

To better the Company's transparency and accountability to the shareholders, the Company is, so far as practicable, committed to maintaining high standard of corporate governance. Save for the deviations from the Code Provisions A.4.1 and A.4.2 which are explained as below, the Company has met all the code provisions stipulated in Appendix 14, Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the financial year ended 31 December 2006.

Code A.4.1 specifies that non-executive directors should be appointed for a specific term, subject to re-election.

Code A.4.2 specifies that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director should be subject to retirement by rotation at least once every 3 years.

At the Annual General Meeting of the Company held on 19 May 2006, a special resolution was passed to amend the relevant Articles of Association of the Company which provide that every director appointed by the Board during the year shall retire at the next general meeting. Every director shall be subject to retirement by rotation at least once every 3 years. Code Provisions A.4.1 and A.4.2 have been fully complied with since 19 May 2006.

## CORPORATE GOVERNANCE PRINCIPLES AND SHENYIN WANGUO'S PRACTICES:

### A.1 The Board of Directors

Principle: An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

Four board meetings were held in the financial year ended 31 December 2006. The following is the attendance record of the meetings:-

Name of Directors	Number of meetings attended	Attendance rate
<i>Executive Directors</i>		
Feng Guorong ( <i>Chairman</i> )	4	100%
Lu Wenqing	4	100%
Lee Man Chun Tony ( <i>Chief Executive Officer</i> )	4	100%
Guo Chun	4	100%
Ying Niankang	4	100%
<i>Non-executive Directors</i>		
Chang Pen Tsao ( <i>by attorney Yeh Wei Kuo/ Cheng Chen Te/Huang Ching Hsiang</i> )	4	100%
Huang Gang	4	100%
<i>Independent Non-executive Directors</i>		
Ng Wing Hang Patrick	3	75%
Kwok Lam Kwong Larry	4	100%
Zhuo Fumin	4	100%

Drafts of the agenda are sent to directors for comment. They can include matters in the agenda for board meetings.

Notice of at least 14 days are given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice will be given.

Directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed.

Minutes of the board meetings, and meetings of the Audit Committee and the Remuneration Committee are kept by the Company Secretary. Minutes of other board committees (as listed under D.2 Board Committees) are kept by the appointed secretary of each committee. Such minutes are open for inspection during office hour by any director by giving at least 2 days' notice to the Company Secretary.

Minutes of the board meetings and meetings of board committees have recorded in sufficient detail the matters considered by the board and the committees and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes of the board are sent to all directors for their comment and records respectively, in both cases normally within one month after the board meeting is held.

The Company has established a policy for any director to seek independent professional advice in appropriate circumstances, at the Company's expenses. The director is required to submit a request in writing to the Chairman stating the grounds for seeking the independent professional advice. The Chairman shall either approve the director's request directly, or if thinks fit, convene a board meeting to resolve the matter.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter shall not be dealt with by way of circulation or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a board meeting) but a board meeting shall be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction shall be present at such board meeting.

## A.2 Chairman and Chief Executive Officer

Principle: There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

To ensure a balance of power and authority, the role of Chairman is separate from that of Chief Executive Officer. Mr. Feng Guorong presently acts as the Chairman and Mr. Lee Man Chun Tony acts as the Chief Executive Officer.

Their respective responsibilities are clearly established. The Chairman is responsible for the management of the board whilst the Chief Executive Officer is responsible for day-to-day management of the Company's business including the implementation of significant strategies formulated by the board.

The Chairman shall ensure that all directors are properly briefed on issues arising at board meetings.

The Chairman is responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.

### **A.3 Board Composition**

Principle: The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

During the financial year, the board of the Company is composed of 10 directors – 5 executive directors, 2 non-executive directors and 3 independent non-executive directors. Their names and titles are set out below:–

#### ***Executive Directors***

Feng Guorong (*Chairman*)  
Lu Wenqing  
Lee Man Chun Tony (*Chief Executive Officer*)  
Guo Chun  
Ying Niankang

#### ***Non-executive Directors***

Chang Pen Tsao  
Huang Gang

#### ***Independent Non-executive Directors***

Ng Wing Hang Patrick  
Kwok Lam Kwong Larry  
Zhuo Fumin

All directors are expressly identified by categories of executive directors, non-executive directors and independent non-executive directors in all corporate communications that disclose the names of the directors of the Company.

#### A.4 Appointments, Re-election and Removal of Directors

Principle: There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Any director appointed by the board during the year shall retire at the next general meeting after his appointment. Also, every director shall be subject to retirement at least once every three years.

