



Report on Corporate Governance

Report on Corporate Governance

22

The Company believes that the incessant enhancement of the standard of corporate governance is the underlying cornerstone for safeguarding the interests of investors and enhancing corporate value. Since its listing in February 2003, the Company, with reference to the Company Law of the People's Republic of China, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Articles of Association of the Company and other relevant laws and regulations, and taking into considerations of its own attributes and requirements, has made huge efforts in enhancing the standard of corporate governance.

CONTINUOUS IMPROVEMENT ON CORPORATE GOVERNANCE PRACTICES

The Company has reviewed and adopted the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules as our code on corporate governance practices.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the Company's directors.

The directors have confirmed, following specific enquiry by the Company that they have complied with the required standards set out in the Model Code throughout the reporting period for 2006.

BOARD OF DIRECTORS

The Board is accountable to the general meetings under its commitment to pursue the best interests of the Company. Board members collectively and individually accept the responsibility for the management and control of the Company in the interests of shareholders and spared no efforts in the performance of their duties as a director. The Company's independent directors are professionals in the field of accounting, finance and management with extensive experience in accounting or financial management and other professional areas, and all of them act in diligent manner to uphold the interests of the Company and the shareholders by maintaining their independence of their opinions given with respect to their review of the Company's connected transactions and significant events, and by providing professional advice on the stable and disciplined operation and long-term development of the Company.

As at 31 December 2006, the Board of the Company comprised 12 directors, of which 4 were executive directors, 5 were non-executive directors and 3 were independent non-executive directors, whose names are as follows:

Chairman: Mr. Zhao Huxiang;

Executive directors: Mr. Zhao Huxiang, Mr. Zhang Jianwei, Ms. Tao Suyun and Mr. Li Jianzhang;

Non-executive directors: Mr. Yang Yuntao, Ms. Liu Jinghua, Mr. Jerry Hsu, Mr. Ken Torok and Mr. Peter Landsiedel; and

Independent non-executive directors: Mr. Sun Shuyi, Mr. Lu Zhengfei and Mr. Miao Yuexin.

The main duties of the Board include determining the operating plans and investment proposals of the Company, convening general meetings and executing the resolutions passed at general meetings, formulating the Company's profit distribution proposals and formulating and amending the Articles of Association of the Company.

The Board delegates the authority of the management of the Company's daily operation to the management, whose scope of authority of management is set out in the Articles of Association of the Company.

Report on Corporate Governance

The directors acknowledged their responsibilities for the preparation of the Group's financial statements, and ensured that the financial statements are prepared in accordance with the requirements of laws and regulations and applicable accounting standards. The directors also ensured the timely publication of the Group's financial statements.

So far as is known to the Company, there is no financial, business, family or other material relationship between the Board members of the Company. Save as disclosed herein, there is also no relationship between chairman of the Board and president of the Company.

The Company has received, from each of the independent non-executive directors, a written confirmation of his/her independence to the Company pursuant to the requirements of the Listing Rules. The Company considers that all of the independent non-executive directors are independent of the Company.

In order to illustrate its focus on the Company's business management, the Board sets out the table below the attendance of meetings of the Board and its subordinated committees in 2006.

Directors	Attendance/No. of meetings		
	Board	Audit Committee	Remuneration Committee
Independent non-executive directors			
Mr. Sun Shuyi	6/8 ¹	4/4	1/1
Mr. Lu Zhengfei	7/8 ³	3/4	1/1
Mr. Miao Yuexin	7/8 ³	4/4	1/1
Non-executive directors			
Mr. Yang Yuntao	6/8 ³		
Ms. Liu Jinghua	6/8 ²	4/4	
Mr. Jerry Hsu	6/8 ²		
Mr. Ken Torok	2/8 ⁴		
Mr. Peter Landsiedel	3/5 ⁵		
Executive directors			
Mr. Zhao Huxiang	7/7 ⁶		
Mr. Zhang Jianwei	7/8 ²		
Ms. Tao Suyun	8/8		1/1
Mr. Li Jianzhang	7/8 ²		

Description: Except for those with indication shown in the column of attendance, the meetings were attended by the directors in person. The 17th, 18th and 19th Board meetings of the Company were convened by way of written resolution.

