

# Corporate Governance Report

## CORPORATE GOVERNANCE PRINCIPLES

The Group is committed to promoting good corporate governance, with the objectives of (i) the maintenance of responsible decision making, (ii) the improvement in transparency and disclosure of information to shareholders, (iii) the continuance of respect for the rights of shareholders and the recognition of the legitimate interests of shareholders, and (iv) the improvement in management of risk and the enhancement of performance by the Group. The Group has applied the principles in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) with these objectives in mind.

To this end, the Group has promulgated a set of Code on Corporate Governance Practices (“Company Code”) which sets out the corporate standards and practices used by the Group to direct and manage its business affairs. It is prepared by referencing to the principles, code provisions and recommended best practices as set out in the Code which came into effect on 1 January 2005. In addition to formalizing existing corporate governance principles and practices, the Company Code also serves the purpose of assimilating existing practices with benchmarks prescribed by the Code and ultimately ensuring high transparency and accountability to the Company’s shareholders.

## COMPLIANCE OF THE CODE PROVISIONS

The Company has complied with the Code with deviations from code provisions A.2.1, A.4.2, E.1.2 and A.4.1 of the Code in respect of the roles of chairman and chief executive officer, the rotation of directors, the chairman’s absence from the annual general meeting and the service term for non-executive directors.

**Code provision A.2.1** Under code provision A.2.1 of the Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual.

Mr. Ng Siu Fai and Mr. Ng Kam Wah Thomas are brothers who act as the Chairman and the Managing Director of the Company respectively. Mr. Ng Siu Fai, in addition to his duties as the Chairman of the Company, is also responsible for the strategic planning and overseeing all aspects of the Group’s operations. This constitutes a deviation from code provision A.2.1 of the Code as part of his duties overlap with those of the Managing Director, who is in practice the chief executive officer. As one of the founders of the Group, Mr. Ng Siu Fai has extensive experience and knowledge in the core businesses of the Group and his duty for overseeing all aspects of the Group’s operations is clearly beneficial to the Company. The Board also considers that this will not impair the balance of power and authority between the Board and the management of the Company.

# Corporate Governance Report

## COMPLIANCE OF THE CODE PROVISIONS *(Continued)*

**Code provision A.4.2** Under code provision A.4.2 of the Code, all directors appointed to fill casual vacancies should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Articles of Association of the Company before 26 June 2006, a Managing Director and a Director holding any other executive office shall not be subject to retirement by rotation. This constitutes a deviation from code provision A.4.2 of the Code. The Board reviewed the Articles of Association and proposed amendments to the Articles of Association at the annual general meeting of the Company so as to provide that all Directors other than the Chairman and the Managing Director shall be subject to retirement by rotation, and such amendments were duly passed by the shareholders of the Company at the annual general meeting of the Company held on 26 June 2006. The Board is of the view that the leadership of the Chairman and the Managing Director is vital to the Group's business continuity and stability, and there should be planned and orderly succession for these offices. Any Director holding the office as the Chairman or the Managing Director should therefore be exempted from the retirement by rotation and re-election at the Company's annual general meeting.

**Code provision E.1.2** Under code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting.

Due to personal reason, the Chairman did not attend the annual general meeting of the Company held on 26 June 2006, and the said meeting was chaired by the Managing Director.

**Code provision A.4.1** Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election.

The Non-executive Directors of the Company are not appointed for specific terms. This constitutes a deviation from code provision A.4.1 of the Code. After the approval of the amendments to the Articles of Association of the Company by shareholders of the Company at the annual general meeting of the Company held on 26 June 2006, all Directors, other than the Chairman and the Managing Director (who are ordinarily executive directors), of the Company will be subject to retirement provisions. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less than those in the Code.

## BOARD COMPOSITION

The Board is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to the Chairman, the Managing Director and the management.

# Corporate Governance Report

## BOARD COMPOSITION *(Continued)*

The Board comprises a total of seven Directors, with four Executive Directors, Mr. Ng Siu Fai (Chairman), Mr. Ng Kam Wah Thomas (Managing Director), Mr. Ng Ki Hung Frankie and Ms. Ho Suk Lin; and three Independent Non-executive Directors, Mr. Cui Jianhua, Mr. Tsui Che Yin Frank and Mr. William Yau. Details of the Directors and the relationships (including financial, business, family or other material or relevant relationships) among members of the Board are disclosed on pages 24 and 25.

The Board meets at least four times each year at approximately quarterly intervals. All Directors are given the opportunity to put items on the agenda for regular Board meetings. All Directors have access to the Company Secretary to ensure that all Board procedures and rules and regulations are followed. Full minutes of Board meetings are kept by the Company Secretary and are available for inspection on reasonable notice. Any Director may, in furtherance of his/her duties, take independent professional advice where necessary at the expense of the Company.

