

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Board of Directors of the Company (the “Board”) is committed to maintaining high standards of corporate governance for the purpose of providing a framework and solid foundation for its business operation and development. The Company considers that effective corporate governance makes an important contribution to corporate success and to enhancement of shareholders value.

The Board has adopted the Code on Corporate Governance Practices (the “Code”) which was introduced and set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Code was in force for accounting periods commencing on or after 1 January 2005 with the exceptions in respect of the code provision relating to internal controls which took effect for accounting periods commencing on or after 1 July 2005.

The Company has complied with the Code throughout the year 2005, except for the deviations below.

- Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. None of the existing non-executive Directors (including independent non-executive Directors) of the Company is appointed for a specific term. However, as all of them are subject to the retirement provisions under the Bye-laws of the Company, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code.
- Under the Code Provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Under the Bye-laws of the Company, the chairman of the Board and the managing director of the Company shall not be subject to retirement by rotation. The Company proposes to put forward to its shareholders for approval at the forthcoming annual general meeting a special resolution to amend the Bye-laws to comply with this Code Provision.

## THE BOARD

Genesis Energy Holdings Limited is governed by the Board which has the responsibility for leadership and control of the Company. The Board currently comprises three executive directors, namely Ms. Xing Xiao Jing (Chairman), Mr. Ma Ji and Mr. Kong Siu Tim and three independent non-executive directors (“INEDs”) (collectively the “Directors”) required under Rule 3.10(1) of the Listing Rules, namely Mr. Ni Zhenwei, Mr. Yip Ching Shan and Mr. Wong Kwok Chuen, Peter. Mr. Yip Ching Shan has appropriate qualifications and accounting related financial expertise required under Rule 3.10(2) of the Listing Rules. Each of the INEDs has made an annual confirmation that he has complied with the independence criteria set out in Rule 3.13 of the Listing Rules. There is no financial, business, family or other material/relevant relationship between the Directors. All the three INEDs are independent under these independence criteria, and with their wide range of skills and experience to the Group, they are capable to effectively exercise independent judgment on issues of strategy, performance, risk and people through their contribution at Board and committee meetings.

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The Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interests of the Company and that the current board size is adequate for its present operations. Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

The biographical details of the Directors are listed in the section of "Profiles of Directors" in this annual report and that the INEDs are expressly identified in all of the Company's publication such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed.

The Board conducts meeting on a regular basis and on ad hoc basis to meet its business needs. The attendance of individual directors at board meetings and at two other board committees (the Audit Committee and the Remuneration Committee) during the year is set out as below.

## Meetings Attended/Held during term of office in 2005

	<b>Full Board Meetings</b>	<b>Audit Committee Meetings</b>	<b>Remuneration Committee Meetings</b>
<b>No. of meetings held during the year</b>	11	2	1
<b>Executive Directors</b>			
Xing Xiao Jing <sup>1</sup> ( <i>Chairman</i> )	3/3		
Ma Ji <sup>2</sup>	8/11		
Kong Siu Tim <sup>3</sup>	8/8		
Zhu Jia Zhen <sup>4</sup>	0/1		
Sun Tian Gang <sup>5</sup>	2/4		
Guo Ting <sup>6</sup>	5/9		0/1
Wan Tze Fan Terence <sup>7</sup>	5/6		
<b>Non-executive Director</b>			
Zhao Xin Xian <sup>8</sup>	0/2		
<b>INEDs</b>			
Ni Zhenwei <sup>9</sup>	1/2		
Yu En Guang	2/11	1/2	
Yip Ching Shan	7/11	2/2	1/1
Zhang Xue Min <sup>10</sup>	6/9	2/2	1/1

Notes:

- Ms. Xing Xiao Jing was appointed as Executive Director and Chairman of the Board on 29 September 2005 and 1 November 2005 respectively.
- Mr. Ma Ji was redesignated from Non-executive Director to Executive director on 22 August 2005 and was appointed as a member of Remuneration Committee on 1 November 2005.

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3. Mr. Kong Siu Tim was appointed as Non-executive Director on 22 August 2005 and then redesignated as Executive Director on 1 November 2005.
4. Mr. Zhu Jia Zhen resigned from the Board on 8 March 2005.
5. Mr. Sun Tian Gang resigned from the Board on 22 August 2005.
6. Mr. Guo Ting resigned from the Board and ceased to be a member of Remuneration Committee on 1 November 2005.
7. Mr. Wan Tze Fan Terence was appointed as an Executive Director on 22 August 2005 and resigned on 1 November 2005.
8. Mr. Zhao Xin Xian retired from the Board on 21 June 2005.
9. Mr. Ni Zhenwei was appointed as INED and a member of Audit Committee and Remuneration Committee on 1 November 2005.
10. Mr. Zhang Xue Min resigned from the Board and ceased to be a member of the Audit Committee and Remuneration Committee on 1 November 2005.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and Chief Executive Officer are segregated and performed by two separate individuals, Ms. Xing Xiao Jing and Mr. Ma Ji respectively, to ensure a balance of power and authority. The Chairman of the Company provides leadership to the Board and ensures that the Board discharges its responsibilities effectively. Her primary roles and duties include to formulate corporate strategies and plans in conjunction with the Board and to ensure that Directors receive complete, accurate and timely information and are properly briefed on issues arising at Board meetings. The Chief Executive Officer is responsible for the effective management and operation of the Company and his primary roles and duties include to monitor and control the operational and financial performance within the Group and to implement the Company's strategy and policies for achieving its objectives.