- Two meetings were attended by authorised representatives.
- One meeting was attended by an authorised representative.
- One meeting was attended via conference call.
- One meeting was attended by an appointed observer.
- Five board meetings were convened after 29 May 2006, when Peter Landsiedel was elected to be a non-executive director of the Company. Peter Landsiedel attended three board meetings by an authorised representative.
- Seven board meetings were convened after 3 March 2006, when Zhao Huxiang was elected to be an executive director of the Company.

The Company has prepared and properly kept detailed minutes for the matters being discussed in Board meetings.

Report on Corporate Governance

The directors are reminded that they shall devote sufficient time and effort to the business of the Company and that they shall abstain from voting for the approval of any proposals in which they are materially interested.

APPOINTMENT OF DIRECTORS

The directors of the Company are elected at general meetings of the Company. They, including independent non-executive directors, are appointed for a term of office of three years and are eligible for re-election upon the expiry of their terms.

During the year, the Company elected an executive director pursuant to the nomination at the extraordinary general meeting held on 10 January 2006, and the proposal was approved at the extraordinary general meeting held on 3 March 2006. Mr. Zhao Huxiang was appointed as the new executive director of the Company.

At the annual general meeting held on 29 May 2006, the Company proposed and approved the re-election of Mr. Li Jianzhang as executive director of the Company, Ms. Liu Jinghua, Mr. Jerry Hsu and Mr. Ken Torok as non-executive directors of the Company; and proposed and approved the election of Mr. Peter Landsiedel as non-executive director of the Company.

CHAIRMAN AND PRESIDENT

During the reporting period, Mr. Zhao Huxiang was the chairman of the Board and Mr. Zhang Jianwei was the President of the Company. The roles of chairman and president are performed by different individuals and each of them has different terms of reference. The Chairman is responsible for the management of the Board's operation, while the President is responsible for the business management of the Company. Details of their respective duties and responsibilities are set out in the Articles of Association of the Company.

COMMITTEES

The Board has established two committees, the Audit Committee and the Remuneration Committee, and their respective main duties are published on the Company's website. The Company has no Nomination Committee.

Audit Committee

The principal terms of reference of the Company's Audit Committee include reviewing and supervising the financial reporting system and internal control mechanism of the Company, effectively monitoring and managing the Board, ensuring that the Board is to be held accountable to the Company and the shareholders and proposing and engaging external auditors.

The Audit Committee is chaired by Mr. Sun Shuyi and its members are Mr. Lu Zhengfei and Mr. Miao Yuexin, being independent non-executive directors, and Ms. Liu Jinghua, being a non-executive director. Most of them possess professional qualifications and experience in finance.

The Audit Committee held four meetings in 2006 and had considered and reviewed the interim and annual results of the Company and reviewed the internal control system. The tasks performed in 2006 include:

1. On 24 March 2006, the Audit Committee analysed the operations in 2005 reported by the chief financial controller, listened to the report presented by the internal audit department of the Company in respect of the internal audit work in 2005 and the working plan for 2006, and discussed the candidates for external auditors of the Company in 2006. At the meeting, the Audit Committee reviewed the Report of the Directors and accounts and the final results announcement for the year ended 31 December 2005, and voted in favor of submission of the audited financial statements for 2005 to the Board for approval;

Report on Corporate Governance

25

2. On 5 July 2006, the Audit Committee held a discussion with the external auditors on the interim and annual audit plans for 2006, and discussed issues in respect of corporate governance with them; the external auditors introduced the implications on the Company of the amendments to international financial reporting standards and PRC accounting standards;
3. On 25 August 2006, the Audit Committee discussed the interim operating results of the Company, as well as certain issues discovered in the interim review.
4. On 19 December 2006, the Audit Committee discussed and communicated on certain issues of final preliminary audit of the Company.

