

Corporate governance

The Board of Directors (the “Board”) and the senior management of the Company believe that good corporate governance is in the interest not only of investors but also of the Company itself. The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders’ interests in general. The Company has devoted considerable effort to identifying and formalising best practices of corporate governance. Our effort in this area was widely recognised by our stakeholders and the market. In 2003, we won the “Significant Improvement Award (Hang Seng Index Category)” in the 2003 Best Corporate Governance Disclosure Awards competition organised by the Hong Kong Society of Accountants and were once again rated as one of the “Best Corporate Governance” PRC enterprises in CLSA’s Corporate Governance Research Report.

Board of directors

The Board is charged with leading the Group (the Company and its subsidiaries) in a responsible and effective manner and therefore every director has to carry out his/her duties in utmost good faith above and beyond any prevailing applicable laws and regulations and act in the best interests of the shareholders and stakeholders. The Board currently consists of 25 members. Among them, 20 are executive directors, 4 are independent non-executive directors and 1 is non-executive director.

To ensure their independence, accountability and responsibility, the roles of the Chairman and the Vice Chairman are separate from that of the Managing Director. The Managing Director, supported by other board members and the senior management, is responsible for managing the Group’s business, implementing major strategies, making day-to-day decision and co-ordinating overall business operations. The Chairman and the Vice Chairman are responsible for overseeing the functioning of the Board and formulating overall strategies and policies of the Company.

The independent non-executive directors, all of whom are independent to the management of the Company, are highly experienced professionals with a broad range of expertise and experience in areas such as accounting, finance, legal and commercial. They ensure that the Board maintains high standards of financial and other mandatory reporting and provide adequate check and balance to safeguard the interests of shareholders in general and the Company as a whole.

Both the Board and the management have clearly defined authorities and responsibilities under various internal control and check-and-balance mechanisms. The Board is responsible for establishing the strategic direction of the Group, setting objectives and business development plans and monitoring the performance of the senior management and assuming responsibility for corporate governance. The management, under the leadership of the Managing Director, is responsible for implementing these strategies and plans. To ensure effective discharge of the Board’s responsibilities, the management submits reports on the Company’s operations to the Board on a regular basis. The Board reviews and approves the Company’s annual budget and business plans, which serves as an important yardstick in assessing and monitoring the performance of the management. Directors have easy access to management and are welcome to request for explanations, briefings or discussions on the Company’s operations and business issues.

According to the Bye-laws of the Company, one-third of directors shall retire from office by rotation but shall be eligible for re-election at the Annual General Meeting. The Chairman and the Managing Director are not subject to retirement by rotation whilst holding office, but are subject to re-election by shareholders at the Annual General Meeting in their first year of appointment.

In the board meeting held on 22nd September 2003, the Board has resolved to meet four times a year to review the financial and operating performance of the Group in order to further strengthen the functions of the Board. Financial Controller and Company Secretary also attend all board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial.

There were two board meetings held in 2003 and two board meetings held in early 2004, including meetings conducted via video conferencing which is permitted under the Company's Bye-laws. The directors' attendance at the board meetings are set out in the table below. All businesses transacted at the above meetings are well-documented and maintained in accordance with applicable laws and regulations. Two more board meetings will be held in the second half of 2004.

Date of board meeting	Total no. of directors	No. of directors present	Attendance rate
25/3/2004	25	19	76%
7/1/2004	25	22	88%
22/9/2003	25	16	64%
26/3/2003	18	18	100%

Prior to each board meeting, the Board is supplied with relevant and comprehensive information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group. Board papers are dispatched in advance to the directors to ensure that the directors have sufficient time to review the papers and be adequately prepared for the meeting. Senior management who are responsible for the preparation of the Board papers are usually invited to present their papers and to take any questions or address queries that the Board members may have on the papers. This enables the Board to have pertinent data and insight for a comprehensive and informed evaluation as part of the Board's decision-making process.

The proceedings of the Board at its meetings are conducted by the Chairman or the Vice Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and equal opportunities will be given to directors to speak, express views and share concerns.

All new directors appointed to the Board are provided by the Company Secretary with a formal and tailored induction on business and operations of the Company and duties and responsibilities for being directors of a listed company under statutory and common law. This

should ensure that the newly appointed director has a proper understanding of the operations and business of the Company and that he/she is fully aware of his/her responsibilities under relevant and applicable rules, regulations and common law. On a timely basis, the Company Secretary will provide the directors with information and update on legal, regulatory and other continuing compliance obligations for being directors of a listed company. All directors have easy access to the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with.

