

# Corporate Governance Report

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the needs of its business.

The Company's corporate governance practices are based on the principles ("Principles"), code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules. The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with all of the Code Provisions. The Company regularly reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the CG Code.

The Company wishes to highlight the importance of its Board in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

The key corporate governance principles and practices of the Company are summarised as follows:

## THE BOARD

### Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board reserves for its decisions on all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company, with a view to ensuring that board procedures and all applicable rules and regulations are followed.

Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

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The day-to-day management, administration and operation of the Company are delegated to the chief executive officer of the Company (the “Chief Executive Officer”) and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

## Composition

The composition of the Board ensures a balance of skills and experience necessary for its independent judgement and fulfilling its business needs.

The Board currently comprises nine members, consisting of six executive Directors and three independent non-executive Directors. Their biographical details are set out on pages 17 to 20 of this annual report.

The Board of the Company comprises the following Directors:

### *Executive Directors:*

Ji Wei, chairman of the Board (the “Chairman”) and nomination committee of the Company (the “Nomination Committee”), and member of remuneration committee of the Company (the “Remuneration Committee”)

Cao Zhao Hui  
Wang Xue Xin  
Zheng Xiao Ping  
Liao Xue Dong  
Zeng Xin

### *Independent Non-executive Directors:*

Hui Wing Kuen, chairman of audit committee of the Company (the “Audit Committee”) and Remuneration Committee, and member of Nomination Committee

Wu Jin Ming, member of Audit Committee, Remuneration Committee and Nomination Committee

Pan Yuan, member of Audit Committee

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

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During the period under review, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive Directors bring a wide range of technical, business and financial expertise, experiences and independent judgement to the Board. Through their active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

## Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of Directors.

Each of the executive Directors is engaged in a service contract for a term of three years. The appointment may be terminated by not less than three months' written notice. All the independent non-executive Directors are appointed for a specific term. The terms of their appointments are as follows:–

Hui Wing Kuen	:	one year
Wu Jin Ming	:	up to the 2007 annual general meeting
Pan Yuan	:	up to the 2007 annual general meeting

Pursuant to the Articles, all Directors are subject to retirement by rotation once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following general meeting and the next following annual general meeting respectively.

## Training for Directors

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to Directors whenever necessary.

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## Board Meetings

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

In 2006, the Company has held eleven board meetings. The Company will endeavour to hold at least four regular board meetings a year.

The attendance of the Directors at board meetings held during the year is set out below:

<b>Directors</b>	<b>Attendance/ Number of Meetings</b>
<i>Executive Directors:</i>	
Ji Wei ( <i>Chairman</i> )	10/11
Cao Zhao Hui	11/11
Wang Xue Xin	9/11
Zheng Xiao Ping	9/11
Liao Xue Dong	9/11
Zeng Xin	8/11
<i>Independent Non-Executive Directors:</i>	
Hui Wing Kuen	8/11
Wu Jin Ming	9/11
Pan Yuan	5/11

## Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

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The Chief Executive Officer, chief financial officer and company secretary of the Company attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Minutes of all Board meetings and committee meetings are kept by the company secretary of the Company. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to the 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 Articles 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.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. Ms. Cao Zhao Hui ("Ms. Cao") was appointed as the Chief Executive Officer of the Company with effect from 1 January 2007 in replacement of Mr. Yin Hui Min. The biographical details of Ms. Cao are set out on page 17 of this annual report.

So, the posts of the Chairman and Chief Executive Officer are held separately by Mr. Ji Wei and Ms. Cao respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practices. With support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at the Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. She is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

## COMMITTEES

The Board has established three committees, namely, the Nomination Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Committees of the Company are established with defined written terms of reference. The terms of reference of the Committees will be posted on the Company's website and are available upon request.

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The majority of the members of each Committee are independent non-executive Directors and the list of the chairman and members of each Committee is set out under “Composition” of this report on page 30.

The Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company’s expenses.

## NOMINATION COMMITTEE

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessment of the independence of the independent non-executive Directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company’s needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Three Nomination Committee meetings have been held during the year to review the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

The attendance of individual members at Nomination Committee meetings held during the year is set out below:

	<b>Attendance/ Number of Meetings</b>
Ji Wei ( <i>Chairman</i> )	3/3
Hui Wing Kuen	3/3
Wu Jin Ming	3/3

In accordance with the Articles, Mr. Wang Xue Xin, Ms. Zheng Xiao Ping and Mr. Liao Xue Dong shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.



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## REMUNERATION COMMITTEE

The primary objectives of the Remuneration Committee include establishing a formal and transparent procedure for developing policies for the remuneration of the executive Directors and for fixing the remuneration packages of all Directors and the senior management. The Remuneration Committee is also responsible for ensuring the remuneration packages which are sufficient to attract and retain the Directors for running the Company successfully; to avoid over-paying and to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets towards the end of each year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive Directors and the senior management and other related matters. The human resources department is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall consult the Chairman about these recommendations on remuneration policy and structure and remuneration packages.

Three Remuneration Committee meetings have been held during the year to review the remuneration policy and structure of the Company and remuneration packages of the executive Directors and the senior management.

The attendance of individual members at Remuneration Committee meetings held during the year is set out below:

	<b>Attendance/ Number of Meetings</b>
Hui Wing Kuen ( <i>Chairman</i> )	3/3
Ji Wei	3/3
Wu Jin Ming	3/3

## AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

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The main duties of the Audit Committee include the followings:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any) or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held six meetings during the year to review the financial results and reports, financial reporting and compliance procedures, and the re-appointment of the external auditors.

The attendance of individual members at Audit Committee meetings held during the year is set out below:

	<b>Attendance/ Number of Meetings</b>
Hui Wing Kuen ( <i>Chairman</i> )	6/6
Wu Jin Ming	5/6
Pan Yuan	5/6

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2006 have been reviewed by the Audit Committee.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2006.



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The Company has also established written guidelines on terms no less exacting than the Model Code (the “Employees Written Guidelines”) for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS’ REMUNERATION

The Board is responsible for presenting 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 Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the “Auditors’ Report” on pages 39 to 40 of this annual report.

The Company’s external auditors are KPMG. Total auditors’ remuneration paid and payable by the Group for the year ended 31 December 2006 amounted to HK\$1.68 million, which comprises HK\$1.30 million for the audit of the Company’s financial statements for the year ended 31 December 2006, HK\$0.10 million for the audit of the financial statements of a subsidiary of the Group and HK\$0.28 million for the review of the Company’s interim report for six months ended 30 June 2006.

## INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders’ investments and the Company’s assets, and reviewing the effectiveness of such on an annual basis through the Audit Committee.

The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The management of the Company is responsible for establishing the Group’s internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.

The management also conducts periodic reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the Audit Committee on any key findings. The Audit Committee, in turn, reports to the Board on any material issues and makes recommendations to the Board.

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During the year, the Board, through the Audit Committee, has reviewed and was satisfied with the effectiveness of the internal control system of the Company and its subsidiaries, which has covered major and material controls in areas of financial, operations, compliance and risk management functions.

## SHAREHOLDERS RIGHTS AND INVESTOR RELATIONS

The rights of the Company's shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Articles. Details of such rights to demand a poll and the poll procedures are included in all circulars despatched to the shareholders of the Company and will be explained during the proceedings of meetings.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

Separate resolutions are to be proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at [www.wasion.com](http://www.wasion.com), where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.