

# Report of the Directors

The Directors have pleasure in presenting their report together with audited consolidated financial statements of the Group for the year ended 31 December 2006.

## *The Listing*

The Company was converted into a joint stock company with limited liability on 11 January 2006 with Jin Jiang International and Shanghai Jin Jiang International Investment & Management Company Limited (formerly known as “Huating Group”) as its promoters. The Company issued 3,300,000,000 domestic shares to the promoters upon the conversion. On 15 December 2006, the H Shares were successfully listed on the Main Board. Under the global offering, the Company in total issued 1,265,000,000 H Shares at a cash consideration of HK\$2.2 per share.

## *Principal Activities*

The Group is principally engaged in Star-rated hotel operation and management, budget hotel operation and franchising, restaurant operation and other businesses. The Group is structured as a horizontally integrated hospitality services provider, offering hospitality services tailored to all segments ranging from budget accommodation to 5-star hotels. This structure enables the Group to enjoy economies of scale and scope as well as providing the Group with a platform to increase its market presence.

## *Operational Review*

Management discussion and analysis on operation are set out on pages 42 to 51 of this report.

## *Financial Review*

The results of the Group for the year ended 31 December 2006 are set in the consolidated income statement on page 60 of this report. Management discussion and analysis on financial information are set out on pages 45 to 49 of this report. A financial summary of the Group for the years ended 31 December 2003, 2004, 2005 and 2006 is set out on page 52 of this report.

## *Share Capital*

The number of shares in each class of shares of the Company as at 31 December 2006 is set out as follows:

| <b>Class of shares</b>  | <b>Number of<br/>shares in issue<br/>('000)</b> | <b>Percentage</b> |
|---|---|-------------------|
| Domestic shares   | 3,173,500                                       | 69.52             |
| Including:  |   |                   |
| Jin Jiang International   | 3,014,825                                       | 66.04             |
| Shanghai Jin Jiang International Investment & Management Company Limited<br>(formerly known as “Huating Group”) | 158,675   | 3.48              |
| H shares  | 1,391,500                                       | 30.48             |
| Total   | 4,565,000                                       | 100.00            |

# Report of the Directors

## ***Use of Proceeds from the Company's Initial Public Offering***

The Company was successfully listed on the Main Board on 15 December 2006 and raised a net amount (after issuing expenses) of approximately RMB2,676.1 million under the global offering.

According to the plan described in the Prospectus, the proceeds were or will be applied as follows:

- In March 2007, approximately HK\$1,091.6 million (approximately RMB1,098.2 million) was injected into Jin Jiang International Hotel Investment pursuant to a capital increase arrangement between the Company and Jin Jiang Hotels Development on a pro rata basis, for the development and expansion of the Jin Jiang Inn Budget Hotels network (*Note*).
- Approximately HK\$703.9 million (approximately RMB725.0 million) is to be used for the refurbishment of the Landmark Hotels and Luxury Hotels. Please refer to the section headed "Projects under Developments, Acquisition and Redeployment of Assets" on pages 49 to 50 of this annual report. Apart from Peace Hotel and Jin Jiang Tower, the Company also has planned to refurbish Jin Jiang Hotel, Rainbow Hotel and Cypress Hotel, etc.
- Approximately HK\$802.5 million (approximately RMB852.9 million) has been planned for the repayment of a portion of the Group's bank borrowings. As at the date of this report, RMB800.0 million was used for such repayment.

*Note:* Jin Jiang International Hotel Investment's cash balance as at 31 March 2007 amounted to RMB963,260,000, including the balance of proceeds from the share issue amounting to RMB899,280,000, with a deposit interest rate of 1.44% per annum. The balance of bank borrowings amounted to RMB340,000,000, subject to an loan interest rate of 5.832% per annum. Such borrowings had been applied for the development and expansion of Jin Jiang Inn Budget Hotels network.

In view of a spread of 4.392% between the deposit interest rate and loan interest rate, Jin Jiang International Hotel Investment intends to utilise a portion of the share issue proceeds to make an advanced loan repayment of RMB340,000,000, being RMB158.6 million from external financial institutions and RMB181.4 million from internal finance company, with a view to saving funding costs and maximizing shareholders' interest. Jin Jiang International Hotel Investment will raise RMB340,000,000 through re-financing for the expansion of the Jin Jiang Inn Budget Hotel network after the balance of its share issue proceeds has been fully utilized.

