

## THE COMMITMENT AND COMPLIANCE OF THE COMPANY

The Board is committed to maintaining high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Company and its subsidiaries to manage business risks, enhance transparency, maintain high standard of accountability and protect shareholders' interest in general. The Board has adopted a Corporate Governance Statement of Policy (available on [www.coscointl.com](http://www.coscointl.com)) which gives guidance on how corporate governance principles are applied to the Company.

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31st December 2006 except that:

- (i) the Independent Non-executive Directors have not been appointed for any specific terms, but they are subject to retirement and eligible for re-election in each annual general meeting in accordance with the Bye-Laws of the Company;
- (ii) Mr. Wei Jiafu, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 25th May 2006 due to other business commitments.

In addition to complying with applicable statutory requirements, the Company aims to continually review and enhance its corporate governance practices in the light of local and international best practices.

## STATEMENT OF COMPLIANCE

### A. Directors

#### A.1 *The Board*

##### *Principle of the Code*

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.

The overall management of the Company's business is vested in the Board.

The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The Directors have to take decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the Managing Director and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

The Board is currently composed of twelve Executive Directors (including the Chairman, the Vice Chairman and the Managing Director of the Company) and three Independent Non-executive Directors, whose biographical details are set out in "Profile of Directors and Senior Management".

During the year, 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.

In addition, the Company has received from each of the Independent Non-executive Director an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules.

Code Provisions	Compliance	Actions by the Company
<p>A.1.1 The board should meet regularly and board meetings should be held at least 4 times a year at approximately quarterly intervals.</p>	<p>Yes</p>	<p>The Board met four times during the year and conducted the following principal activities:</p> <ul style="list-style-type: none"> <li>– adoption of recommendations of Audit Committee, proposed agenda items of Board meetings.</li> <li>– interim and annual review of the report of the business operation and revised the rules and regulations of the Company.</li> <li>– approval of interim/final results, announcement, and interim/annual report, determining dividends; matters to be considered at annual general meeting; directors' fee of Independent Non-executive Directors.</li> <li>– adoption of recommendations of Risk Management Committee; amended terms of reference of Board Committees.</li> <li>– approval of annual operating plan and budget; management results and performance updates against annual operating plan and budget, together with business reports and presentations from senior management.</li> </ul>
<p>A.1.2 Arrangements should be in place to ensure that all directors are given an opportunity to include matters in the agenda for regular board meetings.</p>	<p>Yes</p>	<p>Directors were invited to include any matters which they thought appropriate in the agenda for regular board meetings.</p>

# Corporate Governance Report

Code Provisions	Compliance	Actions by the Company
<p>A.1.3 Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend.</p>	Yes	At least 14 days' prior notice was normally given for regular Board meetings.
<p>A.1.4 All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.</p>	Yes	Directors have access to the services of the Company Secretary who is responsible for ensuring the Board procedures are complied with.
<p>A.1.5 Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and open for inspection.</p>	Yes	Minutes are kept by the appointed secretary of the meetings and available for inspection at the Company's principal place of business.
<p>A.1.6 Minutes of board meetings and meetings of board committees should be recorded in sufficient detail. Draft and final versions of minutes should be sent to all directors for their comment and records respectively.</p>	Yes	All minutes were recorded in detail and would be sent to Directors for review and comment within a reasonable time (generally within 7 days) after each meeting. Final version of minutes would be sent to Directors for record.
<p>A.1.7 There should be a procedure for directors to seek independent professional advice at the issuer's expense.</p>	Yes	Directors are permitted to seek independent professional advice, if required, at the Company's expense.
<p>A.1.8 If a substantial shareholder/director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, a board meeting should be held. Independent non-executive directors should be present at such board meeting.</p>	Yes	The Company will continue to ensure that such matters require Board meetings be held instead of by way of circulation and with the presence of Independent Non-executive Directors.

