

# Corporate Governance Report

The Company is committed to maintaining high standards of corporate governance. The Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Listing Rules throughout the year under review, except for the deviations as stated below:

According to the Investment Management Agreement, the portfolio and day-to-day administration of the Company are handled by the Investment Manager. Except the qualified accountant whose remuneration packages are borne by the Investment Manager, the Company has no salaried employees. Thus, no remuneration committee has been established by the Company.

Further, owing to a business trip, the Chairman, Dr. Fu Yuning, has given an apology for not hosting the annual general meeting of the Company which was held on 30 May 2006.

## THE BOARD OF DIRECTORS

As at 31 December 2006, the Board consisted of five Executive Directors and five Non-executive Directors of whom three are independent as defined by the Listing Rules. The biography of the Directors are set out on pages 20 to 25 of this Annual Report.

The Company has appointed an Investment Manager to manage its investment portfolio and day-to-day management of the Company. According to the Investment Management Agreement entered into between the Company and the Investment Manager, the Investment Manager is responsible for identifying and researching prospective investments for the Company. The Board is responsible for formulating the Company's overall investment strategy and guidelines that the Investment Manager shall follow to make the investment.

For the regular Board meetings, at least 14 days' notice is given for all Directors to attend. Directors are also consulted to include matters in the agenda for every Board meeting. The Board held four meetings during the year under review. The attendance of each of the Director and Alternate Director is as follows:

	<b>Attendance/ Number of Meetings</b>
<b>Executive Directors:</b>	
Dr. FU Yuning ( <i>Chairman</i> )	0/4
Dr. HUANG Dazhan	0/4
Mr. CHU Lap Lik, Victor	0/4
Mr. XIE Kuixing	4/4
Mr. TSE Yue Kit	4/4
<b>Non-executive Directors:</b>	
Mr. WANG Xingdong	2/4
Mr. GONG Jianzhong	0/4
Mr. PHOON Siew Heng (resigned on 20 April 2006)	0/1

# Corporate Governance Report *(continued)*

## THE BOARD OF DIRECTORS *(continued)*

	<b>Attendance/ Number of Meetings</b>
<b>Independent Non-executive Directors:</b>	
Dr. The Hon. David LI Kwok-po	0/4
Mr. KUT Ying Hay	2/4
Dr. POON Kwok Lim, Steven	0/4
<b>Alternate Directors:</b>	
Ms. KAN Ka Yee, Elizabeth <i>(alternate to Mr. CHU Lap Lik, Victor)</i>	3/4
Mr. LI Kai Cheong, Samson <i>(alternate to Dr. The Hon. David LI Kwok-po)</i>	3/4
Mr. TAN Cheong Hin <i>(alternate to Mr. PHOON Siew Heng)</i> <i>(resigned on 20 April 2006)</i>	0/1
Mr. MOK Hay Hoi <i>(alternate to Dr. POON Kwok Lim, Steven)</i>	3/4

All Directors have access to the services of the Company Secretary or his assistant who regularly updates the Board on governance and regulatory matters so as to ensure that all applicable rules and regulations are followed. Any Director, any member of the Audit Committee or the Investment Committee may take independent professional advice if they so wish at the expense of the Company, as arranged by the Company Secretary.

The Board has established two committees, namely the Audit Committee and the Investment Committee, to monitor the management of the Company. The details of the Committees are as below:

### **The Audit Committee**

The Board has established an Audit Committee with specific written terms of reference which follows the guidelines set out by the Hong Kong Institute of Certified Public Accountants and the requirements of the Code. The terms of reference of the Audit Committee are available on the Company's website. All Committee members are Non-executive Directors and two of them including the Chairman are independent. The functions of the Audit Committee include but not limited to the following:

- considering and reviewing the appointment, resignation and removal of external auditors;
- considering the audit fees;
- reviewing the interim and annual results;
- reviewing internal control and risk management systems;
- discussing the potential audit issues with the auditors.