As at 31 December 2006, about of RMB53.9 million out of the proceeds from the issue of shares had been applied to the development and expansion of the Jin Jiang Inn Budget Hotels network. Besides, about RMB1.98 million had been spent on the renovation and upgrade of Jin Jiang Tower.

## ***Independent Non-Executive Directors***

Pursuant to the Listing Rules, each independent non-executive Director of the Company has re-affirmed his independence with the Company. Based on their confirmation, the Company considered that they are independent.

## ***Dividends***

A final dividend in respect of the year ended 31 December 2006 of RMB2.6 cents per share, amounting to a total dividend of RMB118,690,000 is proposed by the Board at the Board meeting held on 20 April 2007. Subject to the approval by shareholders of the Company in the forthcoming annual general meeting, the proposed dividend will be payable on or about 29 June 2007 to shareholders whose names appear on the register of members on 16 May 2007. The register of members of the Company will be closed from 16 May 2007 to 14 June 2007, both days inclusive.

The Board does not foresee that any shareholder would agree to waive future dividends.

## ***Purchase, Redemption or Sale of Listed Securities***

During the financial year of 2006, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of its listed securities.



# Report of the Directors

## **Principal Subsidiaries**

The details of the principal subsidiaries of the Company are set out on pages 131 to 133.

## **Reserves**

The Company has a Group reserve of RMB1,576.3 million as at 31 December 2006, of which RMB138.2 million was retained earnings that is set out in Note 21 to the Consolidated Financial Statements on page 104.

## **Distributable Reserves**

According to the articles of association of the Company (the “Articles of Association”), distributable reserves are based on the profits of the Company prepared according to the PRC Accounting Standards and the Hong Kong Financial Reporting Standards (“HKFRS”), whichever is the lower.

According to the PRC Company Law, after transferring appropriate amount into the statutory surplus reserve fund, profit after tax can be distributed as dividend.

As at 31 December 2006, in accordance with the PRC Accounting Standards, relevant Laws of the PRC and the articles of association, the distributable reserves of the Company amounted to RMB289.1 million, in which about RMB118.7 million was proposed to be the final dividend of the year.

## **Donations**

For the year ended 31 December 2006, the Group made charitable and other donations in a total amount of HK\$1.0 million.

## **Fixed Assets**

The Group held equity interests in 122 hotels as at 31 December 2006. Properties of the Group have already been revalued by American Appraisal China Limited during initial public offering in December 2006 but were nevertheless stated at historical cost less accumulated depreciation and accumulated impairment losses, if any, in the balance sheet.

## **Borrowings**

The details of short and long term borrowings are set out in Note 23 to the Consolidated Financial Statements on pages 108 to 111.

## **Major Customers and Suppliers**

The Group's customers mainly comprise Franchisees, travel agencies, corporate customers and guests at its hotels. For the year ended 31 December 2006, the Group's five largest customers in aggregate accounted for less than 30% of the Group's total sales. Pursuant to the Group's franchise agreements with its Franchisees, no credit term is granted to the Franchisee and the Group's Franchisee is required to pay the continuing franchise fee on or before the 10th day of every month. The Franchisee is obliged to pay a certain percentage of the amount payable in case of a default in payment.

The Group's suppliers mainly comprise vendors who supply the Group's hotel operations with hotel supplies such as food and beverages, as well as bath products. For the year ended 31 December 2006, the Group's five largest suppliers in aggregate accounted for less than 30% of the Group's total purchases. Generally, the credit term provided by the Group's suppliers is about two to six months.

None of the Directors, their associates or any shareholder (who to the knowledge of the Directors own more than 5% of the Company's issued share capital ) had an interest in the major suppliers or customers noted above.

# Report of the Directors

## Connected Transactions

The Stock Exchange has granted a waiver (the “**Waiver**”) to the Company for a period of three years ending on 31 December 2008 from strict compliance with the requirements of disclosure by way of press notices (in respect of the continuing connected transactions as set out on pages 176, 177 and 183 of the Prospectus as stipulated in Chapter 14A of the Listing Rules in connection with those continuing connected transactions.

