors and their term of service (please refer to "11. Major Events")

The Company did not appoint a qualified accountant to assist the Financial Officer in accordance with Rule 3.24 of the Listing Rules. The Company is actively seeking to appoint an accountant with qualifications as stipulated in Rule 3.24 of the Listing Rules.

Special Committees under Board of Directors

The Board of Directors has established four special committees, each of which has the defined terms of reference to oversee the affairs of the Company's specific aspect.

Strategic Development Committee

The main duties of the Strategic Development Committee are to conduct research and to propose on medium to long term development strategies and major investment decision. In 2006, the Strategic Development Committee under the fifth Board of Director of the Company comprises Mr. Zhu Yuanchao (Chairman), Directors Han Zhiqiao, Mr. Li Hongdong, Mr. Gong Dan, Mr. Fu Haibo and Independent Director Mr. Xie Songlin.

In 2006, the Strategic Development Committee convened 3 meetings, studied the analytical report of company strategic development, formulated the medium to long term strategies and goals for the Company.

Assets Management Committee

The main duties of the Assets Management Committee are to consistently perform all duties in asset management and supervision, also to advise on asset management decision. In 2006, the Assets Management Committee under the fifth Board of Director of the Company comprises Mr. Zhu Yuanchao (Chairman), Directors Han Zhiqiao, Mr. Li Hongdong, Mr. Gong Dan and Independent Director Mr. Chen Zhangwu.

In 2006, Assets Management Committee under the fifth Board of Director of the Company convened two meetings, and discussed matters including subsidiary management and supervision of asset management.

III. BOARD OF DIRECTORS *(continued)*

Audit and Review Committee

The main duties of the Audit and Review Committee are to propose the appointment or change of the external auditors, to supervise of the Company's internal audit system and its implementation, to audit the Company's financial information and its disclosure, to discuss with the auditors on issues and reservations about the interim and final audits and matters the auditors may otherwise wish to discuss, to examine the Company's internal control system, to audit major connected transactions, and to review the letters from external auditors to the management and the management's response.

The Audit and Review Committee of the fifth Board comprises Independent Director Mr. Zheng Peimin (Chairman), Director Li Hongdong, Independent Director Mr. Chen Zhangwu and Independent Director Mr. Xie Songlin.

During 2006, the Audit and Review Committee convened two meetings, which were presided over by Mr. Zheng Peimin, Chairman of the Audit and Review Committee. Details of the attendance are set out in the relevant table in this section. All matters passed at the meetings are well documented and maintained in accordance with the relevant rules. All the significant matters discussed by the Audit and Review Committee are also reported to the Board.

Work of the Audit and Review Committee during the year mainly include: reviewed the Group's annual and interim results announcement and financial reports; checked the matters relating to the Group's adoption of accounting policies and accounting practices; verified the Company's connected transactions so as to comply with the fair, impartial and open principle and fully protect the minority interests; assisted the Board to make an independent evaluation on the effectiveness of the Group's financial reporting procedures and internal control systems; and provided suggestions about the Company's significant events or to and reminded the management of the relevant risks.

Remuneration Committee

The main duties of the Remuneration Committee are to formulate the remuneration policies and implementation plans in accordance with the main terms of reference, duties, significance of the directors and senior management members and the remuneration level of the relevant positions in comparable enterprises; to review the performance by directors and the senior management members of the Company and to make annual performance appraisal on them.

The Remuneration Committee of the fifth Board comprises Independent Director Mr. Zheng Peimin (Chairman), Director Liu Shigang, Independent Director Mr. Chen Zhangwu and Independent Director Mr. Xie Songlin.

The Remuneration Committee was established at the end of 2005 and convened 1 meeting in 2006.

Attendance of the Board meetings and meetings of each special committee (times of meetings/ times of attendance in person)

Name	The fifth Board	Strategic Development Committee	Asset Management Committee	Audit and Review Committee	Remuneration Committee
Directors					
Liu Shigang	4/3				1/1
Zhu Yuanchao	4/4	3/3	2/2		
Li Hongdong	4/4	3/3	2/2	2/2	
Gong Dan	4/4	3/3	2/2		
Hang Zhiqiao	4/4	3/3	2/2		
Fu Haibo	4/4	3/3			
Independent Directors					
Chen Zhangwu	4/3		2/2	2/2	1/1
Xie Songlin	4/2	3/3		2/2	1/1
Zheng Peimin	4/2			2/2	1/1

All directors who failed to attend the meetings in person have appointed other directors to attend and vote at the meetings.

III. BOARD OF DIRECTORS *(continued)*

Supervisory Committee

The Supervisory Committee is the Company's standing supervisory institution. The Supervisory Committee is responsible for supervision over the Board of Directors and its members and senior management members, so as to prevent them from abusing their authorities and violating the interests of shareholders, the Company and its staff. Number of supervisors and the composition of the Supervisory Committee are in compliance with the relevant laws and regulations. In 2006, the Supervisory Committee held three meetings altogether, each of which was attended by all supervisors. The Supervisors, on behalf of shareholders monitored the Company's finance and to ensure the directors and senior management have complied with relevant regulations. The members of Supervisory Committee attended all Board meetings and fulfilled their duties in an earnest manner.

Attendance of the meetings of Supervisory Committee (times of meetings/ times of attendance in person)

Name	The fifth Supervisory Committee
Mr. Wen Bingyou	3/3
Ms. Wang Wanling	3/3
Mr. Fang Yunfu	3/3

Internal controls and internal audit

The Board is responsible for establishment and maintenance of the Company's internal control system for reviewing relevant financial, operating and supervisory control procedures to protect shareholders' interests and the Company's assets. The Board authorises the management to promote the internal control system and review its effectiveness through the Audit and Review Committee.

Attaching much importance to the internal control, the Company has set up relevant internal management systems and procedures for corporate governance, operation, construction, finance and administration and personnel to ensure the effective implementation of the management systems.

Shareholder, Investor Relation and other stakeholders

The Company endeavours to ensure that all shareholders, in particular small to medium shareholders, shall be treated fairly and be entitled to exercise its right fully.

Shareholders' General Meeting

As the highest authority of the Company, the general meeting performs its functions and power in determining on material events of the Company under the laws. The annual shareholders' general meeting or extraordinary shareholders' meeting provides a direct communication channel for the Board and the company shareholders. Hence, the Company regards highly of the shareholders' meetings, Meeting notice is delivered 45 days in advance. All directors and members of senior management are required to attend. The Company encourages all shareholders to attend the shareholders' meeting and welcome shareholders to express his opinion in the meeting.

Main Shareholders

The Company's substantial shareholder is DEC. The Company is independent of its substantial shareholder in such aspects as personnel, assets, financial affairs, organization and operation.

INFORMATION DISCLOSURE AND INVESTOR RELATION MANAGEMENT

Secretary to the Board and representative of securities affairs are responsible for information disclosure and entertaining the shareholders and investors visits. The Company has always been maintaining a good relationship with shareholders. The major communication channels available in the Company include: shareholders' meetings, corporate website, email, fax and telephone, which enable shareholders to express views and exercise rights. In order to further strengthen investor relation management works, the Company formulated "Information Disclosure System" and "Investor Relation Management System", so as to ensure the information disclosed on open, fair and impartial basis and to enhance transparency.

In 2006, the Company held a conference in Hong Kong, promoting the Company's business. The Company has also received hundreds of visits from domestic and overseas investors.

The website of the Company is also updated on a regular basis so as to enable the investors and the public to follow the Company's latest development.