

# CORPORATE GOVERNANCE

The Company believes that good corporate governance can increase long-term shareholder value. Therefore, the Company is committed to implementing a high standard of corporate governance and emphasizes good communication with shareholders and investors with a view to improve the Company's transparency. This includes the timely, comprehensive and accurate disclosure of information to safeguard the shareholders' interest and to raise long-term shareholder value.

During the period between the Listing Date and 31 December 2005, the Company has complied with all the code provisions of the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## BOARD OF DIRECTORS

The board (the "Board") of directors (the "Directors") of the Company manages the Company's affairs on behalf of shareholders and is responsible for any corporate governance mechanism deployed. The Board is also responsible for the Company's business, financial performance and preparation of financial statements. The Board formulates the strategy, policy and business plan of the Group, controls corporate risks, monitors the operation and financial performance of the Company. The Board is directly responsible to shareholders and delegates daily management to the management led by the Chief Executive Officer. The Board comprises seven members, including three Executive Directors, one Non-Executive Director and three Independent Non-Executive Directors.

The Company has a separate Chairman and Chief Executive Officer. The two positions are assumed by different persons, in order to ensure that their independence, accountability and power are clear. Mr. Zheng Fan, the Chairman, is responsible for the operation of the Board and the formulation of the Company's strategies and policies. With the assistance from other members of the Board and senior management, Mr. Ni Zheng, the Chief Executive Officer, is responsible for the management of the Company's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operation.

Independent Non-Executive Directors (with a term of two years) comprise experienced professionals and businessmen. They have comprehensive expertise and experience in the legal, financial, industrial and commercial aspects. They ensure the Board has attained the strict standards in the financial and other statutory reporting areas and they provide sufficient balance to safeguard the shareholding and the overall interests of the Company.

In order to assist the Directors to execute their duties, the Board has set out written terms of reference, enabling the Directors to seek independent professional advice upon reasonable request under appropriate circumstances and the fees are payable by the Company.

# CORPORATE GOVERNANCE

As at the date of this Report, the Directors of the Company are as follows:

## **Executive Directors**

Mr. Zheng Fan, the Chairman of the Company

Mr. Ni Zheng, the Chief Executive Officer of the Company

Mr. Zhou Guangneng

The above Executive Directors have entered into service agreements with the Company with a term of three years starting from the Listing Date.

## **Non-executive Directors**

Ms. Xie Mei

Ms. Xie Mei has entered into a service agreement with the Company with a term of three years starting from the Listing Date.

## **Independent Non-executive Director**

Mr. Lee Kit Wah

Mr. Chen Xiangdong

Mr. Xiao Yongping

The above Independent Non-Executive Directors have entered into service agreements with the Company with a term of two years starting from Listing Date. Mr. Lee Kit Wah is a certified public accountant in Hong Kong and has more than 26 years of experience in accounting and finance.

The biographies of all Directors are set out in the annual report on pages 12 to 13.

The Company did not convene any board meeting from the Listing Date to 31 December 2005.

The Company has not established a nomination committee. The Company will evaluate the independence of all non-executive directors each year and make sure that they comply with the independence requirement of the Listing Rules. All members of the Board are not related to one another in all aspects, including finance, family and business.

## **THE APPOINTMENT AND RE-ELECTION OF DIRECTORS**

The Company has not established a nomination committee. All members of the Board are responsible for formulating the procedures for appointing directors, nominating suitable candidates for approval at the annual general meeting so as to fill vacancies due to the resignation of directors or appoint more directors.

When selecting candidates for appointment as Directors, the Board will consider the candidates' integrity, achievements and experience in the relevant industry, expertise, educational background and whether they have sufficient time to assume the posts of Directors.