*Compliance with Recommended Best Practice*

- There is in place a Directors & Officers' Liabilities Insurance cover in respect of legal actions against the Directors and senior management arising out of corporate activities; and
- Board Committees have adopted broadly the same principles and procedures as stated in A.1.1 to A.1.8 of Appendix 14 to the Listing Rules.

**A.2 Chairman and Chief Executive Officer***Principle of the Code*

There should be a clear division between the management of the board and the day-to-day management at the board level of the issuer's business to ensure a balance of power and authority so that power is not concentrated in any one individual.

The positions of the Chairman, the Vice Chairman and the Managing Director are held by Mr. Wei Jiafu, Liu Guoyuan and Mr. Liang Yanfeng respectively.

In order to reinforce their respective independence, accountability and responsibility, the roles of the Chairman and the Vice Chairman are separate from that of the Managing Director. The Chairman and the Vice Chairman are responsible for formulating the overall strategies and policies of the Company.

The Managing Director is in charge of the Group's day-to-day management and operations and is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

Code Provisions	Compliance	Actions by the Company
A.2.1 The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.	Yes	Division of responsibilities between the Chairman, the Vice Chairman and the Managing Director is clearly defined and set out in writing. The Chairman, the Vice Chairman and the Managing Director are served by different persons.
A.2.2 & A.2.3 The chairman should ensure that all directors are properly briefed on issues arising at board meetings and they receive adequate information in a timely manner.	Yes	The Chairman has a clear responsibility to ensure that all the directors are properly briefed and given accurate information.

# Corporate Governance Report

## *Compliance with Recommended Best Practice*

- The Chairman has a clear responsibility to ensure that the Board works effectively and discusses all key and appropriate issues in a timely manner.
- The Company has in place a formal process of Board evaluation since 2005. The process takes the form of a meeting between the Chairman and/or the Vice Chairman and Independent Non-executive Directors without management presence, to be held at least once a year. The most recent meeting was held in March 2006 during the year. The Board regards such meetings as opinion exchange gathering whereby a broad range of strategic and performance matters may be openly discussed.

### A.3 *Board composition*

#### *Principle of the Code*

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. 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 judgment. Non-executive directors should be of sufficient caliber and number for their views to carry weight.

The Board as a whole with the support of Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures on appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors. The Board has reviewed its own structure, size and composition to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company and its subsidiaries.

#### **Code Provisions**

#### **Compliance**

#### **Actions by the Company**

##### A.3.1

The independent non-executive directors should be expressly identified as such in all corporate communications.

Yes

Composition of the Board, by category of Directors, including names of the Chairman, the Vice Chairman, the Managing Director and Independent non-Executive Director, is disclosed in all corporate communications.

## *Compliance with Recommended Best Practice*

Biographies of Directors, including clear designation of their roles and responsibilities are maintained on the Company's website: [www.coscointl.com](http://www.coscointl.com).

#### A.4 *Appointments, re-election and removal*

##### *Principle of the Code*

There should be a formal 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.

<b>Code Provisions</b>	<b>Compliance</b>	<b>Actions by the Company</b>
<p><b>A.4.1</b> Non-executive directors should be appointed for a specific term, subject to re-election.</p>	Partial compliance	All directors (including Independent Non-executive Directors) were not appointed for specific terms, but are subject to retirement and shall be eligible for re-election at the annual general meeting of the Company in accordance with the Bye-Laws of the Company. Since all Directors are subject to retirement and re-election at the annual general meeting in accordance with the Company's Bye-Laws, the Company considers that sufficient measures will have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.
<p><b>A.4.2</b> 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, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.</p>		