Remuneration Committee

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies of the Company, assessing the performance of the directors and senior management of the Company and determining policies in respect to their remuneration packages, so as to ensure that none of the directors can determine his/her own remuneration packages.

The Remuneration Committee is chaired by Mr. Lu Zhengfei and its members include Mr. Sun Shuyi and Mr. Miao Yuexin, being independent non-executive directors, and Ms. Tao Suyun, being an executive director.

The Company has formed a set of standardised job evaluation system, performance management system and compensation and benefit system. Through the implementation of the compensation and benefit strategy, a set of compensation and benefit system which balances the external competition and internal fairness, and also in compliance with the development of the Company was built. Such compensation and benefit system is based on the foundation of position appreciation system, through the introduction of system of competition for position, realisation of salary for position, then finally achieved the system of the floating salary; the system of effective incentive and restriction is based on the unified performance management system. Meanwhile, the Company actively launched the compensation culture of "performance coming first" to reach the aim to attract, keep and inspire person of competency to realise the final target of the overall enhancement of personal value, corporate value and shareholders' value.

The Remuneration Committee held a meeting on 24 March 2006 to discuss the composition and level of the remuneration of the directors and senior management of the Company in 2006, and to approve the administrative measures on the performance and remuneration of the directors and senior management of the Company as well as the amendment opinions on the 2003 Share Appreciation Rights Scheme of the Company.

SUPERVISORY COMMITTEE

The Supervisory Committee comprises three members, one of whom is the independent supervisor while the other two are supervisors representing the staff and the shareholders respectively. Ms. Su Yi was re-elected as a supervisor of the Company at the annual general meeting of the Company.

The Supervisory Committee is responsible for supervising the Board and its members as well as the senior management, so as to safeguard the interests of the shareholders of the Company. On 24 March 2006, the Supervisory Committee examined the financial position and the legal compliance of the operations of the Company and conducted a review on the due diligence of the senior management through convening the sixth meeting of the Supervisory Committee and attending Board meetings, meetings of the Audit Committee and the general meetings, and undertook various duties in a proactive and diligent manner under the principle of due care and good faith.

Report on Corporate Governance

26

INTERNAL AUDIT

The internal audit department of the Company is established for the monitoring and assessment of the suitability, compliance and effectiveness of the Company's operating activities and internal control system by independent, objective, systematic and professional approaches.

The Internal Audit Department reports directly to the top management of the Company and attends all of the Audit Committee meetings.

At the first meeting of Audit Committee in 2006, the Internal Audit Department of the Company reported to the Audit Committee on the 2005 internal audit. The audit department compiled manuals on audit work and internal control to regulate the daily management of audit departments. The audit department also reported to the Audit Committee on the plans and arrangements for the project audits, internal control audits and investigations for 2006.

In 2006, the Internal Audit Department has undertaken various internal audit projects, supervised the Company's overall financial operation through the financial management information system, formulated and implemented a self-evaluation system for the Company's overall internal control, with an aim to assisting the Company to work out of the resolutions of the Audit Committee and to providing advices in its ordinary course of work.

EXTERNAL AUDITORS

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company were engaged as the Company's international and PRC auditors respectively for the year ended 31 December 2006.

For the year ended 31 December 2006, total fee for audit, audit-related and other services amounted to RMB16.95 million. Auditor remunerations for the year ended 31 December 2006 is set out in Note 10 to the financial statements.

At the annual general meeting held on 29 May 2006, the shareholders meeting approved the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the Company's international and PRC auditors respectively and authorised the Board to fix their remuneration.

There has been no change in the auditors of the Company for the past four financial years.