Directors' securities transactions

The Company has adopted a code of conduct regarding directors' securities transactions. To ensure directors' dealing in the securities of the Company are conducted in accordance with the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), a committee comprising the Chairman, the Vice Chairman, the Managing Director and Deputy Managing Director was set up to deal with such transactions. Prior to any dealing in the securities of the Company, a director has to notify the Chairman or the Vice Chairman verbally and obtain a written acknowledgement from any one of the committee members.

Financial Controller

The Financial Controller is responsible for preparing interim and annual financial statements based on generally accepted accounting principles in Hong Kong and ensuring that the financial statements present fairly the results and the financial position of the Group and comply with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and other applicable laws and regulations. In addition, the Financial Controller is responsible for preparing the annual financial budget of the Group for approval by the Board. The Financial Controller also plays a role of reviewing and making recommendations to the Board on the Group's financial risk management.

Company Secretary

The Company Secretary is responsible directly to the Board to ensure applicable laws and regulations are complied with and to ensure that the Board procedures are strictly followed. The Company Secretary is also responsible for providing advices to the Board on directors' obligations on disclosure of interests in securities, disclosure of discloseable transactions, connected transactions and price-sensitive information. The Company Secretary has to advise the Board on disclosure of information in a true, accurate, complete and timely manner in strict compliance with the requirements of the applicable laws, regulations and the Company's Bye-laws. The Company Secretary, being the primary channel of communication between the Company and the Stock Exchange of Hong Kong, also assists the Board to implement and strengthen corporate governance practices with a view to enhancing long term shareholders' value.

Board committees

To assist the Board in execution of its duties and to promote good corporate governance, the Board has established various board committees which consist of directors, members of senior management and management. Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee.

(1) Audit Committee

The Audit Committee, chaired by Mr. Alexander Reid HAMILTON, was established by the Board of the Company in August 1998 with defined terms of reference. Other members are Dr. LI Kwok Po, David and Mr. LEE Yip Wah, Peter. All the committee members are independent non-executive directors of the Company and are well-versed in the accounting or legal area. The Committee provides advice and recommendations to the Board and oversees all matters

relating to the external auditors, thus it plays an important role in monitoring and safeguarding the independence of external auditors. Both the Financial Controller and the Internal Auditor are directly accountable to the Chairman of the Audit Committee.

The Committee meets no less than twice a year with the senior management and the internal and external auditors to review the accounting principles and practices adopted by the Group and other financial reporting matters, assure the completeness, accuracy and fairness of the financial statements of the Company, discuss the effectiveness of the systems of internal control throughout the Group and most importantly, review all significant business affairs managed by the executive directors in particular on connected transactions.

After each Audit Committee meeting, the Audit Committee Chairman will present to the Board a written report which highlights any significant issues discussed in the meeting during a board meeting.

(2) Investment and Strategic Planning Committee

The Investment and Strategic Planning Committee comprises 10 members and is chaired by Mr. SUN Jiakang, Managing Director of the Company. It considers, evaluates, reviews and recommends to the Board the proposed major investments, acquisitions and disposals and conducts post-investment evaluation of the investment projects, reviews and considers the overall strategic direction of the Company and business developments of the Company.

(3) Corporate Governance Committee

The Corporate Governance Committee comprises 6 members and is chaired by Mr. WONG Tin Yau, Kelvin, Deputy Managing Director of the Company. It is responsible to the Board to review the Company's corporate governance practice and disclosure systems so as to enhance the standard of corporate governance of the Company.

(4) Risk Management Committee

The Risk Management Committee comprises 8 members and is chaired by Mr. LU Chenggang, Deputy Managing Director of the Company. It provides independent support to the Board to identify the operational risks of the Company and monitor and manage these risks, set direction for the Group's risk management strategy and strengthen the system of risk management of the Group.

(5) Other new board committees

The Board has also approved to establish two more new board committees, namely, the Nomination Committee and the Remuneration and Assessment Committee. These committees are respectively chaired by Dr. LI Kwok Po, David and Mr. LEE Yip Wah, Peter, both are independent non-executive directors of the Company. The Nomination Committee is responsible for nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointments.

The Remuneration and Assessment Committee will review and determine the policy for the remuneration of directors. The terms of reference of these committees are now under formalisation.