# Corporate Governance Report

## *Compliance with Recommended Best Practice*

- The Company has set up a Nomination Committee comprising a majority of Independent Non-executive Directors. The Nomination Committee has established with specific written terms of reference which deal clearly with the Committee's authority and duties. The terms of reference of Nomination Committee is made available on the Company's website. A meeting was held in January and August 2006 respectively to discuss the appointment of proposed Directors. After considering the qualification and experience of Mr. Wang Xiaoming, Mr. Jia Lianjun, Mr. Wang Xiaodong, Mr. Liang Yanfeng, Mr. Chen Xuewen and Mr. Lin Wenjin, the Committee recommended to the Board to appoint Mr. Wang Xiaoming, Mr. Jia Lianjun and Mr. Wang Xiaodong as Executive Directors on 25th January 2006 and Mr. Liang Yanfeng as the Managing Director and Mr. Chen Xuewen and Mr. Lin Wenjin as Executive Directors on 9th August 2006.

## A.5 Responsibilities of directors

### *Principle of the Code*

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. Non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

### **Code Provisions**

### **Compliance**

### **Actions by the Company**

#### A.5.1

Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is 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.

Yes

A comprehensive information package containing an introduction to the operation of the Company and its subsidiaries, Directors' responsibilities and duties and other statutory requirements will be provided to new Directors upon their appointment.

The Company Secretary is responsible for keeping all Directors updated on Listing Rules and other statutory requirements.

Code Provisions	Compliance	Actions by the Company
<p>A.5.2</p> <p>The functions of non-executive directors should include:</p> <ul style="list-style-type: none"> <li>- bring an independent judgment at the board meeting</li> <li>- take the lead where potential conflicts of interests arise;</li> <li>- serve on the audit, remuneration, nomination and other governance committees, if invited; and</li> <li>- scrutinize the issuer's performance.</li> </ul>	Yes	Independent Non-executive Directors are well aware of their functions and have been actively performing their functions.
<p>A.5.3</p> <p>Every director should ensure that he can give sufficient time to the affairs of the issuer.</p>	Yes	There is satisfactory attendance rate for the Board and Board Committees in 2006.



# Corporate Governance Report

Code Provisions	Compliance	Actions by the Company
A.5.4 Directors must comply with their obligations under the Model Code set out in Appendix 10 to the Listing Rules.	Yes	The Company has adopted a code of conduct regarding securities transactions of Directors and employees (“Securities Code”) no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. To ensure Directors’ dealing in the securities of the Company are conducted in accordance with the Securities Code, a committee (the “Committee”) comprising the Chairman, the Vice Chairman, the Managing Director and the Deputy Managing Director was set up to deal with such transactions. Prior to any dealings in securities of the Company, a Director is required to notify the Chairman or the Vice Chairman in writing and obtain a written acknowledgement from the Committee. The Company has made specific enquiry of all Directors regarding any non-compliance with the Securities Code during 2006, all Directors confirmed that they have fully complied with the required standard set out in the Securities Code during the year.

#### *Compliance with Recommended Best Practice*

Directors disclose their other directorship at the time of appointment and, subsequently, at least once every year to the Company.

There were satisfactory attendances and active participations at Board, Board committees and general meetings by the Directors.

The Independent Non-executive Directors had during the year contributed to the Board their constructive and valuable advice to the Company in the development of the Company’s strategy and policies, in particular the internal controls of the Company.

## A.6 Supply of and access to information

### Principle of the Code

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.

Code Provisions	Compliance	Actions by the Company
<p>A.6.1 Agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of board meeting or committee meeting.</p>	Yes	Agenda and board papers are sent to all Directors at least three days (generally at least 7 days) before the meetings unless it is on urgent basis to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting.
<p>A.6.2 Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. The board and each director should have separate and independent access to the issuer's senior management.</p>	Yes	Senior management works closely with the Board and meets each other on regular basis. They are required to submit reports on the Company's operations on a regular basis to the Board so that it could discharge its responsibilities.
<p>A.6.3 All directors are entitled to have access to board papers. Steps must be taken to respond to the queries raised by directors as promptly and fully as possible.</p>	Yes	Board papers will be sent to the Directors at least 7 days before the Board meeting. Minutes are properly kept by the Company Secretarial Department of the Company and are available for inspection by the Directors.

