

16 Corporate Governance Report

The board of directors ("**Board**") of ONFEM Holdings Limited ("**Company**", together with its subsidiaries "**Group**") is committed to maintaining a high standard of corporate governance and believes that a set of well-balanced corporate governance practices will enable the Company to better manage its business risks and ensure that the Company is managed in the best interests of its shareholders.

In November 2004, The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") introduced (i) a revised Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"), which sets out the "Code on Corporate Governance Practices" ("**Code**") and (ii) a new Appendix 23 of the Listing Rules ("**App. 23**"), which sets out the disclosure requirements for a "Corporate Governance Report". The Code and App. 23 are applicable for accounting periods commencing on or after 1 January 2005, with the exception for those relating to internal controls which will be implemented for accounting periods commencing on or after 1 July 2005. The Code replaces the Code of Best Practices and sets out the principles of good corporate governance and two levels of recommendations, namely (a) Code Provisions ("**CPs**" or individually "**CP**"), which issuers are expected to comply with or to give considered reasons for any deviations; and (b) Recommended Best Practices, which are for guidance only.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors of the Company ("**Directors**" or individually "**Director**"), throughout the year ended 31 December 2005, the Company has complied with the CPs of the Code, except for the deviation in respect of the rotation of directors under CP A.4.2 of the Code as a result of the compliance with the legislation of the place of incorporation of the Company.

Under CP A.4.2 of the Code, all Directors appointed to fill a casual vacancy should be subject to election by the shareholders of the Company ("**Shareholders**") at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every 3 years.

According to the new Bye-laws of the Company ("**New Bye-laws**") adopted on 26 May 2005, every Director (except the Chairman and the Managing Director ("**MD**")), including those appointed by a specific term, should be subject to retirement by rotation at the annual general meeting at least once every 3 years and all Directors, whether appointed by the Board or the Shareholders in general meeting, to fill a casual vacancy or as an additional Director should be subject to election by the Shareholders at the first annual general meeting after their appointment.

At its annual general meeting for 2005, all Directors, except for the Chairman and the MD, have been subject to retirement by rotation in accordance with the Bye-laws of the Company in force before the adoption of the New Bye-laws. Pursuant to the private company act 1991 under which the Company was incorporated in Bermuda, the Chairman and the MD are not subject to retirement by rotation, which is a deviation from CP A.4.2 of the Code.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules ("**Model Code**") prior to the establishment of a set of guidelines in March 2005 as its own "Rules and Procedures for Directors and Relevant Employees of the Company in respect of Dealings in Securities of the Company" ("**Rules for Securities Transactions**") on no less exacting terms than the required standard of the Model Code. A designated committee ("**Designated Committee**") comprising 2 members has also been established for receiving notifications from and issuing dated written acknowledgements to the Directors and the relevant employees of the Company.

Under the Rules for Securities Transactions, the Directors and the relevant employees of the Company are required to notify any one member of the Designated Committee and receive a dated written acknowledgement before dealing in the securities of the Company, and in the case of a member of the Designated Committee, he or she must notify another member of the Designated Committee and receives a dated written acknowledgement before any such dealing.

The Company has made specific enquiry of all Directors and has received a written confirmation from each Director confirming that he/she has complied with the Rules for Securities Transactions and the Model Code for the year ended 31 December 2005 in relation to his/her securities dealings, if any.

CORPORATE GOVERNANCE STRUCTURE

The Board has put in place a corporate governance structure for the Company and is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. Under the Board, there are currently 4 board committees, namely Audit Committee, Executive Committee, Investment Committee and Remuneration Committee. All these committees perform their distinct roles in accordance with their respective terms of reference.

BOARD OF DIRECTORS

The Company is managed by the Board which has the responsibility for promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to the Shareholders.

