

10 Corporate Governance Report

Shinhint is committed to maintaining a high standard of corporate governance and has put in place self-regulatory corporate practices to protect the interests of its shareholders. Our commitment in terms of corporate governance is to provide high-quality products and services to the satisfaction of our customers; maintain high standards of business ethics and achieve these goals while, at the same time, providing satisfactory and sustainable returns to shareholders.

In addition, the group acts in a socially responsible manner through a variety of initiatives and sees this as part of its overall commitment to good corporate governance.

Shinhint has a Corporate Code of Conduct which sets out principles, values and standards of conduct expected of management and staff throughout the Group, and underpins our operating procedures and policies.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the year ended 31st December, 2005 and up to the date of publication of this annual report, applied and complied with the principles in the Code on Corporate Governance Practices (the “CG Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except for the deviation as stated in paragraph headed Chairman and Chief Executive Officer below.

SECURITIES TRANSACTIONS

The Company has adopted codes of conduct regarding securities transactions by Directors and relevant employees (the “Securities Code”) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 of the Listing Rules. A copy of the Securities Code is sent to each Director and relevant employee of the Company first on his appointment and thereafter twice annually, one month before the date of the board meeting to approve the Company’s half-year result and annual result, with a reminder that the Director and relevant employee cannot deal in the securities and derivatives of the Company until after such results have been published.

Under the Securities Code, Directors and relevant employees of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

On specific enquiries made, all Directors have confirmed that they have complied with the required standard set out in the Securities Code for the period covered by the annual report.

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BOARD OF DIRECTORS

The Board of Directors (the “Board”) of the Company consists of six members, including three Executive Directors, Mr. Cheung Wah Keung, Mr. Ip Wai Cheong, Ernest and Mr. Wang Dong; and three Independent Non-Executive Directors, Mr. Lai Ming, Joseph, Dr. Lam King Sun, Frankie and Mr. Goh Gen Cheung. Save as disclosed, there is no business or other relationship amongst members of the Board.

All Independent Non-Executive Directors have offered sufficient time and efforts to serve the business affairs of the Company. They also possess appropriate academic and professional qualifications and related management experience and have contributed to the Board with their professional opinion. The Board believes that the ratio between Executive Directors and Independent Non-Executive Directors is reasonable and adequate. The Board also believes that the participation of Independent Non-Executive Directors shall offer their independent judgment on issues relating to strategy, performance, conflict of interest and management process such that the interests of all shareholders are considered and safeguarded.

All directors of the Company have access to timely information in relation to the Group's business and make further enquires when necessary. The Board has also agreed that directors may seek independent professional advice on issues related to the Group's business at the Company's expenses. The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group, ensures the availability of resources as well as the effectiveness of its internal control including financial control.

The Company has arranged appropriate insurance cover on directors' and officers' liabilities in respect of legal actions against directors and senior management arising out of corporate activities.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the requirement of Rule 3.13 of the Listing Rules, the Company has appointed three Independent Non-Executive Directors, one of whom has appropriate professional qualification in accounting and financial management expertise. All Independent Non-Executive Directors have confirmed their independence, as set out in Rule 3.13 of the Listing Rules, to the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code provision A.2.1 stipulated that the roles of Chairman of the Board (the “Chairman”) and Chief Executive Officer should be separated 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.

Mr. Cheung Wah Keung is the Chairman, the Chief Executive Officer and an Executive Director of the Company. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive Officer in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

BOARD MEETING

During the meetings of the Board, Directors discussed and formulated the business policies and strategies, corporate governance, financial and internal control systems, reviewed the interim and final business results and other relevant important matters. All Directors had participated in these Board meetings. For those Directors who could not attend these meetings in person, they participated through electronic medium. Implementation and execution of Board policies and strategies and daily administrative matters are delegated to the management of the Company.

The notice of Board meeting will be given to all Directors at least 14 days prior to the date of the meeting. All Directors are given opportunities to include any matters to be discussed in the agenda.

The Company Secretary must ensure that all applicable rules and regulations are followed and prepare detailed minutes of each meeting. After the meeting, the draft minutes of the meeting shall be circulated to all Directors for comments and approval as soon as practicable. All Board members shall be given a copy of the minutes. Should a matter being considered which involve a potential conflict of interest of a Director, the Director involved in the transaction will be requested to leave the boardroom and abstain from voting. The matter will be discussed and resolved by other Directors.

During the year, the number of meetings held and attended by the members is as follows:

	Board of Directors	
	No. of meetings Held	Attended
<i>Executive Directors</i>		
Mr. Cheung Wah Keung ⁽¹⁾	2	2
Mr. Ip Wai Cheong, Ernest ⁽¹⁾	2	2
Mr. Wang Dong ⁽¹⁾	2	2
Mr. Feng Tian ⁽²⁾	2	2
<i>Independent Non-Executive Directors</i>		
Mr. Lai Ming, Joseph ⁽³⁾	2	2
Dr. Lam King Sun, Frankie ⁽³⁾	2	2
Mr. Goh Gen Cheung ⁽³⁾	2	2

(1) appointed on 11th May, 2005

(2) appointed on 11th May, 2005 and resigned on 6th March, 2006

(3) appointed on 25th June, 2005

Board committees including Audit Committee and Remuneration Committee all follow the applicable principle, practice and procedures used in the Board meeting.

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DIRECTORS' TERMS OF APPOINTMENT

All Directors, including Independent Non-Executive Directors, are appointed for a term of three years. All Directors retire from their office by rotation and subject to re-election at an Annual General Meeting at least once every three year.