The Company has not established a nomination committee. The functions of appointment and removal of directors are performed by the board. Proposals for the appointment of a new director will be considered and reviewed by the board. The proposal for appointment of a new director is resolved either at meeting of directors in persons or by way of circulating resolutions among directors. The successful candidate must possess with the necessary experience or qualification which can help the board to direct the Company's business. In addition, the newly appointed director must be able to meet the criteria stipulated in Rules 3.08 and 3.09 of the Listing Rules. A director who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

#### A.5 Responsibilities of Directors

Principle: Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Every newly appointed director of the Company shall receive guidance materials from the Company Secretary upon his appointment. The guidance materials comprise the group chart, annual report and a booklet relating to the duties and responsibilities of the director so as to enable the director having a proper understanding of the operations and business of the Company and to ensure him to be fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer. A director can also request the Company Secretary to arrange him to attend any relevant course and seminar.

The functions of non-executive directors have included the functions as specified in Code Provision A.5.2 (a) to (d) of the Code.

Each director is aware that he should give sufficient time and attention to the affairs of the Company. Directors have satisfactory attendance rates at both board meetings and committee meetings.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as its own code of conduct for dealings in securities of the Company by the directors or relevant employees as defined in the Model Code. The Company has made specific enquiry of all directors. According to their replies, all the directors have complied with the requirements set out in the Model Code during the financial year ended 31 December 2006. The Company has also complied with the other requirements stipulated in the Model Code.

### A.6 Supply of and Access to Information

Principle: Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

In respect of regular board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers are sent in full to all directors in a timely manner and at least 3 days before the intended date of a board meeting and board committee meeting.

As mentioned in D.1 below, there are matters reserved to be approved by the board. Management is aware of the duties to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. The information supplied must be complete and reliable. The board and each director shall have separate and independent access to the Company's senior management.

All directors are entitled to have access to board papers, minutes and related materials.

### B.1 The Level and Make-up of Remuneration and Disclosure

Principle: An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors needed to run the issuer successfully, but the issuers should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration.

The Remuneration Committee of the Company was established in April 2005. The functions of the Remuneration Committee are mainly to review and make recommendations to the board on the Company's policy and structure for all remunerations of directors and senior management. The terms of reference of the Remuneration Committee include the specific duties set out in Code Provision B.1.3(a) to (f) of the Code, with appropriate modifications where necessary. Details of terms of reference of the Remuneration Committee are published in the Company's website.

The Remuneration Committee presently consists of three independent non-executive directors, namely, Mr. Kwok Lam Kwong Larry, Mr. Ng Wing Hang Patrick and Mr. Zhuo Fumin. Mr. Kwok Lam Kwong Larry acts as the chairman of the Remuneration Committee.

The Remuneration Committee held three meetings in the financial year ended 31 December 2006. The following is an attendance record of the meeting held by the Remuneration Committee for the financial year:-

Name of Committee Members	Number of meetings attended	Attendance rate
Kwok Lam Kwong Larry ( <i>Chairman</i> )	3	100%
Ng Wing Hang Patrick	3	100%
Zhuo Fumin	3	100%

During the financial year, the Remuneration Committee reviewed and considered the remuneration policy, packages and fringe benefits of the directors and senior management of the Group. In addition, the Remuneration Committee also reviewed the remuneration adjustment conditions of the Group and compare with companies of similar scale as benchmark; also, the Committee approve the reward system, make recommendation for the increment of partial employees for 2007 and the reward of the Chief Executive Officer during 2006. None of the directors of the Company participate in the determination of the remuneration of their own. The Remuneration Committee was satisfied with the current remuneration policy and packages of the Group.

The Remuneration Committee shall consult the Chairman and/or Chief Executive Officer about their proposals relating to the remuneration of the directors and could have access to professional advice if considered necessary.

The Remuneration Committee is provided with sufficient resources to discharge its duties.

### C.1 Financial Reporting

Principle: The board should present a balanced, clear and comprehensible assessment of the issuer's performance, position and prospects.

Management shall provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.

It is the responsibility of the directors to prepare accounts of the Company.

A statement by the external auditors about their reporting responsibilities is included in the Independent Auditors' Report on page 30.

The board shall present a balanced, clear and understandable assessment of the company's performance, position or prospects in annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

## C.2 Internal Controls

Principle: The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

The Internal Audit Department is charged with the responsibilities to evaluate whether there are sound and effective internal controls in place to safeguard the shareholders' investment and the Company's assets. Such evaluation covers all material controls, including financial, operational and compliance controls and risk management functions. Internal Audit Department has reported twice during the year on significant findings on internal controls to the Audit Committee, which in turn has reported to the board accordingly. The board found that as at the publication of this report and financial statements, the internal controls are sound and effective which safeguard the shareholders' and customers' interests and the assets of the Group.