# Corporate Governance Report *(continued)*

## THE BOARD OF DIRECTORS *(continued)*

The Committee held meetings twice during the year under review. The attendance of individual members of the Audit Committee is as follows:

	<b>Attendance/ Number of Meetings</b>
<b>Directors:</b>	
Dr. The Hon. David LI Kwok-po <i>(Chairman of the Audit Committee)</i>	0/2
Mr. KUT Ying Hay	1/2
Mr. WANG Xingdong	2/2
<b>Alternate Director:</b>	
Mr. LI Kai Cheong, Samson <i>(alternate to Dr. The Hon. David LI Kwok-po)</i>	2/2

The scope of work done by the Audit Committee during the year under review includes the following:

- Reviewed and recommended the Board to approve the audit fee proposal for year 2006;
- Reviewed the interim report and the interim results announcement for the six months ended 30 June 2006;
- Reviewed the audit plan for year 2006 to assess the general scope of audit work;
- Reviewed the audited accounts and final results announcement for year 2005;
- Considered the internal control review reports prepared by the Company's auditors.

The Audit Committee has been provided with sufficient resources to discharge its duties.

### **The Investment Committee**

The Board has established an Investment Committee of seven members to approve transactions (investments or realisations) of over US\$5 million each and to supervise the day-to-day management functions of the Investment Manager.

No meetings were held during the year under review as there were no transactions submitted for its approval.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. FU Yuning is appointed as the Chairman of the Company. The functions of the Chief Executive Officer have been undertaken by the Investment Manager. The Managing Director of the Investment Manager is Mr. Xie Kuixing, who is also a Director of the Company. The roles of the Chairman and Chief Executive Officer are segregated and are not exercised by the same individual.

### NON-EXECUTIVE DIRECTORS

Non-executive Directors of the Company were not appointed for a specific term but were subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Associations of the Company. On 21 April 2005, the Board resolved to fix the terms of appointment of Non-executive Directors to a specific term of three years.

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors and relevant employees. Having made specific enquiry to all Directors, the Company confirms that all Directors have complied with the Model Code throughout the year under review.

### REMUNERATION OF DIRECTORS

The Company does not have a Remuneration Committee since the Company has no salaried employees, except the qualified accountant whose remuneration packages are borne by the Investment Manager. The remuneration of Directors is determined by the shareholders at the annual general meeting of the Company. At the annual general meeting of the Company held on 30 May 2006, it was resolved that the remuneration of the Directors for the year ending 31 December 2006 be fixed by the Board. The total remuneration payable to the Directors for the year ended 31 December 2006 is stated in note 8 to the financial statements.

### NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors. The Board will consider and assess the qualification, ability and potential contribution of candidates for directorships on the Board.

According to the Articles of Association of the Company, those Directors appointed by the Board shall hold office until the next following annual general meeting and shall then be eligible for re-election.

According to the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not three nor a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

### AUDITORS' REMUNERATION

The Company has appointed Deloitte Touche Tohmatsu as the Company's auditors. During the year under review, the fees paid or payable to the Company's auditors for audit services provided is US\$65,531.

### FINANCIAL REPORTING

The Directors acknowledge their responsibility to prepare financial statements in accordance with generally accepted accounting principles in Hong Kong for each financial year which give a true and fair view of the state of affairs of the Company and in presenting the interim results, annual financial statements, and announcement to shareholders.



## Corporate Governance Report *(continued)*

### **FINANCIAL REPORTING** *(continued)*

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements is set out in the Report of the Auditors on page 33.

### **INTERNAL CONTROL**

The Board recognises its responsibility for maintaining an adequate system of internal control for the Company. The Board has regularly reviewed the internal control policy so as to safeguard the Company's assets. In addition, the Board has appointed an independent accountancy firm to review the internal control systems of the Company on an on-going basis. The review covered all material controls, including financial, operational and compliance controls, and risk management functions. The Board has discussed and considered the review report and its recommendations. The Board also requires the Investment Manager to establish an internal control system setting out the policies and procedures on investments, securities dealing, and financial reporting. The Investment Manager is required to regularly update such policies and procedures.