

# R

# Report of Corporate Governance

## **CORPORATE GOVERNANCE PRACTICES**

For the year ended 31 December 2006, in the opinion of the Board, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except for the deviations from code provision A.4.1 of the Code in respect of the service term of independent non-executive Directors.

The Board of Director considered that the Group's prevailing structures and systems satisfied the requirements of the CG Code. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

## **MODEL CODE**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code for securities transactions by Directors of the Company. Having made specific enquiries, the Company has confirmed that all Directors have complied with the requirements set out in the Model Code.

## **THE BOARD**

### **Composition and appointment**

As at 31 December 2006, the Board comprises ten Directors, including six executive Directors, one non-executive Director and three independent non-executive Directors. Names and biographies of the Directors are set out on pages 20 to 24 of this annual report.

The Company has complied with Rules 3.10 (1) and (2) of the Listing Rules, one of the independent non-executive Directors possesses the requisite appropriate professional qualifications. The Board confirmed that the independence and eligibility of the independent non-executive Directors are in compliance with the relevant requirements of the Listing Rules.

The Directors confirmed that there was no connection amongst the Directors that should be disclosed relating to finance, business, relation or other significant events or relevant matters.

The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company. During the year, the Board convened a total of five meetings, performing its duties in considering, inter alia, continuing connected transactions and financial and other matters under the provisions of the Articles of Association of the Company. Real-time teleconference system was adopted at each meeting to increase the attendance rate. The average attendance rate was 100%.

Under Code Provision A.4.1, non-executive Directors should be appointed for a specific term. The existing non-executive Directors of the Company were not appointed for a specific term. This constitutes a deviation from Code Provision A.4.1. However, according to the Articles of Association, one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting and the Directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those provided in the Code.

During the year, five full Board meetings were held and the attendance of each Director is set out as follows:

Name of Director	Attendance		Title
	Times	Rate (%)	
Dong Shutong	5	100	Chairman, Executive Director, Chief Executive Officer
He Weiquan	5	100	Executive Director, Chief Operation Officer
Lee Han Yan, Florence*	5	100	Executive Director, Chief Financial Officer
Lau Hok Yuk#	N/A	N/A	Executive Director, Chief Financial Officer
Song Wenzhou	5	100	Executive Director
Zhang Ming^	2	100	Executive Director
Zhao Ping^	2	100	Executive Director
Yang Tianjun	5	100	Non-Executive Director
Bai Baohua	5	100	Independent Non-Executive Director
Huang Changhuai	5	100	Independent Non-Executive Director
Wong Chi Keung	5	100	Independent Non-Executive Director

\* resigned effective from 1 November 2006

# appointed effective from 1 November 2006

^ appointed effective from 18 September 2006

### Chairman and chief executive

The executive Director, Dong Shutong, served as the Chairman and Chief Executive Officer of the Company. The Chairman is responsible for overseeing the Company's operations in respect of compliance with internal rules, and compliance with statutory requirements and promoting the corporate governance of the Company, whereas the Company did not appoint another individual to act as a chief executive for the year ended 31 December 2006 and up to the date of the report. This constitutes a deviation from Code Provision A.2.1. The Board believes that it is in the best interest of the Company and the shareholders as a whole for Mr. Dong Shutong, who is knowledgeable in the

business of the Group and possesses the essential leadership skills to guide discussions of the Board. The significant decision-making and the day-to-day management of the Company is carried out by all of the executive Directors. Therefore, the roles of the Chairman and the chief executive of the Company are not segregated in the sense that two different individuals took up these roles. However, the functions of the chief executive were carried out by all of the executive Directors. The role of the Chairman and chief executive are not exercised by the same individual.

### **Remuneration Committee**

The remuneration committee of the Company was established on 10 April 2006 and comprises one executive Director and three independent non-executive Directors. The members of the remuneration committee are: Mr Dong Shutong, Mr Bai Baohua, Mr. Huang Changhuai and Mr. Wong Chi Keung.

The remuneration committee did not hold any meeting in 2006 and the first remuneration committee meetings was held on 21 February 2007 to review the performance and incentives of executive Directors and terms of employment of the management staff within the Group in 2006.

Responsibilities of the remuneration committee include:

- (1) to make recommendation to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- (2) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;
- (3) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

- (4) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment;
- (5) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- (6) to ensure that no Director is involved in deciding his own remuneration.

### AUDITORS' REMUNERATION

For the year ended 31 December 2006, the auditors of the Company, Ernst & Young, have carried out the statutory audit for the Company. The total fee paid to Ernst & Young amounted to RMB2,147,000.

### AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, and Mr. Wong Chi Keung serves as the chairman of the audit committee.

During the year, the audit committee held two committee meetings on 10 April 2006 and 18 September 2006. The attendance of each of the members of the audit committee at such meetings is as follows:

Name of member	Attendance		Title
	Times	Rate (%)	
Wong Chi Keung	2	100	Independent Non-Executive Director
Bai Baohua	2	100	Independent Non-Executive Director
Huang Changhuai	2	100	Independent Non-Executive Director

During the meetings held in 2006, the audit committee had performed the following work:

- (1) reviewed the financial reports for the year ended 31 December 2005 and for the six months ended 30 June 2006;
- (2) reviewed the effectiveness of internal control system;
- (3) reviewed the external auditors' statutory audit plan and engagement letter;
- (4) reviewed the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2005;

(5) reviewed and recommended for approval by the Board the 2006 audit scope and fees.

Responsibilities of the audit committee include:

- (1) reviewing the financial reporting process, internal control system and the completeness of financial reports of the Company;
- (2) to be in charge of the appointment of external auditors, auditing expenses and any matters regarding the resignation or dismissal of the external auditors;
- (3) to discuss with the external auditors on the nature and scope of audit prior to the commencement of the auditing procedures; and
- (4) to review the interim and annual accounts.

The audit committee has reviewed the auditing performance, the internal controls and the audited accounts of the Company for the year ended 31 December 2006.

### **INTERNAL CONTROL**

The Board is responsible for the Company's system of internal controls and its effectiveness. However, such a system is designed to manage the Company's risks within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Company. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Company and this process includes updating the system of internal controls when there are changes to business environment.

During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Company and its principal subsidiaries with no material issues noted.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Company's assets.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.