

# Corporate Governance Report



The Board and management of the Company deeply believe and consider that sound corporate governance practices reflect the integrity, transparency and high ethical standards of a responsible enterprise. Accordingly, the Board and management of the Company initiate high standards of corporate governance, with the objectives of building a solid foundation for the long-term development of the enterprise, enhancing the shareholders' value, and balancing the rights of interested parties such as investment partners of the Company.

In November 2004, The Stock Exchange of Hong Kong Limited issued certain amendments to the Listing Rules for the purpose of implementing the Code on Corporate Governance Practices ("CG Code") and the Corporate Governance Report, which were effective from 1 January 2005. The CG Code sets out the principles of good corporate governance and two levels of recommendations:

- (a) code provisions (issuers are expected to comply with, but may choose to deviate from, the code provisions) ("Code Provisions"); and
- (b) recommended best practices (for guidance only) ("Recommended Best Practices").

Where any deviations from the Code Provisions set out in the CG Code occurred, considered reasons must be given. Throughout the entire year under review, unless otherwise stated, the Company has complied with the Code Provisions set out in the CG Code.

## Directors

### The Board

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The executive members of the Board have clear authority and responsibilities for the day-to-day management and operations of the Group. In addition, the Board has also established two Board committees (Audit and Remuneration) and has delegated to these Board committees various responsibilities set out in their terms of reference respectively. The Board committees reported to the Board on their decisions after each meeting.

### Board Composition

The Board currently has 11 members, consisting of 7 executive directors and 4 independent non-executive directors.

The composition of the Board achieves a well balance of skills and experience to satisfy the requirements of the business of the Company.

The number of independent non-executive directors at all times during the year exceeded the one-third requirement suggested in the Recommended Best Practices. Independent non-executive directors have appropriate professional qualifications in areas such as accounting, finance, corporate management and agriculture.

The Company received confirmation of independence from all independent non-executive directors pursuant to Rule 3.13 of the Listing Rules. The Company considers all of them to be independent.

The category of directors (including chairman, executive directors and independent non-executive directors) and the composition of the Board have been disclosed in the Annual Report and other corporate communications, and published on the investor relation website of the Company [www.irasia.com/listco/hk/chaoda](http://www.irasia.com/listco/hk/chaoda).



## Appointment and Succession Planning of Directors

The Board is responsible to review its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. For executive directors newly appointed this year, they have been carefully considered by all directors on duly held board meeting as to their expertise, and they possess the suitable experience, capability and strength to enhance the executive power of the Company, while their appointments were made on the prerequisite of improving the consolidated management ability.

Independent non-executive directors are appointed for a term of 1-2 years. At the Company's extraordinary general meeting on 2 August 2006, amendments to the articles of association of the Company were approved by the shareholders so that each director is subject to retirement by rotation at least once every three years in accordance with the articles of association. A new director is also subject to re-election by shareholders at the next following annual general meeting after his appointment. The Board recommended the re-appointment of the directors standing for re-election at the next annual general meeting of the Company.

The Company adopted the Recommended Best Practices by issuing letter of appointment to each newly appointed director setting out the key terms and conditions relative to his appointment.

A newly appointed director would receive a set of comprehensive induction information briefed by the Company's solicitor upon his appointment, which illustrates the responsibilities and duties as a director of a listed company in addition to other regulatory requirements. Every independent non-executive director would from time to time receive information on strategic plans by the management, listen to consolidated reports from department heads on updated business information, financial objectives, plans and actions taken.

The Company Secretary is responsible for ensuring that all directors have access to the latest information on the Listing Rules and other statutory requirements.

## Board Meetings

### *Number of Meetings and Directors' Attendance*

The Board held 9 meetings during the year to conduct the following principal activities:

- Reviewed the interim/annual results, announcement and interim/annual reports; determined the dividend and matters to be considered at the annual general meeting;
- Considered and approved appointment of executive directors, change of the senior management and grant of share options;
- Reviewed the corporate governance standard of the Group and approved the establishment of the Remuneration Committee;
- Considered and approved the issuance of convertible bonds; and
- Considered and approved matters to be authorized by shareholders at the extraordinary general meetings held during the year, such as refreshment of the mandate of the share option scheme, continuing connected transactions and amendments to the articles of association.

Meanwhile, the directors have also regularly attended and actively participated in the Board, Board committee and general meetings.

For the attendance records of the Board committees, please refer to Section "Board Committees" below.

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The attendance records of each of the directors at the board meetings during the year are as follows:

Name of Directors	Attendance in Percentage
<b>Executive directors:</b>	
Kwok Ho ( <i>Chairman</i> )	78
Ip Chi Ming	100
Lee Yan	78
Wong Hip Ying	78
Fong Jao	78
Chen Jun Hua * ( <i>Member of RC</i> )	86
Chan Chi Po, Andy *	86
<b>Independent non-executive directors:</b>	
Fung Chi Kin ( <i>Member of AC/Chairman of RC</i> )	100
Tam Ching Ho ( <i>Chairman of AC/Member of RC</i> )	100
Lin Shun Quan	56
Luan Yue Wen ( <i>Member of AC/Member of RC</i> )	100

\* Appointed on 17 August 2005

AC stands for Audit Committee

RC stands for Remuneration Committee

### ***Practices and Conduct of Meetings***

The Company generally issues notice and draft agenda of regular board meeting at least 14 days before the date of meeting. All directors may add relevant new matters to the agenda as they think fit.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before the date of Board meeting or committee meetings to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The senior management from time to time meet with the directors formally and informally at Board meetings and other activities. Directors and committee members may inspect Board papers and minutes from time to time with the assistance of the Company Secretary.