The Board currently comprises 8 Directors, including 5 Executive Directors (including Mr. Zhou Zhongshu (see *Note*) who is the Chairman) and 3 Independent Non-executive Directors ("**INEDs**"). All INEDs are appointed for a specific term of 3 years subject to the retirement and re-appointment provisions of the New Bye-laws. Details of all Directors are disclosed in "Directors' and Senior Management's Profile" section of this annual report. To the best knowledge of the Company, there are no financial, business, family or other material/relevant relationships amongst members of the Board.

Pursuant to Rules 3.10(1) and (2) of the Listing Rules, the Company has appointed 3 INEDs, and one of whom has the appropriate professional qualifications or accounting or related financial management expertise.

A written confirmation was received from each of the INEDs, Mr. Lam Chun, Daniel ("**Mr. Lam**"), Mr. Selwyn Mar ("**Mr. Mar**") and Ms. Tam Wai Chu, Maria ("**Ms. Tam**"), confirming their independence pursuant to Rule 3.13 of the Listing Rules.

BOARD OF DIRECTORS (cont'd)

Mr. Lam is an honorary consultant of Shanghai City Development Law Firm 上海市建緯律師事務所 ("SCD"), a lawyer firm in the People's Republic of China ("PRC") which is the legal advisor acting for a wholly owned subsidiary of the Company in a litigation proceeding conducted in the PRC and also provides other legal services to the Group from time to time. Mr. Lam is not a director, partner, principal or employee of SCD nor has any administrative or management role in SCD. Mr. Lam further confirms that he receives no economic or monetary benefit from the position nor do any obligations or duties arise which he must or is encouraged to perform.

The Company considers that all of the INEDs to be independent.

For the year ended 31 December 2005, other than resolutions passed by means of resolutions in writing of all Directors, the Board held 7 meetings. Notice of at least 14 days is given for a regular Board meeting to give all Directors an opportunity to attend. The following table shows the attendance records of individual Directors at the meetings of the Board and the attendance records of individual members at the meetings of the Audit and the Remuneration Committees held for the year ended 31 December 2005:

Designation and Name	Number of meetings attended/Number of meetings held for the year ended 31 December 2005		
	Board	Audit Committee	Remuneration Committee
Executive Director and Chairman			
Lin Xizhong (see Note)	5/7	N/A*	1/1
Executive Director and Managing Director			
Wang Xingdong	7/7	N/A*	1/1
Executive Director and Deputy Managing Director			
Yan Xichuan	4/7	N/A*	N/A*
Executive Directors			
Qian Wenchao	6/7	N/A*	N/A*
He Xiaoli	7/7	N/A*	N/A*
Independent Non-executive Directors			
Lam Chun, Daniel	5/7	4/4	1/1
Selwyn Mar	4/7	4/4	1/1
Tam Wai Chu, Maria	5/7	4/4	1/1

* "N/A": Not applicable

BOARD OF DIRECTORS (cont'd)

To enhance better communication with the Directors as to the business transacted at the Board meetings, soft copies of the final version of the minutes of the Board meetings were provided to the Directors by electronic mails.

In addition, the Company has maintained a set of procedures for the Directors to seek independent professional advice, in appropriate circumstances, and at the Company's expenses, in the process of discharging their duties to the Company, and also arranged liability insurance coverage for the Directors and its officers.

CHAIRMAN AND MD

The positions of the Chairman of the Board and the MD are held by Mr. Zhou Zhongshu (see *Note*) and Mr. Wang Xingdong respectively. This segregation ensures that a clear distinction between the Chairman's responsibility to manage the Board and the MD's responsibility to manage the Company's business. The respective responsibilities of the Chairman and the MD are set out in an internal document entitled "Guidelines in respect of the Responsibilities of the Board of Directors".

NOMINATION OF DIRECTORS

Although the Board has not established a nomination committee, the Board meets on a regular basis to:

- a. review the composition and membership of the Board, inter alia, the length of services and the breadth of expertise of the Board as a whole;
- b. identify and nominate to the Board suitable candidate(s) who possess(es) the expertise which is relevant and beneficial to the Group's business; and
- c. assess the independence of the Company's INEDs.

