



# Corporate Governance Report

The Board of Directors (the “Board”) of the Company is pleased to present this Corporate Governance Report in the Group’s annual report for the year ended 31 December 2009.

The Company focuses on maintaining high standard of corporate governance in order to achieve sustainable development and enhance corporate performance.

The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all shareholders to ensure the transparency and accountability of all operations of the Company.

Throughout the year under review, the Company has complied with provisions as set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) except for the deviations as disclosed in this report.

The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for shareholders.

## 1. The Board of Directors

### Responsibilities

The Board’s major roles are to oversee the management, businesses, strategic directions and financial performance of the Group as well as to optimize return for its shareholders. The Board is responsible for the leadership and control of the Company and is collectively responsible for directing and supervising the Company’s affairs. The Board is also fully responsible for the formulation of business plans and strategies in relation to the business operation of the Group, including dividend policy and risk management strategies. The Board has delegated the authority and responsibilities to the senior management for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated various responsibilities to these Board committees as set out in their terms of reference respectively.

All Directors have carried out their duties in good faith and in compliance with the standards of applicable laws and regulations, and have acted in the interests of the Company and its shareholders at all times.

### Delegation of Management Functions

The Board reserves its decisions for 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, with a view to ensuring that the procedures of the Board 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 expense, upon making request to the Board.



## Corporate Governance Report (continued)

The senior management of the Company has been delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group as well as the formulation of organizational structure, control systems and internal procedures and processes. 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 senior management.

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Board and Company's affairs. All Board committees of the Company are established with defined written terms of reference which are available to shareholders upon request. The Board has the full support of the senior management to discharge its responsibilities.

### Board Composition

The Board is currently composed of a total of 11 members, which includes 5 executive Directors, 3 non-executive Directors and 3 independent non-executive Directors. The biographies of the Directors are set out on pages 20 to 26 of this annual report. The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The Board believes that the non-executive Directors and independent non-executive Directors have brought their independent judgment on issues in connection with the Group's strategies, performance, conflict of interests and management process so that the interests of all shareholders are considered and safeguarded. Mr. Guo Zi Wen is the brother of Mr. Guo Zi Ning.

During the year ended 31 December 2009, 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.

### Compliance with the Model Code for Directors' 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 of the Listing Rules as the standard for securities transactions by Directors. The Company has made enquiries of all the Directors and all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2009.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by the relevant 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 relevant employees was noted by the Company.

### Chairman and Chief Executive Officer

The provision A.2.1 of the Code provides that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

Mr. Guo Zi Wen acts as the chairman and chief executive officer of the Company. He is responsible to ensure that the Board works effectively and formulates business strategies. He also provides leadership for the running of the Company's business and implementing the policies devised by the Board. The Board believes that Mr. Guo Zi Wen in his dual capacity as the chairman and chief executive officer of the Company, can provide strong and consistent leadership for the development and allow for effective and efficient planning and implementation of business decisions and strategies of the Group.





### Independent Non-Executive Directors

The independent non-executive Directors play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision. They bring an impartial view on issues of the Company's strategies, performance and control.

The Board also considers that the independent non-executive Directors can provide independent advice on the Company's business strategies, results and management so as to safeguard all interests of shareholders, and hence, the interests of the Company and its shareholders can be protected.

All independent non-executive Directors have offered sufficient time and efforts to serve the Company and they possess appropriate academic and professional qualifications and related management experience and have contributed to the Board with their professional opinions.

For the year ended 31 December 2009, all independent non-executive Directors of the Company had confirmed their independence to the Company in accordance with 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.

### Appointment, Re-election and Removal of Directors

Each of the executive Directors, non-executive Directors and independent non-executive Directors of the Company has entered into a service contract or a letter of appointment with the Company for a specific term. Such term is subject to his re-election by the Company at an annual general meeting ("AGM") upon retirement. The articles of association (the "Articles") of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office only until the first general meeting of the members of the Company and shall then be eligible for re-election at such meeting. Besides, any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM of the Company and shall then be eligible for re-election.

Pursuant to the Articles, one-third of all Directors (whether executive or non-executive) is subject to retirement by rotation and re-election at each AGM provided that every Director shall be subject to retirement at least once every three years. A retiring Director is eligible for re-election and continues to act as a Director throughout the meeting at which he retires. Any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall not be taken into account for retirement by rotation.

The members of the Company may, at any general meeting convened and held in accordance with the Articles to remove a Director at any time before the expiration of his period of office notwithstanding anything contrary in the Articles or in any agreement between the Company and such Director.



### Induction and Continuing Development for Directors

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

The Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to Directors will be arranged whenever necessary.

