

## Corporate Governance Report

The Board and the Management are committed to maintain a high standard of corporate governance, holding the beliefs of transparency, independence, honesty and accountability. We believe that effective corporate governance is an essential factor to create more value to shareholders. Therefore we continuously review and improve our corporate governance standards to ensure maximum compliance with relevant laws and codes.

The Company has complied with the "Code on Corporate Governance Practices" (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the year ended December 31, 2006, except for the following deviations:

### **CODE PROVISION A.2.1**

Under CG Code Provision A.2.1, the roles of chairman and Chief Executive Officer should be separated and should not be performed by the same individual. The Company does not at present separate the roles of Chairman and Chief Executive Officer. Mr. Zhu Zhangjin is the Chairman and Chief Executive Officer of the Company responsible for overseeing the operations of the Group. The Company is currently considering appointing a new Chief Executive Officer to replace Mr. Zhu if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. However, due to the nature and extent of the Group's operations, in particular in Mainland China and the in-depth knowledge and experience in the leather and upholstery furniture market required for the position of Chief Executive Officer, it is not possible to determine as to when the appointment of a Chief Executive Officer for the Company can be effected.

### **CODE PROVISION A.4.1**

Under CG Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The current non-executive director of the Company, Mr. Li Hui, David and independent non-executive directors of the Company, Mr. Chow Joseph, on Mr. Lu Yungang, Ken and Mr. Zhang Huaqiao, Joe are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association. At every annual general meeting, one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation.

The Board will keep these matters under review. Following sustained development and growth of the Company, we will continue to monitor and revise the Company's governance policies in order to ensure that such policies can meet the general rules and standards required by the Stock Exchange.

The Key corporate governance principles and practices of the Company are summarized as follow:

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. Having made specific inquiry with all directors of the Company, the Company ensure that all directors have confirmed their compliance with the required standard set out in the Model Code during the year ended December 31, 2006.

## BOARD OF DIRECTORS

The primary responsibilities of the Board are to establish long term strategies, administrate and oversee the operations and financial policies and set up and regularly review the Company's performance. The Board comprises of seven members, including three executive directors, one non-executive director and three independent non-executive directors. The Board members for the year ended December 31, 2006 were:

### Executive directors

Mr. Zhu Zhangjin, Kasen (*Chairman*)  
Mr. Zhu Jianqi  
Mr. Zhou Xiaosong

### Non-executive director

Mr. Li Hui, David<sup>1</sup>

### Independent non-executive directors

Mr. Chow Joseph  
Mr. Lu Yungang, Ken  
Mr. Zhang Huaqiao, Joe<sup>2</sup>

Notes:

1. Mr. Li Hui, David has been appointed to fill Mr. Sun Qiang Chang's place, as both non-executive director and chairman of remuneration committee of the Company from May 30, 2006.
2. Mr. Zhang Huaqiao, Joe has been appointed to fill the place of Mr. Shi Zhengfu as independent non-executive director from July 3, 2006.

The Biographical details of all directors and the relationships between them are set out in the "Directors and Management Profiles" section on pages 4 to 6 of this annual report, the Company's website: [www.kasen.com.cn](http://www.kasen.com.cn), and [www.irasia.com/listco/hk/kasen](http://www.irasia.com/listco/hk/kasen). None of the directors of the Company have any financial, business, family or other material or relevant relationships among members of the Board.

The Company has received an annual confirmation of independence from each of the three independent non-executive directors pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive directors are independent and that they all meet the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings and serving on various Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

The Company has purchased Directors & Officers Liability and Company Reimbursement Insurance for all directors and some senior management.

Corporate Governance Report (cont'd)

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

Mr. Zhu Zhangjin is the Chairman and Chief Executive Officer of the Company responsible for overseeing the operations of the Group. The Board believes that the appointment of Mr. Zhu Zhangjin as the Chairman and Chief Executive Officer of the Company will not impair the balance of power and authority between the Board and the management of the Company, and is most beneficial to the Company's interest at present.

## **NON-EXECUTIVE DIRECTOR**

The current non-executive director of the Company is not appointed for specific terms, but is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

## **BOARD COMMITTEES**

As an integral part of good corporate governance, the following committees have been set up:

### **Audit Committee**

The audit committee comprises three independent non-executive directors of the Company:

Mr. Chow Joseph (*Chairman of the Audit Committee*)

Mr. Lu Yungang, Ken

Mr. Zhang Huaqiao, Joe

The audit committee was set up with written terms of reference prepared based on "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and the CG Code. The primary duties of the audit committee are to review the Company's annual reports and accounts and interim reports and results announcements and to provide advice and comments thereon to the directors. The members meet regularly with the external auditors and the Company's senior management for the review and supervision of the Company's financial reporting and internal control procedures.