AUDIT COMMITTEE

The Audit Committee assists the Board in discharging its responsibilities for corporate governance, financial reporting, and corporate control. The Committee consists of three Independent Non-Executive Directors. The members are Mr. Lai Ming, Joseph, Dr. Lam King Sun, Frankie and Mr. Goh Gen Cheung. It is chaired by Mr. Lai Ming, Joseph, who has the appropriate professional accounting qualification and financial management expertise. All the members served from 25th June, 2005 and the Company Secretary acts as secretary.

Regular attendees at the Audit Committee meetings include the Head of Finance and the external auditors. The Committee meets with the external auditors without the presence of company management. The terms of reference of the Audit Committee follow the CG Code.

The Audit Committee met two times each year. Each meeting received written reports from the external auditors which deal with matters of significance arising from the work conducted since the previous meeting. The work of the Committee during the year included consideration of the following matters:

- the completeness and accuracy of the annual and interim financial statements;
- recommendations to the Board, for the approval by shareholders, of the reappointment of Deloitte Touche Tohmatsu as the external auditors and the auditors' remuneration;
- the Group's policy regarding connected party transactions and the nature of such transactions;
- reviewing the Company's compliance with regulatory and statutory requirements;
- the Group's risk management processes; and
- developments in accounting standards and the Group's response, including the preparation for adoption of Hong Kong Financial Reporting Standards.

The Audit Committee assesses the independence of the external auditors during the year through a series of questions and the external auditors also formally communicate to the Audit Committee their business relationship with the Group and any other independence matters. The annual results for the year ended 31st December, 2005 have been reviewed by the Audit Committee.

An analysis of the fees paid to Deloitte Touche Tohmatsu on audit work is set out in note 8 to the financial statement on page 52.

AUDIT AND INTERNAL CONTROL

The Board has overall responsibility for the system of internal control and conducts regular reviews of its effectiveness. The system of internal control plays a key role in the management of risks that are significant to the fulfillment of its business objectives. A sound system of internal control contributes to safeguarding shareholders' investment and the Group's assets. Since profits are, in part, the reward for successful risk-taking in business, the purpose of internal control is to help manage and control risk appropriately, rather than to eliminate the risk of failing to achieve business objectives. The Group's internal controls can only provide reasonable and not absolute assurance against misstatement or loss.

The Board confirms that there is a process for identifying, evaluating, and managing the significant risks to the achievement of Group's strategic objectives. The process has been in place throughout the year and also accorded with the guidance set out in the CG Code.

The process used by the Audit Committee to review the effectiveness of the system of internal control includes:

- discussions with management on risk areas identified by management and/or in the audit process;
- the review of significant issues arising from external audit reports.

The Company is in the preparation of setting up internal audit function which is responsible for the review and assessment of the operational activities and internal control of the Company including the conduct of operational audits on practices, procedures, financial control and risk management. The internal audit function, once established, will maintain a close working relationship with the external auditors and report to the Audit Committee periodically.

REMUNERATION COMMITTEE

The Remuneration Committee comprises two Independent Non-Executive Directors – Dr. Lam King Sun, Frankie and Mr. Goh Gen Cheung and one Executive Director – Mr. Cheung Wah Keung, who was appointed as the Chairman of the committee.

The primary duties of the Remuneration Committee include the following:

1. The Committee shall make recommendations 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. The Committee shall exercise the powers of the Board to determine:
 - (A) the remuneration packages of individual Executive Directors and senior management, (including salaries, bonuses, benefits in kind and the terms on which they participate in any share or other incentive scheme and any provident fund or other retirement benefit scheme) taking into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management, employment conditions elsewhere in the group and desirability of performance-based remuneration; and
 - (B) the terms and conditions on which the employment of any Executive Director or senior management shall be terminated to ensure that any compensation payment is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.
3. The Committee shall review and approve:
 - (A) performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time; and
 - (B) compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.
4. The Committee shall make recommendation to the Board on the remuneration of Independent Non-Executive Directors.
5. The Committee should ensure that no Director or any of his associates is involved in deciding his own remuneration.
6. The Committee shall report to the Directors of the Company its activities as the Directors may require from time to time.
7. The Committee shall exercise such other powers, authorities and discretions, and perform such other duties, of the Directors in relation to the remuneration of the Executive Directors and senior management as the Directors may from time to time delegate to it, having regard to the CG Code of the Listing Rules.
8. In exercising its power, authorities and discretions and performing its duties, the Committee shall take full account of the CG Code and the Listing Rules.

In order to be able to attract and retain staff of suitable calibre, the Group provides a competitive remuneration package. This comprises salary, housing and provident fund. Although the remuneration of these executives is not entirely linked to the profits of the company or division in which they are working, it is considered that, given the volatility of various businesses within the Group, this has contributed considerably to the maintenance of a stable, motivated and high-calibre senior management team in the Company.

COMMUNICATION WITH SHAREHOLDERS

The Company is committed to fair disclosure and comprehensive, transparent reporting. The Chairman is ultimately responsible for ensuring that there is effective communication with investors and that the Board understands the views of major shareholders. The Chairman therefore makes himself available to meet shareholders for this purpose. On a day-to-day basis the Board's primary contact with major shareholders is through the Company Secretary.

Communication with shareholders is a high priority. Printed copies of the Annual and Interim Reports are sent to all shareholders. In order to promote effective communication, the Company maintains its website at www.shinhint.com on which financial and other information relating to the Company and its business are disclosed.

From information publicly available to the Company and within the knowledge of its Directors, at least 25% of the Company's total issued share capital is held by the public at all times.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements, the Directors have selected appropriate accounting policies, applied them consistently, made judgments and estimation that are prudent, fair and reasonable, ensured all applicable accounting standards are followed and prepared the financial statements on a going concern basis. The Directors are also responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance and the applicable accounting standards.

The auditors' reporting responsibility is set out on page 27 of this annual report.