### Board Meetings

The Board meets regularly to discuss and formulate the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications.

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

The company secretary assists the chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are followed. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and approval as soon as practicable after the meeting. The final version is opened for Director's inspection.

All Directors are provided with relevant materials relating to the matters in issue before the meetings and have the opportunity to include matters in the agenda for Board meetings.

Code provision A.1.3 stipulates that at least 14 days' notice should be given for a regular Board meeting. During the year ended 31 December 2009, less than 14 days' notice was given for certain regular Board meetings in order to suit the tight and busy schedules of the participants.

The Company's Articles contains 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.





During the year ended 31 December 2009, 6 full Board meetings were convened at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The attendance of the Directors at these Board meetings is set out below:

	Number of meetings attended/ Number of meetings held
<b>Executive Directors</b>	
Mr. Guo Zi Wen ( <i>chairman and chief executive officer</i> )	6/6
Mr. Guo Zi Ning	6/6
Mr. Hu Da Wei	5/6
Mr. Lam Kam Tong ( <i>appointed on 25 September 2009</i> )	2/2
Ms. Xin Zhu ( <i>appointed on 25 September 2009</i> )	2/2
Mr. Zheng Jian Jun ( <i>resigned on 24 September 2009</i> )	4/4
<b>Non-executive Directors</b>	
Mr. Wu Jie Si ( <i>vice chairman</i> ) ( <i>re-designated on 24 December 2009</i> )	4/6
Mr. Paul Steven Wolansky ( <i>vice chairman</i> )	2/6
Mr. Leung Ping Chung, Hermann ( <i>Mr. Leung is also the alternate Director of Mr. Paul Steven Wolansky</i> )	6/6
Mr. He Jian Bing ( <i>resigned on 24 September 2009</i> )	2/4
<b>Independent non-executive Directors</b>	
Mr. Ma Kwai Yuen	6/6
Mr. Song Xian Zhong	6/6
Mr. Tsui King Fai	6/6

### Nomination Committee

The Nomination Committee is primarily responsible for considering and nominating suitable candidates to become members of the Board. The Nomination Committee is also responsible for reviewing the structure, size and composition of the Board on a regular basis and is required to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company and assesses the independence of the independent non-executive Directors. The Nomination Committee is comprised of Mr. Guo Zi Wen, Mr. Leung Ping Chung, Hermann, Mr. Ma Kwai Yuen, Mr. Song Xian Zhong and Mr. Tsui King Fai. Mr. Guo Zi Wen is the chairman of the said committee.

During the year ended 31 December 2009, the Nomination Committee have held 3 meetings and all members attended the meetings.

The Nomination Committee reviewed the current structure, size and composition of the Board. The Nomination Committee has made recommendations to the Board on the appointment of Mr. Lam Kam Tong and Ms. Xin Zhu who were appointed as the executive Directors of the Company on 25 September 2009. The Nomination Committee has also made recommendation to the Board on the re-designation of Mr. Wu Jie Si who was re-designated as the non-executive Director of the Company on 24 December 2009. The Nomination Committee has also made discussion on the resignation of Mr. Zheng Jian Jun and Mr. He Jian Bing who resigned as executive Director and non-executive Director respectively on 24 September 2009.

In accordance with the Company's Articles, since Mr. Lam Kam Tong and Ms. Xin Zhu have been appointed as executive Director of the Company by the Board during the year 2009, Mr. Lam and Ms. Xin shall retire and being eligible, offer themselves for re-election at the next forthcoming AGM. In addition, Mr. Guo Zi Ning, Mr. Leung Ping Chung, Hermann and Mr. Song Xian Zhong shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming AGM.



## Corporate Governance Report (continued)

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

The Company's circular dated 30 April 2010 contains detailed information of the Directors standing for re-election.

### Remuneration Committee

The Remuneration Committee is responsible for making recommendations, reviewing and approving the executive Directors' and senior management's remuneration and other benefits as well as making recommendations to the Board on the remuneration of non-executive Directors to ensure that the level of their remunerations is reasonable. Besides, the Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration. Their written terms of reference are in line with the Code provisions. The Remuneration Committee is comprised of Mr. Leung Ping Chung, Hermann, Mr. Tsui King Fai and Mr. Ma Kwai Yuen. Mr. Leung Ping Chung, Hermann is the chairman of such committee.

The Company's policy on remuneration is to maintain fair and competitive packages on business needs and industry practice. For determining the level of fees payable to the Directors, the market rates and factors such as each Director's workload and required commitments will be taken into account. The following factors are considered when determining the remuneration packages of executive Directors:

- Business needs and company development;
- Responsibilities of the Directors and individual contribution;
- Changes in appropriate markets, e.g. supply/demand fluctuations and changes in competitive conditions;
- Retention considerations and individual potential.