# Corporate Governance Report

## B. Remuneration of Directors and Senior Management

### B.1 The level and make-up of remuneration and disclosure

#### Principle of the Code

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. No director should be involved in deciding his own remuneration.

#### Code Provisions

#### Compliance

#### Actions by the Company

##### B.1.1

Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties.

A majority of the members of the remuneration committee should be the independent non-executive directors.

Yes

A Remuneration Committee has been established by the Board with specific written terms of reference and a majority of members of the Remuneration Committee is Independent Non-executive Director.

The duties of the Remuneration Committee include:

- determining the policy for the remuneration of the Company;
- approving the terms of service contracts;
- ensuring the remuneration offered is appropriate for the duties and in line with market practice.

##### B.1.2

The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.

Yes

The Remuneration Committee carries out annual review of remuneration packages for the Directors and senior management of the Company.

A meeting was held in August 2006 to review the remuneration package of the employees (including the Executive Directors and senior management) of the Company and to determine the total annual emoluments of the Independent Non-executive Directors.

Code Provisions	Compliance	Actions by the Company
<p><i>B.1.3, B.1.4 &amp; B.1.5</i></p> <p>The terms of reference of the remuneration committee should include the specific duties as stipulated in B.1.3 of Appendix 14 to the Listing Rules.</p> <p>The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.</p> <p>The remuneration committee should be provided with sufficient resources to discharge its duties.</p> <p><i>Compliance with Recommended Best Practice</i></p> <p>Details of remuneration of the Vice Chairman, the Managing Directors and three Deputy Managing Directors who are also the executive directors and the Independent Non-executive Directors are disclosed on an individual basis in this Annual Report.</p>	Yes	<p>The terms of reference are set out in writing with adoption of the specific duties as provided in B.1.4 of Appendix 14 to the Listing Rules. It is made available on the Company's website. The Company will pay for all professional advice and other assistance as required by the Remuneration Committee.</p>

## **C. Accountability and Audit**

### *C.1 Financial Reporting*

#### *Principle of the Code*

The board should present a balanced, clear and comprehensible assessment of

the company's performance, position and prospects.

Code Provisions	Compliance	Actions by the Company
<p><i>C.1.1</i></p> <p>Management should 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.</p>	Yes	<p>Management is required to provide detailed report and explanation to enable the Board to make an informed assessment before approval.</p>

# Corporate Governance Report

Code Provisions	Compliance	Actions by the Company
<p>C.1.2</p> <p>The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts, and there should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements.</p>	Yes	<p>The Directors and auditors of the Company state their respective responsibilities in this Annual Report.</p>
<p>C.1.3</p> <p>The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as information required to be disclosed pursuant to statutory requirements.</p>	Yes	<p>The Board aims at presenting a balanced, clear and understandable assessment of the Company's position to its shareholders and the public.</p> <p>Press conferences had been held twice a year. Information in relation to the Company had also been uploaded to the Company's website.</p>

## C.2 Internal Control

### *Principle of the Code*

The board should ensure that the issuer maintains sound and effective internal controls

to safeguard the shareholders' investment and the issuer's assets.

### Code Provisions

### Compliance

### Actions by the Company

#### C.2.1

The directors should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries and report to shareholders that they have done so in their Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.

Yes

The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness.

Management is charged with the responsibility to design and implement an appropriate internal controls system. A Risk Management Committee, chaired by the Managing Director and comprising of other Executive Directors, has been set up. The Managing Director reports to the Board on key findings regarding internal controls at least on annual basis.

The Board has conducted an annual review on the effectiveness of its internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management functions.

A meeting was held in November 2006 to discuss a report submitted by the management. The report was about the implementation results of the internal control and risk management of the Company and the risk study on the impact of appreciation of Renminbi on the Company. Such report was submitted to the Audit Committee for review, and the Audit Committee and the Board were satisfied with the results.