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## PROCEDURES OF BOARD MEETINGS

The Board has established meeting procedures and has complied with the code provisions of the Code. The procedures of board meetings provide that the Board shall meet at least four times each year and can convene more meeting when necessary. Directors can express different opinions at board meetings. Important decisions will be made only after detailed discussions by the Board. Directors who have conflict of interest or material interests in the relevant transaction will not be counted in the quorum of the meeting and shall abstain from voting on the relevant resolution. Minutes of board meetings and other committee meeting will be drafted by the Company Secretary. Directors are entitled to inspect the minutes at any time.

## SPECIAL COMMITTEES UNDER THE BOARD OF DIRECTORS

The Board has established the following committees and formulated their terms of reference.

### AUDIT COMMITTEE

The Audit Committee consists of three members which include two Independent Non-Executive Directors and one Non-Executive Director. They are Mr. Lee Kit Wah, Mr. Xiao Yongping and Ms. Xie Mei, with Mr. Lee Kit Wah as the Chairman of the Audit Committee.

The main areas of responsibilities of the Audit Committee are as follows:

1. To be primarily responsible for making recommendations to the Board on the appointment, re-appointment or removal of the external auditors, and to approve remuneration and terms of engagement of the external auditors;
2. Reviewing of internal control and monitoring the work of internal audit department;
3. Monitoring financial reporting statements of the Company, the quality of the Company's annual reports and accounts, interim reports and quarterly reports (if any);
4. Examining financial statements and reporting to the Board any significant opinions in relation to financial reporting;
5. Conferring with the auditors on any problems or matters of doubt arising from the audit process, as well as other issues the auditors may like to discuss (if necessary, such discussions could be undertaken in the absence of the management.);
6. Reviewing correspondences addressed to the management by the auditors and responses from the management.

The Audit Committee of the Company did not convene any meetings between the Listing Date and 31 December 2005.

The Audit Committee has reviewed this annual report, and confirms that it is complete and accurate and complies with the Listing Rules.

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## REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, including two Independent Non-Executive Directors and one Non-Executive Director. They are Mr. Lee Kit Wah, Mr. Xiao Yongping and Ms. Xie Mei, with Mr. Lee Kit Wah being Chairman of the Remuneration Committee.

The main areas of responsibilities of the Remuneration Committee are as follows:

1. The Committee should consult Chairman of the Board on remuneration recommendations concerning other Executive Directors;
2. The Committee should put forward recommendations to the Board on matters relating to the overall remuneration policy and structure for the Directors and senior managerial staff of the Company, as well as finalizing a formal and transparent remuneration policy;
3. With authority delegated by the Board, the Committee should finalize the compensation packages for all the Executive Directors and senior managerial staff and put forward recommendations to the Board on remuneration for Non-Executive Directors;
4. Reviewing and approving compensations paid to Executive Directors and senior managerial staff, who have their service contracts terminated or whose contracts are not renewed, in order to ensure that the compensations are paid in accordance with contractual terms.

The Remuneration Committee of the Company did not convene any meetings between the Listing Date and 31 December 2005.

## INTERNAL CONTROL

The Company has an internal audit department which is independent of other departments. The internal audit department has the authority to inspect the Company's risk management network, and the control and governance processes in order to assess the relevant situations. Besides, the department also regularly reviews all the businesses, the supporting teams and matters relating to work procedure, expenses and internal control measures of the Company's subsidiaries. The department will also conduct ad hoc reviews and investigations when necessary. The internal audit department reports directly to the Audit Committee.

## FINANCIAL REPORTING

The Directors are responsible for overseeing the preparation of the financial statements which give a true and fair view of the Group's state of affairs of the results and cash flow for the year. In preparing the financial statements for the year ended 31 December 2005, the Directors have:

- selected suitable accounting policies and applied them consistently; and
- made judgements and estimates that are prudent and reasonable.

# CORPORATE GOVERNANCE

The Company recognises that high quality corporate reporting is important in reinforcing the trustworthy relationship with the Company's stakeholders and aims at presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects in all corporate communications. The annual results of the Company are announced in a timely manner within the limits of 4 months after the financial year end.

The auditors' responsibilities are set out in the Auditors' Report on page 33.