## C.3 Audit Committee

Principle: The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the issuer's external auditors. The audit committee established by an issuer pursuant to the Exchange Listing Rules should have clear terms of reference.

The Audit Committee was set up in 1999. The roles of the Audit Committee are mainly to ensure integrity of financial statements, to oversee financial reporting system and internal control procedures as well as to provide advice and recommendations to the board. The details of the terms of reference of the Audit Committee are published in the Company's website.

The Audit Committee is currently composed of three independent non-executive directors, namely, Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Zhuo Fumin. Mr. Ng Wing Hang Patrick acts as the chairman of the Audit Committee.

The Audit Committee held two meetings in the financial year ended 31 December 2006. The following is an attendance record of the meeting held by the Audit Committee for the financial year:–

Name of Committee Members	Number of meetings attended	Attendance rate
Ng Wing Hang Patrick ( <i>Chairman</i> )	2	100%
Kwok Lam Kwong Larry	2	100%
Zhuo Fumin	2	100%

A summary of the work performed by the Audit Committee during the financial year is listed below:–

- (1) reviewing the financial statements and the auditors' report before their submission to the board;
- (2) reviewing the results of the audit on the Company's system of internal controls;
- (3) reviewing the results of the audit on the connected or continuing connected parties transactions; and
- (4) nominating external auditors for re-appointments and propose the remuneration and terms of engagement of external auditors.

The work and findings of the Audit Committee have been reported to the board. During the year, no issues brought to the attention of management and the board were of sufficient importance to require disclosure in the Annual Report.

The board agrees with the Audit Committee's proposal for the re-appointment of Messrs. Ernst & Young as the Company's external auditors for 2007. The recommendation will be put forward for the approval of shareholders at the forthcoming Annual General Meeting.

Full minutes of Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings will be sent to all members of the Audit Committee for their comment and records respectively, in both cases normally within one month after the meeting.

The Company's Audit Committee does not have a former partner of the Company's existing external auditors.

During the financial year ended 31 December 2006, the amount of remuneration paid to the Auditors, Messrs. Ernst & Young was as below:–

Nature of Services	HK\$'000
Audit services with recoverable expenses	1,240
Tax advisory services	170
Other advisory services	60

The Audit Committee is provided with sufficient resources, including the advice of external auditors and Internal Audit Department, to discharge its duties.



### D.1 Management Functions

Principle: An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

The board is responsible for formulating overall strategy, monitoring and controlling the performance of the Company whilst managing the Company's day-to-day business is the responsibility of the management.

When the board delegates aspects of its management and administration functions to the management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances where management shall report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the Company.

Matters reserved to be approved by the board include:

- (1) Appointment of directors;
- (2) Business plans of the Company;
- (3) Proposal for selection of external auditors;
- (4) Financial statements and budgets;
- (5) Substantial investments in assets other than those arising in the ordinary course of Company's businesses; and
- (6) Formation of board committees.

### D.2 Board Committees

Principle: Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Where Board Committees are established to deal with matters, the Board shall prescribe sufficiently clear terms of reference to enable such Committees to discharge their functions properly.

Apart from the Audit Committee (particulars are disclosed under C.3) and Remuneration Committee (particulars are disclosed under B.1), the Board has also established an Executive Committee and a Management Committee with specific terms of reference. The Executive Committee consists of all the executive directors and is responsible for formulating and reviewing the Company's important strategies on business and operations. The Management Committee consists of the Chief Executive Officer, general manager, deputy general manager, executive directors and the head of certain important departments. The Management Committee usually meets weekly for making policy and discussing issues relating to the Company's day-to-day management and business. A monthly management report will be submitted to the Executive Directors and Management Committee reporting their work and findings.

The terms of reference of the Audit Committee and the Remuneration Committee require such committees to report back to the board on their decisions and recommendations. Material matters will be reported to the board by the other board committees according to their respective terms of reference.

### **E.1 Effective Communication**

Principle: The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

At the Annual General Meeting held in 2006, a separate resolution was proposed by the Chairman in respect of each substantially separate issue.

The chairman of the Board and the members of the Audit Committee and Remuneration Committee respectively attended the Annual General Meeting held in 2006 to answer questions of shareholders.

### **E.2 Voting by Poll**

Principle: The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Exchange Listing Rules and the constitutional documents of the issuer.

The procedures for and rights of shareholders to demand a poll by the shareholders were disclosed in the circular to shareholders in respect of the Annual General Meeting held in 2006. The Chairman explained the procedure for demanding the poll at the commencement of that meeting. At the Annual General Meeting held in 2006, no poll was required and all resolutions were resolved by show of hands.