# Corporate Governance Report

## C.3 Audit Committee

### *Principle of the Code*

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 company's auditors. The audit committee established by an issuer pursuant to the Listing Rules should have clear terms of reference.

Code Provisions	Compliance	Actions by the Company
<p>C.3.1 Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the audit committee meetings should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.</p>	Yes	Draft minutes prepared by the secretary of the meeting are sent to committee members within one month of each meeting. Full minutes are kept by the secretary of the meeting.
<p>C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit committee for one year after he ceases to be a partner of or to have any financial interest in the firm, whichever is the later.</p>	Yes	Except that Mr. Kwong Che Keung, Gordon, the Independent Non-executive Director, who was a partner of PricewaterhouseCoopers from 1984 to 1998, none of the members of the Audit Committee are former partners of the Company's existing auditing firm.
<p>C.3.3 The terms of reference of the audit committee should include at least the following duties:</p> <ul style="list-style-type: none"> <li>– review of relationships with issuer's auditors;</li> <li>– review of financial information of the issuer; and</li> <li>– oversight of the issuer's financial reporting system and internal control procedures.</li> </ul>	Yes	The terms of reference have coverage on the scope of duties as required in this Code Provisions.

Code Provisions	Compliance	Actions by the Company
<p>C.3.4 The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.</p>	Yes	The terms of reference are available upon request and on the Company's website.
<p>C.3.5 Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuers should include in the Corporate Governance Report a statement from the audit committee, explaining its recommendation and also the reason(s) why the board has taken a different view.</p>	Yes	The Audit Committee recommended to the Board that, subject to the shareholders' approval at the forthcoming annual general meeting, PricewaterhouseCoopers be re-appointed as the external auditor of the Company.
<p>C.3.6 The audit committee should be provided with sufficient resources to discharge its duties.</p>	Yes	The Company will at its expenses provide such assistance as required by the Audit Committee.

*Compliance with Recommended Best Practice*

The terms of reference of the Audit Committee have been revised to include the following duties:

- (1) to approve and monitor procedures enabling the following, and ensuring the fair and independent investigation and appropriate follow-up of such matters:
  - (a) receipt, retention and treatment of complaints received by the Company regarding accounting, financial reporting, internal control, auditing or other matters; and
  - (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting, financial reporting, internal control, auditing or other matters.
- (2) the Audit Committee acts as the key representative body of the Company and is responsible to oversee the relationship between the Company and the external auditor, include the relationships involving the provision of non-audit services.



# Corporate Governance Report

## D. Delegation by the Board

### D.1 Management functions

#### Principle of the Code

An issuer should have 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.

#### Code Provisions

#### Compliance

#### Actions by the Company

##### D.1.1

When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management.

Yes

The segregation of duties and responsibilities between the Board and the management has been defined and provided as internal guidelines of the Company.

##### D.1.2

An issuer should formalise the functions reserved to the board and those delegated to management.

Yes

The duties of the Board include:

- formulating operational strategies and management policy and establish corporate governance and internal control system;
- setting the objective of management; and
- monitoring performance of management.

The duties of the management include:

- reviewing the business performance;
- ensuring adequate fundings; and
- monitoring performance of the management of the Company and its subsidiaries.

## D.2 Board Committees

### *Principle of the Code*

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

The Board has established Audit Committee, Remuneration Committee, Nomination Committee, Investment Committee, Risk Management Committee and Executive Committee with defined terms of reference. The terms of reference of the Board Committees are available upon request and on the Company's website.

Apart from the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Management Committee, the Executive Committee and the Investment Committee held three and two meetings respectively during the year.

The Board 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 expense.

