

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

Yurun Food is committed to achieving high standards of corporate governance to safeguard the interests of all shareholders and to enhance corporate value and accountability. Since its listing, Yurun Food has applied the principles and complied with most of the code provisions prescribed in the Code on Corporate Governance Practices ("CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), only with certain deviations. The following summarises the Company's corporate governance practices and explains deviations, if any, from the CG Code.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the Directors' securities transactions. Specific enquiry has been made with all Directors and the Directors have complied with the required standard set out in the Model Code during the period from 3 October 2005 ("Listing Date") to 31 December 2005.

Code Provision A.5.4 of the CG Code stipulates that the Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the Company. The Board did not establish such written guidelines in respect of the relevant employees' dealings in the securities of the Company during the period from the Listing Date to 31 December 2005. The Company is committed to high standards of corporate governance. To comply with this code provision, the Company has adopted the code for securities transactions for relevant employees which is on no less exacting terms than the Model Code in respect of their dealings in the securities of the Company.

## BOARD OF DIRECTORS

### (a) Composition of the Board

The Board currently comprises six executive Directors, three non-executive Directors and three independent non-executive Directors, serving the important function of guiding the management.

The Board members as at 31 December 2005 were:

#### *Executive Directors*

Zhu Yicai (Chairman)  
Bi Guoxiang (Chief Executive Officer)  
Zhang Yuanfei  
Zhu Yiliang  
Feng Kuande  
Ge Yuqi

*Non-executive Directors*

Jiao Shuge (alias Jiao Zhen)

Hsu Shang Wi, William

Hsu I-Yin, Joyce <sup>(Note)</sup>

*Independent Non-executive Directors*

Zheng Xueyi

Kang Woon

Gao Hui

Note:

Miss Hsu I-Yin, Joyce resigned as a non-executive Director of the Company on 15 February 2006.

Miss Liu Yi Lan, Katherine was appointed as a non-executive Director of the Company on 29 March 2006.

Each member of the Board has a diversified background and professional expertise. The Board exhibits a mix of core competencies in areas such as food industry, technical support, food processing, investment and development, capital markets, financial management, corporate governance and law and legal. Among which, Mr. Gao Hui is with appropriate professional qualifications as required under the Listing Rules. Biographical details of the Board members are set out on pages 22 to 25 of this annual report.

**(b) Role and functions**

The Chairman of the Board of the Company is Mr. Zhu Yicai, while the Chief Executive Officer is Mr. Bi Guoxiang. The positions of the Chairman of the Board and the Chief Executive Officer are held by separate individuals with a view to maintaining an effective segregation of duties respecting management of the Board and day-to-day management of the Group's business.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies and policies; approval of annual budgets and business plans; evaluating the performance of the Group; and oversight of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary and to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer. The Chief Executive Officer, working with the other executive Directors and the executive management team, is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board and assuming accountability to the Board for the operations of the Group.

None of the members of the Board has any connections (including financial, business, family relationship and other material/related relationships) with each other as required to be disclosed pursuant to Appendix 16 to the Listing Rules.

**(c) Number of the Board meetings held**

The Board has held one Board meeting since the Listing Date and up to 31 December 2005. All the Directors were present and the attendance rate was 100%. The Board has scheduled meetings at quarterly intervals and shall meet more frequently as and when required.

**(d) Term of Non-executive Directors**

Non-executive Directors are appointed for a fixed term not exceeding three years and are subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with the Company's Bye-laws.

## **REMUNERATION COMMITTEE**

The Company established its remuneration committee ("Remuneration Committee") on 10 September 2005. The existing Remuneration Committee comprises the two independent non-executive Directors, namely, Mr. Kang Woon (chairman of the Remuneration Committee) and Mr. Gao Hui, as well as Mr. Zhu Yicai, the Chairman of the Company. Since the Company was only listed on 3 October 2005, there was no Remuneration Committee meeting held up to 31 December 2005. However, up to the date of this annual report, the Company had held one Remuneration Committee meeting with all the members present, which attendance rate was 100%. During the meeting, the Remuneration Committee had reviewed the remuneration packages of the Directors and senior management of the Company.