Through the Audit Committee, the Board has reviewed the internal control system in respect of finance, operations and compliance of the Company and its subsidiaries. The Audit Committee considers that the Company and its subsidiaries have established all necessary mechanisms. The above control mechanism has ensured compliance in respect of the Company's operations. The Board considers that the Company has complied with the code provisions on internal control of the Code.

## DIRECTORS' REMUNERATION

The Group paid total remuneration amounts of approximately RMB165,000 and approximately RMB162,000 to Mr. Ni Zheng and Mr. Zhou Guangneng respectively; RMB21,000, RMB1 and RMB21,000 to Mr. Lee Kit Wah, Chen Xiangdong and Mr. Xiao Yongping respectively for the year ended 31 December 2005. Mr. Zheng Fan and Ms. Xie Mei did not receive any basic remuneration from the Group for the year ended 31 December, 2005.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each director. As at 31 December 2005, there was no arrangement in which Directors waived their remuneration.

## SECURITIES TRADING BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules ("Model Code"). The Board confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

## SECURITIES TRANSACTIONS BY SENIOR MANAGEMENT AND STAFF

Senior management and those staff who are more likely to be in possession of unpublished price-sensitive information or other relevant information in relation to the Group have adopted rules based on the Model Code. These senior management and staff have been individually notified and advised about the Model Code.

# CORPORATE GOVERNANCE

## FINANCIAL OFFICER

The Financial Officer of the Company is responsible for preparing interim and annual financial statements based on accounting principles generally accepted in Hong Kong and ensures that the financial statements truly reflect the Group's results and financial position as well as in compliance with Hong Kong Companies Ordinance, the Listing Rules and other relevant laws and regulations. The Financial Officer reports directly to the Chairman of the Audit Committee and co-ordinates with external auditors on a regular basis. In addition, the Financial Officer will monitor the financial risks of the Group and provide advices thereon to the Board.

## COMPANY SECRETARY

The Company Secretary reports directly to the Board. All the Directors have easy access to the Company Secretary and the responsibility of the Company Secretary is to ensure the board meetings are properly held and are in compliance with the relevant laws and regulations. The Company Secretary is also responsible for giving advices with respect to directors' obligations on securities interest disclosure, disclosure requirements of discloseable transactions, connected transactions and price-sensitive information. The Company Secretary shall provide advices to the Board with respect to strict compliance with the laws, requirements and the Company's articles of association at appropriate times. As the Company's principal channel of communication with The Stock Exchange of Hong Kong Limited ("the Stock Exchange"), the Company Secretary assists the Board in implementing and strengthening the Company's corporate governance code so as to bring the best value to shareholders. In addition, the Company Secretary also provides relevant information to the Board with respect to legal, supervisory and other continuous obligations at appropriate times. The Company Secretary also updates and sustains business development and is responsible for supervising and managing the Group's investor relationship.

## EXTERNAL AUDITORS

The Group's external auditors are KPMG. The remuneration paid to the external auditors in 2005 comprised fees for audit services of RMB1.57 million and fees for tax compliance work of RMB26,000.

The Company also incurred approximately HK\$3.60 million for the service provided by the reporting accountants, KPMG, in respect of the Initial Public Offering and listing of the Company's shares on the Stock Exchange and the amount has been charged to the share premium account. The services commenced in September 2004 and it was not practicable to separate the amount payable for those services between years 2004 and 2005.

The responsibilities of the auditors are set out on page 33 in this annual report.

## INVESTORS RELATIONSHIP

The Company continuously promotes and enhances its communication with investors. The Company has numerous communication channels such as face to face meetings, roadshows and seminars with the media, analysts and fund managers. Designated senior management holds regular dialogue with institutional investors and analysts which enables them to keep abreast of the Group's latest developments.

## COMMUNICATION WITH SHAREHOLDERS

The Group has put great emphasis on communication with shareholders and investors and holds regular dialogue with investors. The Company will incorporate essential information in its annual reports, interim reports and press releases to ensure an effective communication.