INTERNAL CONTROLS

The Board is responsible for developing an internal control system of the Group, and maintaining and reviewing the effectiveness of such system to protect the Shareholders' interests and to safeguard the Group's assets. Such internal control system is implemented by the management upon the authorisation of the Board and reviewed by the Audit Committee from time to time.

The Group's internal audit department is responsible for performing risk-driven audits to inspect and evaluate the Group's financial, operational and compliance controls and risk management on a regular or as-needed basis. Internal audit reports which furnished independent and objective evaluations and recommendations were then submitted directly to the Audit Committee, with the purpose of ensuring that the effectiveness of the internal control system of the Group is improving continuously. The Audit Committee would make recommendations to the management and submit regular reports to the Board on the basis of such audit findings and views.

AUDITORS' REMUNERATION

For the year ended 31 December 2005, Messrs. PricewaterhouseCoopers ("PwC"), the external auditors of the Group received approximately HK\$1.40 million (2004: HK\$1.52 million) for audit services, and approximately HK\$0.22 million (2004: HK\$0.14 million) for non-audit services, including fees for review of interim report and tax services.

BOARD COMMITTEES

A. AUDIT COMMITTEE

The Audit Committee currently comprises Mr. Mar (chairman of the Committee), Ms. Tam and Mr. Lam, who are all INEDs. In line with its terms of reference approved by the Board, the Audit Committee is principally responsible for providing independent review of the effectiveness of the financial reporting procedures and the internal control system of the Group; reviewing the appointment of independent auditors and the efficiency and quality of their work; and reviewing all internal audit reports as well as management feedback to such reports.

The major tasks accomplished by the Audit Committee for the year ended 31 December 2005 are as follows:

- a. reviewed and submitted the financial statements of the Group for the year ended 31 December 2004 and the auditors' report thereon to the Board;
- b. reviewed the unaudited interim report for the six months ended 30 June 2005 based on the review conducted by the Group's external auditors in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Institute of Certified Public Accountants, as well as obtaining reports from the management of the Group;
- c. reviewed the management recommendations furnished by the external auditors and the responses from the Group's management;
- d. reviewed the accounting principles and practices adopted by the Group with the management of the Group;
- e. assisted the Board in conducting independent evaluation of the effectiveness of the Group's financial reporting procedures and internal control system;
- f. constantly reviewed internal audit reports and the Group's approaches to audit planning and reports;
- g. furnished its opinion to the management of the Group concerning related risks in respect of significant matters of the Group; and
- h. reviewed and made recommendations on the remuneration and terms of engagement of the external auditors on audit and non-audit services.

BOARD COMMITTEES (cont'd)**B. REMUNERATION COMMITTEE**

In line with its terms of reference approved by the Board, the role and function of the Remuneration Committee is to review and discuss the remuneration mechanism and incentive scheme of the Directors and senior management, and to establish and maintain a reasonable and competitive remuneration level in order to attract and retain the Directors and senior management.

The Remuneration Committee comprises 5 members, including the Chairman, the MD and three INEDs. Mr. Zhou Zhongshu (see Note) is the chairman of the Remuneration Committee.

The Remuneration Committee convened 1 meeting for the year ended 31 December 2005. The remuneration of the INEDs and certain senior management staff was discussed at the meeting.

During the year under review, the Remuneration Committee reviewed and adjusted the fringe benefits of individual Directors. The emoluments of the Directors are based on their respective responsibilities and their involvement in the Group's affairs and are determined by reference to the Group's business condition and the prevailing market practice.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for the preparation of the financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant period. In preparing the financial statements for the year ended 31 December 2005, the Directors ensured that the financial statements are in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the financial statements on a going concern basis. The Directors are also responsible for the timely publication of the financial statements of the Group.

The statement of the auditors of the Company, PwC, about their reporting responsibilities on the financial statements of the Group is set out in the "Auditors' Report" section of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Note: On 28 February 2006, Mr. Zhou Zhongshu was appointed and Mr. Lin Xizhong ceased to act as an Executive Director and the Chairman of the Board.