During the year ended 31 December 2009, the Remuneration Committee have held 3 meetings and all members attended the meetings.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management.

### Audit Committee

The Audit Committee was established in accordance with the requirements of the Listing Rules for the purposes of reviewing the financial statements and reports and consider any significant or unusual items raised by staff responsible for the accounting and financial reporting function, internal audit department or external auditors before submission to the Board. Besides, the main duties of the Audit Committee are to review and provide supervision over the Group's financial reporting system, internal control system and risk management system and make recommendation to the Board on any material issues in relation thereto. The Audit Committee is also responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors and considering any questions of resignation or dismissal of such auditors. The Audit Committee meets whenever deem necessary with the Company's external auditors to discuss the audit process and accounting issues. Their written terms of reference are in line with the Code provisions.

The Audit Committee consists of three independent non-executive Directors namely Mr. Ma Kwai Yuen, Mr. Song Xian Zhong and Mr. Tsui King Fai. Mr. Ma Kwai Yuen is the chairman of the said committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.





During the year ended 31 December 2009, the Audit Committee have held 2 meetings and all members have attended the meetings.

The Audit Committee reviewed, together with senior management, the internal audit department, the external auditors, the internal control system, the accounting principles and practices adopted by the Company, risk management, the annual results and reports for the year ended 31 December 2009 and other financial reporting and compliance matters of the Group and the Company.

## 2. Financial Reporting and Internal Control

### Financial Reporting

The Board, supported by the finance department, is responsible for the preparation of the consolidated financial statements of the Group. In the preparation of consolidated financial statements for the year ended 31 December 2009, International Financial Reporting Standards have been adopted and the appropriate accounting policies have been consistently used and applied.

The Board aims at presenting a comprehensive, clear and balanced assessment of the Group's performance, position and prospect in the annual report to the shareholders, and make appropriate disclosure and announcements in a timely manner. The management provides such explanation and information to enable the Board to make an informed assessment of the matters put before the Board. The Directors acknowledge their responsibilities for preparing the financial statements for the Group for the year ended 31 December 2009.

### External Auditors' Remuneration

Deloitte Touche Tohmatsu, the external auditors of the Company, are responsible for providing audit services in connection with the consolidated financial statements of the Group for the year ended 31 December 2009.

The statement of the external auditors of the Company regarding their working scope and responsibilities is set out in the "Independent Auditor's Report" on pages 63 to 64 in this annual report.

During the year 2009 under review, the fee paid to Deloitte Touche Tohmatsu in respect of its statutory audit services provided to the Company was HK\$3,659,091.

### Internal Control

During the year under review, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget.

The Board has overall responsibility for maintaining a sound and effective system of internal control and for reviewing its effectiveness, particularly in respect of the controls on financial, operational, compliance and risk management, to safeguard shareholders' investment and the Group's assets.



## Corporate Governance Report (continued)

An internal audit department has been established to perform regular financial and operational reviews and conduct audits of the Company and its subsidiaries. The work carried out by the internal audit department will ensure the internal controls are in place and functioning as intended.

During the course of audit performed by the external auditors, they reported on the weakness in the Group's internal control and accounting procedures which had come to their attention. The internal audit department reviewed, evaluated and monitored the follow-up actions in response to their recommendations and reported to the Audit Committee.

### 3. Communications with Shareholders and Investor Relations

The Group uses various formal channels of communication to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual reports are printed and sent to all shareholders and also posted on the Company's corporate website at <http://aoyuan.com.cn>. Press releases are posted on the Company's corporate website. The Company's website provides email address, postal address, fax number and telephone number by which enquiries can be put to the Board. Being constantly updated in a timely manner, the website also contains a wide range of additional information of the Group's business activities. As a standard part of the investors relations program to maintain a constant dialogue of the Group's performance and objectives, senior executives hold regular briefings and attend conferences with institutional investors and financial analysts.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. 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, are available to answer questions at the shareholders' meetings.

The 2010 AGM will be held on 11 June 2010. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

The Board believes effective investor relations can contribute towards lowering cost of capital, improving market liquidity for the Company's stock and building a more stable shareholder base. Therefore, the Company is committed to maintain a high level of corporate transparency and follow a policy of disclosing relevant information to shareholders, investors, analysts and bankers. Keeping the shareholders aware of our corporate strategies and business operations is one of the key missions of our investor relations team.

As at 31 December 2009, the Company has a diversified shareholding structure with a 55.82% public float.

### 4. Shareholders Rights

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholders' meeting.