The following table sets out the relevant annual caps granted by the Stock Exchange and the actual annual figures for the year ended 31 December 2006 in relation to those continuing connected transactions under the Waiver. Terms used in the following tables shall have the same meanings as defined in the Prospectus, unless the context requires otherwise.

|  |   |  | Actual figure for<br>the year ended<br>31 December<br>2006 |             |
|--|---|--|--|-------------|
| Title  | Products and Services<br>providers  | Type of Products and<br>Services   | Annual Cap<br>RMB million                                  | RMB million |
| <i>Expenditure item:</i>   |   |  |  |             |
| 1) Properties leased to the Group                                    | Jin Jiang International and certain of its associates                       | Lease of certain properties  | 9  | 5.9         |
| 2) Master Food and Beverage Services and Provision of Food Agreement | By Jin Jiang International and its subsidiaries and associates to the Group | <ul style="list-style-type: none"><li>• provision of food;</li><li>• provision of food and beverage services; and</li><li>• other related or ancillary goods and services.</li></ul> | 35   | 28.3        |
| <i>Revenue item:</i>   |   |  |  |             |
| 2) Master Provision of Hotel Rooms Agreement                         | By the Group to Jin Jiang International and its subsidiaries and associates | <ul style="list-style-type: none"><li>• provision of hotel rooms; and</li><li>• other related or ancillary goods and services.</li></ul>   | 43   | 31.8        |

The independent non-executive Directors, Mr. Ji Gang, Mr. Xia Dawei, Mr. Sun Dajian, Mr. Rui Mingjie, Mr. Yang Menghua, Mr. Tu Qiyu, Mr. Shen Chengxiang and Mr. Lee Chung Bo, have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

- (1) in the ordinary and usual course of business of the Company;
- (2) on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.



# Report of the Directors

The international auditor of the Company has performed certain agreed-upon procedures on such transactions and has provided a letter to the Directors stating that:

1. the transactions had been approved by the Directors;
2. the pricing of the transactions involving provisions of services by the Group was in accordance with the pricing policies of the Group, based on the samples of transactions selected and checked by the auditor;
3. the transactions were entered into in accordance with the relevant agreements governing such transactions, based on the samples of transactions selected and checked by the auditor; and
4. such transactions did not exceed the relevant annual caps as disclosed in the Prospectus.

## ***Directors, Supervisors and Senior Management***

Biographical details of the Directors, Supervisors and Senior Management as at 31 December 2006 are set out on pages 12 to 21.

## ***Interests in Shares of Directors, Chief Executive and Supervisors***

As at 31 December 2006, none of the Directors, chief executive of the Company or Supervisors had any interest or short positions in the shares, underlying shares or debentures of the Company which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) (including interests and short positions which he or she is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”), which shall be deemed to apply to the Supervisors to the same extent as it applies to the Directors.

# Report of the Directors

## Interests in Shares or Underlying Shares or Debentures of Associated Corporations

As at 31 December 2006, three Directors, namely Mr. Xu Zurong, Mr. Yang Weimin and Mr. Chen Hao held the following equity interests in Jin Jiang Inn:

| Name        | Equity interest in Jin Jiang Inn | Nature of interests | Capacity         | Percentage in total registered capital of Jin Jiang Inn |
|-------------|----------------------------------|---------------------|------------------|---|
| Xu Zurong   | 2,594,600 (Note 1)               | Long Position       | Beneficial owner | 1.4438% (Note 1)  |
|             | 2,594,600 (Note 2)               | Short Position      | Beneficial owner | 1.4438% (Note 2)  |
| Yang Weimin | 1,729,730 (Note 1)               | Long Position       | Beneficial owner | 0.9625% (Note 1)  |
|             | 1,729,730 (Note 2)               | Short Position      | Beneficial owner | 0.9625% (Note 2)  |
| Chen Hao    | 1,729,730 (Note 1)               | Long Position       | Beneficial owner | 0.9625% (Note 1)  |
|             | 1,729,730 (Note 2)               | Short Position      | Beneficial owner | 0.9625% (Note 2)  |

Notes:

- These figures represent the respective equity interest in Jin Jiang Inn of these Directors. In addition, under the Jin Jiang Inn Shareholders' Agreement (as defined in the Prospectus), in the event new equity interest is issued by Jin Jiang Inn, each of these Directors has been granted pre-emptive rights over such new equity interest in proportion to his respective equity interest in Jin Jiang Inn. Please refer to the section headed "Connected Transactions — Jin Jiang Inn Shareholders' Agreement" in the Prospectus for more information.
- Under the Jin Jiang Inn Shareholder's Agreement, each of these Directors has granted to (a) the Company rights of first refusal to purchase his respective equity interest in Jin Jiang Inn if he intends to transfer his said equity interest; and (b) the Company (or a third party designated by the Company) buy back rights to purchase his equity interest in Jin Jiang Inn after the occurrence of certain events. Under the articles of association of Jin Jiang Inn, the Company and Jin Jiang Hotels Development have also been granted certain rights of first refusal over the equity interests held by these Directors in Jin Jiang Inn if they intend to transfer their said respective equity interests. Please refer to the section headed "Connected Transactions — Jin Jiang Inn Shareholders' Agreement" in the Prospectus for more information.

As at 31 December 2006, Mr. Yu Minliang, the Chairman and executive Director, held the following number of shares in Jin Jiang Hotels Development:

| Name        | No. of shares held in Jin Jiang Hotels Development | Nature of interests | Capacity         | Percentage in total share capital of Jin Jiang Hotels Development |
|-------------|--|---------------------|------------------|---|
| Yu Minliang | 14,305   | Long Position       | Beneficial owner | 0.0024%   |

Save as disclosed above, as at 31 December 2006, none of the Directors, chief executive of the Company or Supervisors had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Directors, chief executive of the Company and Supervisors were taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code (which shall be deemed to apply to the Supervisors to the same extent as it applies to the Directors).



# Report of the Directors

## Substantial Shareholders' Interests

### (a) Substantial shareholders' Interest in shares or underlying shares of the Company

As at 31 December 2006, so far as was known to the Directors, the following persons (other than a Director, chief executive of the Company or Supervisor) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name of shareholder   | Class of shares | Number of<br>shares/underlying<br>shares held | Capacity   | Percentage in the<br>relevant class of<br>share capital | Percentage in total<br>share capital |
|---|-----------------|---|--|---|--------------------------------------|
| Jin Jiang International                                     | Domestic shares | 3,173,500,000                                 | Beneficial owner<br>and controlled<br>corporation (Note 1) | 100%  | 69.52%                               |
| 全國社會保障基金理事會   | H shares        | 110,156,000                                   | Beneficial owner   | 7.92%   | 2.41%                                |
| JJ Co-Invest Holdings Limited                               | H shares        | 106,170,000                                   | Beneficial owner (Note 2)                                  | 7.63%   | 2.33%                                |
| Hotel JJ Holdings Limited                                   | H shares        | 106,170,000                                   | Controlled corporation<br>(Note 2)                         | 7.63%   | 2.33%                                |
| SCG Hotel Management, L.L.C.                                | H shares        | 106,170,000                                   | Controlled corporation<br>(Note 2)                         | 7.63%   | 2.33%                                |
| Starwood Capital Group Global, L.L.C.                       | H shares        | 106,170,000                                   | Controlled corporation<br>(Note 2)                         | 7.63%   | 2.33%                                |
| Barry S. Sternlicht   | H shares        | 106,170,000                                   | Controlled corporation<br>(Note 2)                         | 7.63%   | 2.33%                                |
| 中央滙金投資有限責任公司<br>(Central SAFE Investments Limited) ("CSIL") | H shares        | 70,780,000                                    | Controlled corporation<br>(Note 3)                         | 5.09%   | 1.55%                                |
| Li Kwok Po, David   | H shares        | 70,780,000                                    | Controlled corporation                                     | 5.09%   | 1.55%                                |
| South Valley Holdings Limited                               | H shares        | 70,780,000                                    | Beneficial owner   | 5.09%   | 1.55%                                |

Notes:

- (1) According to the form filed by Jin Jiang International, 3,014,825,000 domestic shares are beneficially held by it and 158,675,000 domestic shares are held through a controlled corporation.
- (2) The Company has been informed that: (i) JJ Co-Invest Holdings Limited is ultimately 100% owned by investment funds, which are controlled by Starwood Capital Group Global, L.L.C., which is in turn controlled by Mr. Barry S. Sternlicht; (ii) JJ Co-Invest Holdings Limited is a non wholly owned subsidiary of Hotel JJ Holdings Limited, which is owned by certain of such Starwood Capital investment funds of which SCG Hotel Management, L.L.C. is general partner; and (iii) SCG Hotel Management, L.L.C. is controlled by Starwood Capital Group Global, L.L.C., which is in turn controlled by Mr. Barry S. Sternlicht.
- (3) According to the form filed by CSIL, these H Shares are directly held by Will Rich Investments Ltd.