Save as disclosed herein, the roles of the Chairman and the Managing Director are separate to ensure a clear division between the Chairman's responsibility to manage the Board and the Managing Director's responsibility to manage the Group's business. The separation ensures a balance of power and authority so that power is not concentrated in any one individual. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and all Directors receive adequate, complete and reliable information.

During the year, the Board has at all times complied with the Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors and one of the Independent Non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise. Each of the Independent Non-executive Director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry by the Company, all the Directors confirmed that they had complied with the required standard as set out therein throughout 2006.

# Corporate Governance Report

## BOARD OPERATION

The Board meets regularly over the Company's affairs and operations. In 2006, the Board held 41 meetings. The attendance record of each member of the Board is set out below:

<b>Executive Directors</b>	<b>Attendance</b>
Ng Siu Fai, <i>Chairman</i>	40
Ng Kam Wah Thomas, <i>Managing Director</i>	41
Ng Ki Hung Frankie	37
Ho Suk Lin	41
 <b>Independent Non-executive Directors</b>	
Cui Jianhua	8
Tsui Che Yin Frank	7
William Yau	8

## REMUNERATION COMMITTEE

The Remuneration Committee was established on 25 August 2005, comprising three Independent Non-executive Directors, Mr. Cui Jianhua (Chairman), Mr. Tsui Che Yin Frank and Mr. William Yau. The role and function of the Remuneration Committee included the determination of the specific remuneration packages of all Executive Directors and senior management, including salaries, bonuses, benefits in kind, pension rights and compensation payments, and make recommendations to the Board on the remuneration of Non-executive Directors. The Remuneration Committee should consider factors such as the performance of Directors and senior management, the profitability of the Group, 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. The Remuneration Committee has to ensure that the Group is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Group. The Remuneration Committee shall meet at least once a year.

One meeting was held in 2006 and all the committee members were present at the meeting. The Remuneration Committee also held a meeting on 19 April 2007 to consider and approve the directors' fees and other emoluments of the senior management including the Directors. Details of the emoluments of the Directors are set out in note 9 to the financial statements.

# Corporate Governance Report

## AUDIT COMMITTEE

The Audit Committee was established on 22 September 1998, currently comprises three Independent Non-executive Directors, Mr. Tsui Che Yin Frank (Chairman), Mr. Cui Jianhua and Mr. William Yau. The primary duties of the Audit Committee include the review of the Group's financial reporting, the nature and scope of audit review as well as the effectiveness of the system of internal control and compliance. The Audit Committee is also responsible for making recommendation in relation to the appointment, re-appointment and removal of the external auditors, and reviews and monitors the external auditors' independence and objectivity. In addition, the Audit Committee discusses matters raised by the external auditors and regulatory bodies to ensure that appropriate recommendations are implemented. The Audit Committee shall meet at least twice a year.

The Audit Committee held two meetings in 2006. The Audit Committee has reviewed with the management, the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the Company's interim and annual financial statements before submission to the Board. The Group's financial statements for the year ended 31 December 2006 have been reviewed by the Audit Committee, which is of the opinion that such statements comply with applicable accounting standards and legal requirements, and that adequate disclosures have been made.

## INTERNAL CONTROLS

The internal control and accounting systems of the Group are designed to provide reasonable assurance that assets are safeguarded against unauthorized use or disposition, transactions are executed in accordance with management's authorization and the accounting records are reliable for preparing financial information used within the business for publication and maintaining accountability for assets and liabilities.

The Company has conducted an annual review during the year of the effectiveness of the Group's internal control system over all material controls including financial, operational and compliance controls and risk management functions. The Board considers that the Company has complied with the requirements under the Listing Rules regarding the internal controls, and will continue to review, revise and strengthen its internal controls from time to time so that practical and effective systems are implemented.

# Corporate Governance Report

## AUDITORS' REMUNERATION

During the year under review, the performance of the external auditors of the Company has been reviewed and it is proposed to re-appoint the external auditors in the forthcoming annual general meeting. Other non-audit related services were also provided by the Group's external auditors during the year. In 2006, the remuneration paid and payable to the external auditors of the Company, Messrs. Moores Rowland Mazars, for the provision of the Group's audit service and other non-audit related services which comprise the review engagements of internal control procedures and various circulars issued during the year were HK\$1,308,000 and HK\$1,232,000 respectively.

## ACCOUNTABILITY AND AUDIT

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 35.

## COMMUNICATIONS WITH SHAREHOLDERS

The Board endeavours to maintain an on-going dialogue with shareholders and, in particular, through annual general meetings or other general meetings to communicate with shareholders and encourage their participation. Shareholders of the Company are entitled to attend shareholders' meeting in person or by proxy. The Company will inform the shareholders of the procedures for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the Articles of Association.

In order to further promote effective communication, the Company maintains a website ([www.jinhuiship.com](http://www.jinhuiship.com)) to disseminate shareholder information electronically on a timely basis.