The Company Secretary is responsible to:

- ensure that the operation of the board is in proper procedures;
- advise the Board on corporate governance and compliance matters;
- take and maintain the minutes of Board and its committee meetings; and
- send draft and finalized versions to each director or committee member as soon as practicable, which are open for inspection by the directors/members of board committees.

Each director may request to seek for independent professional advice, and the expense will be paid by the Company after discussion.



According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

The Company adopted the Recommended Best Practices by applying broadly the above principles and procedures to its Board committee meetings.

## Chairman and Chief Executive Officer

It is recommended that a clear division of the responsibilities of chairman and chief executive officer ensures a balance of power and authority. Taking into account the continuation in the implementation of business plans, the Board considers that the present arrangement for the Chairman to hold the office of the Chief Executive Officer is beneficial to the Company and the shareholders as a whole. The Chairman has definite responsibility to provide the whole Board with all information related to the discharge of the Board's duties. The Company continuously enhances the communication with the directors in terms of quality and timeliness.

## Board Committees

The Board has established two committees, namely, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. The above committees are established with defined terms of reference.

### Remuneration Committee

The Company has established its Remuneration Committee on 19 December 2005 to review the policy and structure for the remuneration of the Chairman, Chief Executive Officer, Executive Directors and other senior management.

The Remuneration Committee met once with full attendance during the year. Matters discussed at the meeting were about refreshment of the Scheme Mandate under the Share Options Scheme, and proposed to the Board to refine the procedure of granting share options to selected participants.

The terms of reference of the Remuneration Committee are available to shareholders upon request and will soon be posted on the investor relation website of the Company [www.irasia.com/listco/hk/chaoda](http://www.irasia.com/listco/hk/chaoda).

### Audit Committee

The Audit Committee has been in place for many years and currently comprises three independent non-executive directors namely, Mr. Tam Ching Ho, Mr. Fung Chi Kin and Ms. Luan Yue Wen. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

According to the current terms of reference, the duties of the Audit Committee include monitoring the financial reporting procedures of the Company, review of the Company's internal control system and its relationship with the external auditors. During the year, the Audit Committee has taken related actions as follows:

1. (i) reviewed the accounting policies adopted by the Group; (ii) discussed audit, internal control and financial reporting matters; (iii) discussed the interim and annual financial reports of the Company for presentation to the Board for approval;



- discussed with the external auditors and the person in charge of the internal control function of the Group to review and reinforce the existing internal control system, in order to fully execute its preventive and supervisory functions.

The Company is reviewing the terms of reference of the Audit Committee with reference to the Code Provisions. It can be made available on request and once the review has been completed, it will soon be posted on the investor relation website of the Company [www.irasia.com/listco/hk/chaoda](http://www.irasia.com/listco/hk/chaoda).

During the year, two meetings were held by the Audit Committee with full attendance.

Besides, all the non-executive directors have formed a special committee to scrutinize the connected transactions of the Company. Having considered the opinion of independent financial adviser, the special committee provided their judgment to the Board and the independent shareholders.

## Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all of the directors have confirmed that they have complied with the standards as set out in the Model Code throughout the year under review.

Each director would disclose to the Company at the time of his appointment, the nature of offices held in other organizations and other significant commitments. With reference to the Recommended Best Practice, such reporting continues subsequently twice a year at the time of the issue of interim and annual reports.

## Responsibilities in Respect of the Financial Statements

The Board has presented a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The financial statements prepared by the directors for the financial year 2005/2006, to truly and fairly reflect the state of affairs of the Company and of the Group as at the end of the financial year and of the respective profits of the Group for the year then ended.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Report of the Auditors.

## Auditors’ Remuneration

For the year 2005/2006, the fee paid or payable to the external joint auditors of the Company in respect of audit services and non-audit services for the year ended 30 June 2006 amounted to RMB4,065,000 and RMB453,000 respectively.

## Internal Controls

During the year under review, the Board has reviewed the effectiveness of the internal control system of the Company. Upon review of the report from the internal audit department, the Board concluded at the meeting held on 20 October 2006 that the system of internal controls was effective.



## Shareholder Rights

The rights of shareholders and the procedures for demanding a poll on resolutions at annual/extraordinary general meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained adequately during the proceedings of meetings. The share registrar will be appointed as scrutineer to ensure that votes cast are properly counted and recorded.

Poll results will be published in major newspapers on the first business day following the shareholders' meeting and posted on the investor relation website of the Company [www.irasia.com/listco/hk/chaoda](http://www.irasia.com/listco/hk/chaoda) and the website of the Stock Exchange.

## Communications with Shareholders and Investor Relations

The Company endeavours to maintain good communication with investors, shareholders and analysts through general meetings, participating in investment forums, global roadshows, telephone meetings, direct face-to-face meetings and site visits to the production bases in the PRC, with the objective to enhance their comprehension and understanding of the Group's strategies, operation, management and planning.

Meanwhile, the Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee (or other members of the respective committees) may also be available to answer questions and communicate with shareholders at the shareholders' meetings.