INTERNAL CONTROL

Through the customised internal control system, the Board oversees the Company's overall financial and operation conditions and legal compliance and manages the risks to avoid any substantial losses due to failure in internal control.

The Board has introduced various measures to ensure effective internal control:

- The Company has clearly defined the organisational structure of the Company and the duties and responsibilities for every department;
- The Company has established a series of policies, constitutions and workflow in relation to its financial management, operation and legal compliance which are to be perfected through daily supervision and persistent improvement.

Report on Corporate Governance

27

- The Company has a well organised accounting management system, which provides accurate and sufficient financial information and indicators to the management for assessing the Company's financial position and operating performance as well as disclosable financial information;
- The Company has an Internal Audit Department, which is responsible for independent examination and assessment of the Company's internal control mechanism and for providing recommendations for further improvement so as to ensure the effective implementation of the approaches and standards formulated by the Board and the management. The scope of an internal audit covers the examination of financial, operation, compliance and risk management issues of the Company and the results of which will be reported to the Audit Committee, top management of the Company and the external auditors.
- The Company carried out internal audit and external assessment on the suitability, completeness and effectiveness of its quality management system based on the ISO9001:2000 standard. The audit procedures include monitoring major projects such as financial, operation and compliance affairs based on their respective procedural documents and cover all aspects of the quality management system.

In addition, by enhancing the training for internal control, the Company provided its management and staff with a better understanding of and knowledge on risk management and the internal control system, thus further enhancing its internal control system.

GENERAL MEETINGS

The ultimate goal of the Board and senior management of the Company is to maximise shareholders' value. Under the Articles of Association of the Company, two or more shareholders whose shareholding represents more than 10% of the shares of the Company are entitled to request an extraordinary general meeting.

Any shareholder who holds 5% or above of the total number of the Company's shares conferring the right to vote is entitled to put forward new resolutions in writing to the Company.

The Company held four general meetings in 2006, including three extraordinary general meetings. The matters considered at the meetings cover reviewing and approving the Report of Directors for the year ended 31 December 2005, reviewing and approving the Report of Supervisory Committee for the year ended 31 December 2005, reviewing the accounts of the Company and auditors' report, reviewing the engagement of candidates for external and internal auditors of the Company, the declaration and payment of the interim dividends or special dividends of the Company, profit distribution proposal of the Company, election of directors of the Company, special resolutions on the general mandate to issue shares, etc. All the resolutions proposed in 2006 for shareholders' approval were passed.

The Company values highly the functions of general meetings, and therefore encourages all shareholders to attend general meetings, which can serve as a direct and effective communication channel between the Board and the investors of the Company.

Report on Corporate Governance

28

FINANCIAL CALENDAR

Announcement of 2006 final results	27 March 2007
Book close date of 2006 annual dividend	11 May 2007 to 11 June 2007
Payment of 2006 annual dividend	29 June 2007 or before
2006 annual general meeting	11 June 2007
Announcement of 2007 interim results	August 2007

The Company will publish an announcement in respect of the above dates in accordance with the relevant regulatory requirements. Should there be any changes to the above, the dates as formally notified by the Company prevail.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

In respect of any disclosable and significant event, the Company will make accurate and complete disclosure in a timely manner in the newspapers and websites as specified by the relevant supervisory authorities for information disclosure pursuant to the disclosure requirements under the Listing Rules. This is to safeguard the right to information and participation of the shareholders.

The Company places strong emphasis on its communications with investors, and considers that maintaining an on-going and open communications with investors can promote investors' understanding and confidence in the Company. The Company has set up an Investor Relations Department, which is responsible for investor relations. Management of the Company maintains close communications with investors by means of road shows, conferences and one-on-one meetings to enable them to have a better understanding of the Company's management rationale, operating environment and development strategies, thus enhancing the degree of transparency and investors' understanding of the Company.

The Company's website, www.sinotrans.com, provides information of the Company such as investor relations, corporate governance and other latest information regarding the Company in a timely manner and is updated regularly.