## APPOINTMENTS, RE-ELECTION AND REMOVAL

In considering the nomination of a new director, the Board will take into account the qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics of the candidates that, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board. The Board considers that the existing human resource policy in recruitment of new senior staff is also applicable to nomination of a new director. As the Board is responsible for selection and approval of candidates for appointment as directors to the Board, the Company has not established a nomination committee for the time being.

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## RESPONSIBILITIES OF DIRECTORS

Apart from the fiduciary duty and statutory responsibility towards the Company and the Group, the Board is responsible for the management of the business and affairs of the Group with the objective of enhancing the Company and shareholders' value. Key responsibilities include formulation of the Group's overall strategies, setting of corporate and management targets, monitoring of operational and financial matters, approval of major capital expenditures, material acquisitions and disposal of assets, corporate or financial restructuring, material borrowings and any issuing, or buying back, of equity securities. Responsibility for delivering Company's objectives and running the business on a day-to-day basis is delegated to divisional management who have been given clear guidelines and directions as to their authority.

The Company has adopted the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealing by all directors in the securities of the company.

All the Directors have confirmed that they have complied with the required standard regarding directors' securities dealings set out in the Model Code during the year.

## SUPPLY OF AND ACCESS TO INFORMATION

The Company updates the Directors from time to time with development in the laws and regulations relevant to their role as director of the Company. Directors are also encouraged to update their skills, knowledge and familiarity with the Group through initial induction, ongoing participation at Board and committee meetings.

The Company's senior management regularly supplies the Board and its committees with adequate information in a timely manner to enable them to make informed decisions. All Directors have access to Board papers and related materials that will assist them for decision making. Any Director, wishing to do so in the furtherance of his or her duties, may take independent professional advice through the Company's expense.

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## AUDIT COMMITTEE

The Audit Committee assists the Board in discharging its responsibilities for corporate governance, financial reporting and corporate control. The Committee comprises three INEDs, namely Mr. Ni Zhenwei, Mr. Yip Ching Shan and Mr. Wong Kwok Chuen, Peter, and is chaired by Mr. Yip Ching Shan. None of the Audit Committee members are members of the former or existing auditors of the Company. The Committee meets at least twice a year. The primary duties of the Audit Committee are to review the completeness, accuracy and fairness of the Company's financial statements, evaluating the Company's auditing scope and procedures as well as its internal control systems and to review the interim and final financial statements before their submission to the Board and the annual general meeting for approval. The Audit Committee is provided with sufficient resources, including independent access to and advice from external auditors. The terms of reference which describes the authorities and duties of the Audit Committee has been prepared and adopted with reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and in accordance with Appendix 14 of the Listing Rules. The terms of reference of the Audit Committee shall be made available to the public on request and by including the information on the Company's website once it is set up to ensure full compliance with the code provision C.3.4 of the Code.

## REMUNERATION COMMITTEE

The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. The Board has established a Remuneration Committee which comprises three members with a majority of whom are INEDs, namely Mr. Ni Zhenwei, Mr. Yip Ching Shan and Mr. Ma Ji. The committee is chaired by an INED, Mr. Yip Ching Shan. The Remuneration Committee meets at least once a year. With reference to business needs and company development, individual performance and contribution, changes in relevant markets and general economic situation, the Remuneration Committee reviews and recommends to the Board on the Company's policy and structure for remuneration of the Directors and senior management. During the review process, no individual director is involved in decisions relating to his or her own remuneration. The terms of reference of the Remuneration Committee shall be made available to the public on request and by including the information on the Company's website once it is set up to ensure full compliance with the code provision B.1.4 of the Code.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board is accountable for proper stewardship of the Company's affairs, and is responsible for ensuring that the Group keeps fair and accurate accounting records which disclose its financial position. The Directors also acknowledge their responsibility to prepare the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. This responsibility extends to both interim and the annual reports.

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## Internal Controls

The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented practical and effective control systems. The Board acknowledges its responsibility for the Group's overall internal control framework and believes that a sound system of internal control contributes to safeguarding shareholders' investments and the Group's assets. In order to consolidate and review the effectiveness of the group's system of internal control, the Board has committed an independent professional firm to perform a thorough review on mechanism of control over financial, operational and legal and regulatory matters.

## External Auditors

CCIF CPA Limited has been re-appointed as the Company's external auditor by shareholders at the 2005 Annual General Meeting until the conclusion of the next annual general meeting.

During the year, the fees paid or payable to the external auditors of the Company, CCIF CPA Limited were approximately RMB624,000 for statutory audit services rendered (including disbursement fees) to the Group respectively.

## Auditors' Reporting Responsibilities

The reporting responsibilities of CCIF CPA Limited, the Auditors, are stated in the Auditors' Report on page 26 of the Annual Report.

## COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communication with shareholders as well as investors. Information in relation to the Group is disseminated to shareholders and investors in a timely manner through a number of formal channels, include interim and annual reports, announcements and circulars. Annual general meetings and special general meetings also provide a useful forum for shareholders to share views with the Board. Members of the Board (including member(s) of the Audit and Remuneration Committees) attend shareholders' meetings and make themselves available to answer shareholders' questions.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in circulars for general meetings sent to shareholders.