<b>Code Provisions</b>	<b>Compliance</b>	<b>Actions by the Company</b>
<p><i>D.2.1</i> Board committees are established with sufficiently clear terms of reference.</p>	Yes	The Board has established six Board Committees with specific terms of reference which are available on the Company's website.
<p><i>D.2.2</i> The terms of reference of board committees should require such committees to report back to the board.</p>	Yes	Board Committees would report to the Board their work, findings and recommendations at the Board meetings.

# Corporate Governance Report

## E. Communication with Shareholders

### E.1 Effective Communication

#### *Principle of the Code*

The board should endeavour to maintain an ongoing dialogue with shareholders and in particular, use annual general meetings or other

general meetings to communicate with shareholders and encourage their participation.

#### **Code Provisions**

#### **Compliance**

#### **Actions by the Company**

##### *E.1.1*

A separate resolution should be proposed by the chairman of a general meeting for substantially separate issue.

Yes

Separate resolutions are proposed at the general meeting on each substantially separate issue.

##### *E.1.2*

The chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duty appointed delegate, to be available to answer questions at annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Partial compliance

Mr. Wei Jiafu, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 25th May 2006 due to other business commitments. The chairman of the Audit Committee and the Remuneration Committee or their representatives would attend the annual general meeting of the Company.

*E.2 Voting by Poll**Principle of the Code*

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 Listing Rules and the constitutional documents of the issuer.

**Code Provisions****Compliance****Actions by the Company***E.2.1–E.2.3*

Disclosure in the issuer's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll. The issuer should ensure that votes cast are properly counted and recorded. The chairman of a meeting should at the commencement of the meeting ensure that the procedures for demanding a poll by shareholders and the detailed procedures for conducting a poll are explained.

Yes

Procedure for demanding a poll were set out in the circular accompanying the notice of general meeting. These procedures were also explained during the proceedings. Branch Share Registrar was appointed as scrutiniser.

# Corporate Governance Report

## THE COMPOSITION OF THE BOARD AND OTHER COMMITTEES AS AT 31ST DECEMBER 2006

### Board of Directors

#### Executive Directors

Mr. Wei Jiafu (*Chairman*)  
Mr. Liu Guoyuan (*Vice Chairman*)  
Mr. Li Jianhong  
Mr. Jia Lianjun  
Mr. Wang Xiaoming  
Mr. Liang Yanfeng (*Managing Director*)  
Mr. Meng Qinghui  
Mr. Chen Xuewen  
Mr. Lin Libing  
Mr. Wang Xiaodong  
Mr. Lin Wenjin

#### Independent Non-executive Directors

Mr. Chan Cheong Foon, Andrew  
Mr. Kwong Che Keung, Gordon  
Mr. Tsui Yiu Wa, Alec

### Audit Committee

Mr. Chan Cheong Foon, Andrew\* (*Committee Chairman*)  
Mr. Kwong Che Keung, Gordon\*  
Mr. Tsui Yiu Wa, Alec\*

### Executive Committee

Mr. Liang Yanfeng# (*Committee Chairman*)  
Mr. Liu Guoyuan#  
Mr. Wang Xiaoming#  
Mr. Chen Xuewen#  
Mr. Lin Libing#  
Mr. Wang Xiaodong#  
Mr. Lin Wenjin#

### Nomination Committee

Mr. Tsui Yiu Wa, Alec\* (*Committee Chairman*)  
Mr. Chan Cheong Foon, Andrew\*  
Mr. Kwong Che Keung, Gordon\*  
Mr. Lin Libing#

### Investment Committee

Mr. Wang Xiaoming# (*Committee Chairman*)  
Mr. Liang Yanfeng#  
Mr. Meng Qinghui#  
Mr. Chen Xuewen#  
Mr. Lin Libing#  
Mr. Wang Xiaodong#

### Remuneration Committee

Mr. Kwong Che Keung, Gordon\* (*Committee Chairman*)  
Mr. Chan Cheong Foon, Andrew\*  
Mr. Tsui Yiu Wa, Alec\*  
Mr. Liang Yanfeng#  
Mr. Lin Wenjin#