During the year ended December 31, 2006, the Audit Committee held two meetings to review the annual and interim results, and to make recommendations to improve the Company's internal control. The chief financial officer, internal audit officer and representatives of the external auditors attended the meetings.

### **Remuneration Committee**

The remuneration committee comprises three members, the majority of which are independent non-executive directors:

Mr. Li Hui, David (*Chairman of the Remuneration Committee*)

Mr. Lu Yungang, Ken

Mr. Zhang Huaqiao, Joe

The remuneration committee has adopted written terms of reference prepared by reference to the suggested terms of reference stated under the CG Code Provision B.1.3.

The remuneration committee has been delegated with the powers and authorities to implement the share option scheme of the Company and to deal with all compensation matters regarding the directors and senior management of the Company in accordance with the terms and conditions of their respective agreement/contract with the relevant member of the Group.

Corporate Governance Report (cont'd)

During the year ended December 31, 2006, the Remuneration Committee held one meeting to review the remuneration package of the Board members and the senior management.

### NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

The individual attendance record of each director at the meetings of the Board, Remuneration Committee and Audit Committee during the year ended December 31, 2006 is set out below:

Name of Directors	Attendance/Number of Meetings		
	Board	Remuneration Committee	Audit Committee
<b>Executive Directors</b>			
Mr. ZHU Zhangjin, Kasen ( <i>Chairman</i> )	5/5	N/A	N/A
Mr. ZHOU Xiaosong	3/5	N/A	N/A
Mr. ZHU Jianqi	4/5	N/A	N/A
<b>Non-executive Directors</b>			
Mr. LI Hui, David ( <i>Chairman of Remuneration Committee</i> )	4/5	1/1	N/A
Mr. SUN Qiang Chang* ( <i>Chairman of Remuneration Committee</i> )	2/5	0/1	N/A
<b>Independent Non-executive Directors</b>			
Mr. CHOW Joseph ( <i>Chairman of Audit Committee</i> )	4/5	N/A	2/2
Mr. LU Yungang, Ken ( <i>Member of Audit Committee and Remuneration Committee</i> )	5/5	1/1	2/2
Mr. SHI Zhengfu* ( <i>Member of Audit Committee and Remuneration Committee</i> )	1/5	0/1	1/2
Mr. ZHANG Huaqiao, Joe ( <i>Member of Audit Committee and Remuneration Committee</i> )	2/5	0/1	0/2

\* These directors resigned during the year.

### NOMINATION OF DIRECTORS

The Company believes that it is not necessary to establish a separate Nomination Committee to nominate directors. The task of nominating directors is vested with the Board of the Company. The Board reviews the structure and the composition of the Board regularly, then identifies and nominates qualified individuals to be appointed as new directors of the Company. In 2006, the Board nominated and appointed Mr. Li Hui, David and Mr. Zhang Huaqiao, Joe as non-executive director and independent non-executive director respectively. Before they were nominated, the Board had assessed their independence.

Corporate Governance Report (cont'd)

## **RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price sensitive information 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 December 31, 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report".

## **AUDITORS' REMUNERATION**

The remuneration paid to the external auditors of the Company in respect of audit services for the year ended December 31, 2006 amounted to approximately RMB4.6 million.

## **INTERNAL CONTROL**

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such on an annual basis through the Audit Committee. The Audit Committee reports to the Board on any material issues and makes recommendations to the Board.

## **SHAREHOLDER RIGHTS AND INVESTOR RELATIONS**

The rights of shareholders and the procedures for them to demand a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings. Poll results, if any, will be published in newspapers on the business day following the shareholders' meeting and posted on both the website of the Stock Exchange and the website of the Company.

The general meetings of the Company provide a platform to communicate between the shareholders and the Board. The Chairman of the Board as well as chairman of the 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. The Company continues to enhance communications and relationships with its investors. Enquiries from investors are dealt with in an informative and timely manner.

Taking advantages of various resources, the Company keeps communicating with shareholders regularly and properly to ensure that shareholders are adequately aware of any important issues during the course of the Company's operation, and then exercise their rights as shareholders with sufficient knowledge. In addition, the Company regularly meets institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications. Investors are welcome to write directly to the Company at its Hong Kong registered office for any inquiries.