The main duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for the remunerations of Directors and senior management, and to determine the specific remuneration packages of all executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.

Remuneration Committee has to consult the Chairman and the Chief Executive Officer of the Company about their proposals relating to the remuneration of Directors and senior management. The emoluments of Directors are based on the skill, knowledge and involvement in the Company's affairs of each Director and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

## **NOMINATION COMMITTEE**

The Company established its nomination committee ("Nomination Committee") on 10 September 2005. The existing Nomination Committee comprises the two independent non-executive Directors, namely, Mr. Kang Woon (chairman of the Nomination Committee) and Mr. Gao Hui, as well as Mr. Zhu Yicai, the Chairman of the Company.

The main duties of the Nomination Committee are to regularly review the structure, size and composition (including skills, knowledge and experience) of the Board and to make recommendations to the Board with regards to any proposed changes; identify and nominate for the approval of the Board, candidates to fill board vacancies as and when they arise; assess the independence of independent non-executive Directors; make recommendations on the succession planning for Directors and senior management of the Group.

The Nomination Committee adopts certain criteria and procedures in the nomination of new directors. The major criteria include the candidates' professional background, especially their experience in the industry of the Group; their financial and past track record with other similar companies; and the recommendations from the management team and other knowledgeable individuals. The Nomination Committee will shortlist the candidates and then submit to the Board for final approval.

Since the Company was only listed on 3 October 2005, there was no Nomination Committee meeting held up to 31 December 2005. However, up to the date of this annual report, the Company had held one Nomination Committee meeting with all the members present, which attendance rate was 100%. During the meeting, the Nomination Committee had reviewed the structure, size and composition of the Board, considered the suitability of the appointment of a non-executive Director, assessed whether the independence of independent non-executive Directors comply with the relevant requirements under the Listing Rules, and the suitability of the re-election of the Directors who are subject to retirement and re-election at the annual general meeting.

## **AUDITORS' REMUNERATION**

During 2005, the remuneration of the Group's external auditors (including out-of-pocket expenses) amounted to approximately RMB17,485,000 which included the amount of RMB13,736,000 billed during 2005 in respect of their capacity as Reporting Accountants.

## **AUDIT COMMITTEE**

The Company established its audit committee ("Audit Committee") on 10 September 2005. The existing Audit Committee comprises the two independent non-executive Directors, namely, Mr. Gao Hui (chairman of the Audit Committee) and Mr. Kang Woon, as well as Mr. Hsu Shang Wi, William, a non-executive Director. Since the Company was only listed on 3 October 2005, there was no audit committee meeting held up to 31 December 2005. However, up to the date of this annual report, the Company had held two Audit Committee meetings with all the members present, which attendance rate was 100%. During the meetings, the Audit Committee had reviewed the annual results of the Company for the year ended 31 December 2005 and discussed the internal control issues of the Group.

The main duties of the Audit Committee include:

- (1) making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditors;
- (2) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences;

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- (3) to develop and implement policy on the engagement of an external auditor to supply non-audit services. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- (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 judgements contained in them, which should include the following:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgemental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- (5) to review the Company's financial controls, internal control and risk management systems;
- (6) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- (7) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (8) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
- (9) to review the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response; and
- (10) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

With the assistance of the Finance Department of the Company which is under the supervision of the Qualified Accountant of the Company, the Directors have ensured that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards. The Directors have also ensured the publication of the financial statements of the Group is in a timely manner.

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 50.

## **INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS**

The Company makes use of various formal communications channels to account to shareholders for the performance of the Company. These include annual report and accounts, interim report, periodic company announcements made through the Stock Exchange, as well as through annual general meetings. Copies of the relevant corporate and financial information are also made available through the Company's website: [www.yurun.com.hk](http://www.yurun.com.hk).

Yurun Food aims at providing its shareholders and potential investors with high standards of disclosure and financial transparency. The Company, through periodic presentations, investor road shows, and conference calls with the international investment community, enhance the communications with them.