### Risk Management Committee

Mr. Liang Yanfeng# (*Committee Chairman*)  
Mr. Liu Guoyuan#  
Mr. Wang Xiaoming#  
Mr. Meng Qinghui#  
Mr. Chen Xuewen#  
Mr. Wang Xiaodong#

\* *Independent Non-executive Director*

# *Executive Director*

During the year, the attendance record of each director at the Board meetings and Board Committees meetings is set out below:

	Board	Audit Committee	Executive Committee	Investment Committee	Nomination Committee	Remuneration Committee	Risk Management Committee
<b>Executive Directors</b>							
Wei Jiafu	2/4	N/A	N/A	N/A	N/A	N/A	N/A
Liu Guoyuan <sup>(1)</sup>	4/4	N/A	1/1	N/A	N/A	N/A	1/1
Li Jianhong	0/4	N/A	N/A	N/A	N/A	N/A	N/A
Jia Lianjun	2/4	N/A	N/A	N/A	N/A	N/A	N/A
Wang Xiaoming <sup>(2)</sup>	4/4	N/A	1/1	2/2	N/A	N/A	1/1
Liang Yanfeng <sup>(3)</sup>	2/2	N/A	1/1	2/2	N/A	0/0	1/1
Meng Qinghui	3/4	N/A	N/A	2/2	N/A	N/A	0/1
Chen Xuewen <sup>(4)</sup>	2/2	N/A	1/1	2/2	N/A	N/A	1/1
Lin Libing	4/4	N/A	3/3	2/2	2/2	N/A	N/A
Wang Xiaodong <sup>(5)</sup>	4/4	N/A	2/2	2/2	N/A	N/A	1/1
Lin Wenjin <sup>(6)</sup>	2/2	N/A	1/1	N/A	N/A	0/0	N/A
Zhou Liancheng <sup>(7)</sup>	1/2	N/A	N/A	N/A	N/A	N/A	0/0
Liu Hanbo <sup>(8)</sup>	2/2	N/A	2/2	0/0	N/A	1/1	0/0
Chen Pisen <sup>(9)</sup>	0/2	N/A	N/A	0/0	N/A	N/A	N/A
He Jiale <sup>(10)</sup>	0/0	N/A	N/A	0/0	N/A	N/A	0/0
Guo Huawei <sup>(11)</sup>	0/0	N/A	N/A	N/A	N/A	N/A	N/A
Zhao Kaiji <sup>(12)</sup>	0/0	N/A	0/1	N/A	N/A	N/A	N/A
<b>Independent Non-executive Directors</b>							
Chan Cheong Foon, Andrew	3/4	2/2	N/A	N/A	2/2	1/1	N/A
Kwong Che Keung, Gordon	3/4	2/2	N/A	N/A	2/2	1/1	N/A
Tsui Yiu Wa, Alec	4/4	2/2	N/A	N/A	2/2	1/1	N/A

