

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2005.

The Company wishes to highlight the importance of its Board of Directors ("Board") in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company's corporate governance practices are based on the principles ("Principles"), code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

The Company has complied with most of the Code Provisions save for the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code and certain deviations from the Code Provisions in respect of Code Provisions A.1.1, A.2.1, A.4.1 and E.1.2, details of which will be explained below.

The Company periodically reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the CG Code.

The key corporate governance principles and practices of the Company are summarised as follows:

## THE BOARD

### Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board reserves for its decisions all major matters of the Company which include 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 Board procedures 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.

The day-to-day management, administration and operation of the Company are delegated to the senior management. 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 abovementioned officers.

The Board has the full support of the senior management to discharge its responsibilities.

### **Composition**

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board currently comprises eleven members, consisting of eight executive directors and three independent non-executive directors.

The Board of the Company comprises the following directors:

#### **Executive directors:**

Cheung Yuk Fung (*Chairman*)

Kui Man Chun

Lo Siu Yu

Xu Wensheng

Li Wenjin

Chan Yiu Kwong

Xu Chang Jun

Zhou Jian

#### **Independent non-executive directors:**

Tam Chun Fai (*Chairman of Audit Committee*)

Leung Wai Man, Roger (*Member of Audit Committee*)

Xu Sitao (*Member of Audit Committee*)

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

None of the directors of the Company had any relationship among the members of the Board of the Company.

During the year ended 31 December 2005, 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.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of 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.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. By taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

### **Appointment and Succession Planning of Directors**

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the non-executive director of the Company is subject to retirement by rotation once every three years.

*Deviation from Code Provision A.4.1 (& reasons):-*

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Although the independent non-executive directors are not appointed for a specific term, all directors of the Company are subject to retirement by rotation once every three years and any new director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment pursuant to the Company's Bye-laws. The Company has intention to enter a service contract with all the independent non-executive directors.

### **Training for Directors**

Each newly appointed director receives induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company. Besides, the Company shall consider to engage external legal and other professional advisors for providing professional development and training programmes to directors on an occasional basis.

### **Board Meetings**

*Deviation from Code Provision A.1.1 (& reason):-*

Code Provision A.1.1 stipulates that the Company should hold at least four regular Board meetings a year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

Regular Board meetings were held twice during the year for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The Company does not announce its quarterly results and hence not consider the holding of quarterly meeting as necessary.

**Number of Meetings and Directors' Attendance**

The Board met twice during the year ended 31 December 2005 for approving the final results for the year ended 31 December 2004 and interim results for the period ended 30 June 2005. Besides, the Board held twelve non-regular meetings for formulating policies and implementing laid-down policies during the year ended 31 December 2005.

The individual attendance record of each director at the meetings of the Board and Audit Committee during the year ended 31 December 2005 is set out below:

<b>Name of Directors</b>	<b>Attendance/Number of Audit Committee Meetings</b>	<b>Attendance/Number of Regular Meetings</b>	<b>Attendance/Number of Non-regular Meetings</b>
Cheung Yuk Fung	N/A	2/2	Note 2
Kui Man Chun	N/A	2/2	8/12
Lo Siu Yu	N/A	2/2	6/12
Xu Wensheng	N/A	2/2	7/12
Li Wenjin	N/A	2/2	12/12
Chan Yiu Kwong	N/A	2/2	11/12
Xu Chang Jun	N/A	2/2	9/12
Zhou Jian	N/A	2/2	Note 2
Liu Yangsheng, Charles (Note 1)	N/A	1/2	Note 2
Tam Chun Fai	2/2	1/2	Note 2
Leung Wai Man, Roger	2/2	1/2	Note 2
Xu Sitao	2/2	1/2	Note 2

*Note:*

1. Mr. Liu Yangsheng, Charles was appointed as a non-executive director on 17 May 2005 and resigned on 17 April 2006.
2. The Directors have not attended the non-regular meetings, the purpose of which were mainly to deal with implementation of policies and administrative routine.

**Practices and Conduct of Meetings**

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

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

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 Qualified Accountant and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's bye-laws also contain 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.

### **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

*Deviation from Code Provision A.2.1 (& reason):-*

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive officer should be separate and should not be performed by the same individual.

Mr. Cheung Yuk Fung is the Chairman and six of the other executive directors who are also members of the senior management share the role of the Chief Executive Officer.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the Company Secretary and the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner.

The role of the Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He/She is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

The Board considers that due to the scale of operations of the group and the daily operations of the Group's business are delegated to the senior management and department heads, the appointment of a Chief Executive Officer is not necessary.

## BOARD COMMITTEES

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and are available to shareholders upon request.

The majority of the members of each Board committees are independent non-executive directors and the list of the chairman and members of each Board committee as at the date of this report is set out below:

### **Audit Committee**

Tam Chun Fai (*Chairman*)  
Leung Wai Man, Roger  
Xu Sitao

### **Nomination Committee**

Leung Wai Man, Roger (*Chairman*)  
Tam Chun Fai  
Chan Yiu Kwong

### **Remuneration Committee**

Tam Chun Fai (*Chairman*)  
Leung Wai Man, Roger  
Li Wenjin

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 expenses.

### **Nomination Committee**

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessment of the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

As the Nomination Committee was only established on 1 September 2005, the Board had been responsible for reviewing the structure, size and composition of the Board to ensure that it had a balance of expertise, skills and experience appropriate to the requirements of the business of the group for the year under review.

In accordance with the Company's bye-laws 87(1) and 87(2), Mr. Cheung Yuk Fung, Mr. Kui Man Chun, Mr. Chan Yiu Kwong and Mr. Xu Chang Jun, executive directors of the Company, shall retire by rotation and being eligible, offer themselves for re-election at the 2006 annual general meeting.

The Board recommended the re-appointment of the directors standing for re-election at the 2006 annual general meeting of the Company.

The Company's circular dated 29 April 2006 contains detailed information of the directors standing for re-election.

### **Remuneration Committee**

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall consult the Chairman and/or the Board of the Company about these recommendations on remuneration policy and structure and remuneration packages.

As the Remuneration Committee was only established on 1 September 2005, the Board had been responsible for reviewing the remuneration policy and structure of the Company and remuneration packages of the directors and the senior management for the year under review.

### **Audit Committee**

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 December 2005 to review the financial results and reports, financial reporting and compliance procedures, internal control system and risk management review and processes and the re-appointment of the external auditors.

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2005 has been reviewed by the Audit Committee.

### **MODEL CODE FOR 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 to the Listing Rules.

Specific enquiry had been made to all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2005.

The Company has also established written guidelines with exact terms as set out in Appendix 10 to the Listing Rules for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.



## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Auditors' Report" on page 38.

## AUDITORS' REMUNERATION

The external auditors have not rendered non-audit services to the Company for the year ended 31 December 2005. The remuneration paid to the external auditors of the Company in respect of audit services for the year ended 31 December 2005 amounted to approximately of HK\$1.6 million.

## SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

*Deviation from Code Provision E.1.2 (& reason):-*

Code provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting. The Chairman did not attend the annual general meeting held on 23 May 2005, however, Mr. Li Wenjin, as an executive director of the Company, took the chair pursuant to the Bye-laws of the Company.

The Board recognises that the general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board, or at his absence, an executive director of the Company, as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, will be available to answer questions at future shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

## CORPORATE GOVERNANCE REPORT

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company maintains a website at [www.hisun.com.hk](http://www.hisun.com.hk), where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

On behalf of the Board

**Cheung Yuk Fung**

*Chairman*

Hong Kong, 21 April 2006