The above board committees have scheduled to meet regularly every year. The number of meetings held and the attendance of the members of these committees at these meetings are listed out below. The board committees will report to the Board on a regular basis. All businesses transacted at the committee meetings are well recorded and maintained.

	Date of meeting held	No. of committee members				Total	No. of committee members present	Attendance rate
		Director	Senior management	Management				
Audit Committee	17/3/2004	3	–	–	3	3	100%	
	15/9/2003	3	–	–	3	3	100%	
	24/3/2003	3	–	–	3	3	100%	
Investment and Strategic Planning Committee	9/9/2003	3	2	5	10	10	100%	
Corporate Governance Committee	8/3/2004	1	2	3	6	6	100%	
	8/12/2003	1	2	3	6	5	83%	
	11/9/2003	1	2	3	6	5	83%	
Risk Management Committee	10/2/2004	2	2	4	8	6	75%	
	26/8/2003	2	2	4	8	7	88%	

Internal control and internal audit

The internal control and accounting systems of the Group are designed to provide reasonable assurance that assets are safeguarded against unauthorised use or disposition, transactions are executed in accordance with management's authorisation and the accounting records are reliable for preparing financial information used within the business or for publication and reflecting accountability for assets and liabilities.

In order to establish a sound system of internal controls in safeguarding shareholders' interests and the Group's assets, the Company has established an Internal Audit Department in September 2000, the key tasks include:

- Review of all aspects of the Group's activities and internal controls with unrestricted right of access;
- Conduct comprehensive audits of the practices and procedures, income and expenditure, and internal controls of all business units of the Group on a regular basis;
- Conduct special reviews and investigations of areas of concern identified by management.

The head of the Internal Audit Department reports directly to the Managing Director and the Chairman of the Audit Committee and attends all audit committee meetings and brings appropriate matters identified during the course of audits to the Committee's attention. This reporting structure allows the Internal Audit Department to maintain its independence.

The internal audit plan, which is reviewed and approved by the Audit Committee, is based on the sizes and prevailing risks of all business units of the Group to establish audit scopes and frequencies. All internal audit works scheduled for the year of 2003 have been completed. All areas of concern reported by the Internal Audit Department have been monitored by the management until appropriate corrective measures are implemented.

Investor relations

The Company continues to promote and enhance investor relations and communications with its investors. An intensive communications channel has been maintained with the media, analysts and fund managers through one-on-one meetings, roadshows and conferences. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development.

Communication with shareholders

The Company attaches great priority to communicate with shareholders and investors. There is a regular dialogue with institutional shareholders and general presentations are made when the financial results are announced. To foster effective communication, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its website at www.coscopac.com.hk.

The Company regards the Annual General Meeting ("AGM") as an important event as it provides an important opportunity for direct communication between the Board and the Company's shareholders. All directors and senior management will make an effort to attend. External auditors are also available at the AGM to address shareholders' queries. All shareholders will be given at least 21 days' notice of the AGM and they are encouraged to attend the AGM and other shareholders' meetings. Questioning by the shareholders at such meetings are encouraged and welcomed.

Transparency of ownership

All shareholders and potential investors are informed of the ownership structure of the Company through its annual report, interim report, website and public announcements. The list of shareholders is available for inspection through Secretaries Limited which serves as the Hong Kong Branch Registrars of the Company.

Code of conduct

To ensure that the Group operates with professional competence and to a high level of ethical standards, the Group has maintained an employee handbook to provide guidance to employees on matters such as employee dealing, ethical standards, the code of conduct of business and code of conduct of employees. The handbook applies to all employees of the Group and they have to ensure strict compliance with the policies therein.

Code of best practice

Throughout the year, the Company has complied with Code of Best Practice (the “Code”) contained in Appendix 14 of the Listing Rules. Schedule to hold four full board meetings a year and the establishment of various board committees under the Board exceeded and beyond the provisions set out in the Code.

Conclusion

The Company believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. As the constituents of good corporate governance will evolve with changing circumstances, the Company will review its corporate governance practices from time to time so as to meet the changing circumstances and to ensure that they reflect local and international developments. The Company also believes that the quality and standard of corporate governance reflect the quality of the management and the operations of the Company’s business. Therefore, the Company will continue to commit itself to achieving a high quality of corporate governance and strengthen communications with shareholders and stakeholders.