# Corporate Governance Report

## Notes:

- (1) appointed as a committee member of Executive Committee and resigned as the chairman of Risk Management Committee but remained as a committee member of Risk Management Committee of the Company on 9th August 2006.
- (2) appointed as Executive Director and the chairman of Investment Committee and a committee member of Risk Management Committee of the Company on 25th January 2006 and a committee member of Executive Committee of the Company on 9th August 2006.
- (3) appointed as Managing Director and Executive Director and the chairman of Executive Committee and Risk Management Committee and a committee member of each Remuneration Committee and Investment Committee of the Company on 9th August 2006.
- (4) appointed as Executive Director and a committee member of each Executive Committee, Investment Committee and Risk Management Committee of the Company on 9th August 2006.
- (5) appointed as Executive Director and a committee member of Executive Committee of the Company on 25th January 2006 and a committee member of each Investment Committee and Risk Management Committee of the Company on 9th August 2006.
- (6) appointed as Executive Director and a committee member of each Executive Committee and Remuneration Committee of the Company on 9th August 2006.
- (7) resigned as Executive Director and a committee member of the Risk Management Committee of the Company on 9th August 2006.
- (8) resigned as Managing Director and Executive Director and the chairman of Executive Committee and as a committee member of each Investment Committee, Remuneration Committee and Risk Management Committee of the Company on 9th August 2006.
- (9) resigned as Executive Director and a committee member of Investment Committee of the Company on 9th August 2006.
- (10) resigned as Executive Director and the chairman of Investment Committee and a committee member of Risk Management Committee of the Company on 25th January 2006.
- (11) resigned as Executive Director on 25th January 2006.
- (12) resigned as Executive Director and a committee member of Executive Committee of the Company on 25th January 2006.

## AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's external auditors, Messrs. PricewaterhouseCoopers is set out as follows:

Audit services	HK\$2,412,000
Non-audit services	HK\$4,749,000

The above non-audit services include professional advisory on taxation, professional services in relation to shareholders' circulars and review on connected transactions.

## INFORMATION DISCLOSURE AND INVESTOR RELATIONS

The Company adheres to high standards with respect to the disclosure of its financial statements. To foster regular and contribute two-way communication amongst the Company, its shareholders and potential investors, the Company has established a Corporate Communications Department to respond to enquiries from its shareholders and the public. In addition, the Company is committed to maximising the use of its website as a channel to provide updated information in a timely manner and strengthen the communications with both the public and its shareholders.

## DIRECTOR'S RESPONSIBILITY IN RESPECT OF FINANCIAL STATEMENTS

The Board acknowledges its responsibility for preparing the financial statements of the Company and its subsidiaries. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Company aims to present a clear and balanced assessment of its financial position and prospects. The Board must ensure that the financial statements of the Company and its subsidiaries are prepared so as to give a true and fair view of the financial status of the Company and its subsidiaries. Audited financial statements are published within four months after the end of the financial year.

The reporting responsibilities of the Directors and external auditor are further set out in the Auditor's Report in this Annual Report.

For the announcement relating to the price-sensitive information and other financial disclosures required under the Listing Rules are disclosed pursuant to statutory requirements.

## MANAGEMENT MEETINGS

Members of Executive Committee and the senior management meet together on a weekly basis to review, discuss and make decisions on financial and operational matters. These meetings, chaired by the Managing Director, enhance and strengthen departmental communications and cooperation within the Company and its subsidiaries.

## CONNECTED TRANSACTIONS

The Company remain committed to ensuring compliance with regulatory requirements under the Listing Rules and applicable laws and regulations in handling connected transactions. Accordingly, the Company implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are

approved by Independent Non-executive Directors, conducted under normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by independent shareholders of the Company in accordance with the Listing Rules. The connected persons were requested to abstain from voting in the general meeting. Details of the connected transactions during the year are set out in the Directors' Report.

## INCENTIVE SCHEME AND CORPORATE CULTURE

The Company maintains an employee handbook providing guidance to employees on matters such as employee dealings on the Company's securities, ethical standards, business conduct and employees conduct. The employee handbook applies to all employees of the Company and its subsidiaries who must ensure strict compliance with the policies therein. Through the establishment of a performance charter for the senior management, appropriate appraisal mechanisms, and the granting of share options, the Company has been able to align the interests of the senior management and entire staff with the growth and performance of the Company. The Company pays particular attention to the establishment of an optimal corporate culture. With the support of all staff, the Company has identified, designed and implemented a corporate culture that is considered appropriate for its special circumstances, thereby ensuring that good corporate governance is maintained at all levels and at all times within the Company and its subsidiaries.

By order of the Board

**CHIU Shui Suet**  
*Company Secretary*

Hong Kong, 11th April 2007