Save as disclosed above and so far as the Directors are aware, as at 31 December 2006, no other person had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10 per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

# Report of the Directors

## (b) Substantial Shareholders' interests in shares/underlying shares of other members of the Group

As at 31 December 2006, so far as the Directors are aware, each of the following persons, not being a Director, chief executive of the Company or Supervisor, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

| Name of subsidiary  | Name of shareholder  | Percentage of shareholding |
|---|--|----------------------------|
| 1 上海錦花旅館有限公司<br>(Shanghai Jinhua Hotel Co., Ltd.)                                     | 上海花木經濟發展總公司<br>(Shanghai Huamu Economic Development Company Limited)                   | 20%                        |
| 2 揚州錦揚旅館有限公司<br>(Yangzhou Jinyang Hotel Co., Ltd.)                                    | 揚州市雙橋鄉農工商總公司<br>(Yangzhou Shuangqiao Town NGS Co., Ltd.)                               | 25%                        |
| 3 上海錦海旅館有限公司<br>(Shanghai Jinhai Hotel Co., Ltd.)                                     | 閔行區商業建設公司<br>(Minhang Commercial Construction Co., Ltd.)                               | 30%                        |
| 4 蘇州新區錦獅旅館有限公司<br>(Suzhou New Area Jinshi Hotel Co., Ltd.)                            | 蘇州新區獅山農工商總公司<br>(Suzhou Shishan Industry & Commercial Co., Ltd.)                       | 40%                        |
| 5 南京錦綉旅館有限公司<br>(Nanjing Jinxu Hotel Co., Ltd.)                                       | 上海浦東新區合慶綉品服裝（集團）有限公司<br>(Shanghai Pudong Heqing Embroidery Clothing (Group) Co., Ltd.) | 40%                        |
| 6 上海新苑賓館<br>(Shanghai New Garden Hotel)   | 上海鑫達實業總公司<br>(Shanghai Xinda Industrial Co., Ltd.)                                     | 43%                        |
| 7 上海海侖賓館有限公司<br>(Sofitel Hyland Shanghai)   | 上海國際集團投資管理有限公司<br>(SIG Investment Management Co., Ltd.)                                | 33.33%                     |
| 8 上海建國賓館<br>(Jian Guo Hotel)  | 上海國際集團投資管理有限公司<br>(SIG Investment Management Co., Ltd.)                                | 35%                        |
| 9 上海錦江飯店發展有限公司<br>(Shanghai Jin Jiang Hotels Development Co., Ltd.)                   | 上海錦江飯店實業有限公司<br>(Shanghai Jin Jiang Hotel Industries Company Limited)                  | 10%                        |
| 10 北京錦江北方物業管理有限公司<br>(Beijing Jin Jiang Northern Property Management Company Limited) | 北京市崑崙經貿公司<br>(Beijing Kun Lun Economy & Trade Company Limited)                         | 20%                        |
| 11 澳大利亞新亞大包快餐（連鎖）有限公司<br>(New Asia Chains of Snack (Australia) PTY. Ltd.)             | 英華進出口有限公司<br>(Ying Hua Import & Export Pty Limited)                                    | 45%                        |
| 12 上海錦江同樂餐飲管理有限公司<br>(Shanghai Jin Jiang Tung Lok Catering Management Inc.)           | 新加坡同樂（中國）控股有限公司<br>(Tung Lok (China) Holdings Pte. Ltd)                                | 49%                        |
| 13 上海九龍賓館有限公司<br>(Shanghai Jiu Long Hotel Company Limited)                            | 上海綠地商業（集團）有限公司<br>(Shanghai Greenland Business Group Co., Ltd.)                        | 45%                        |

Save as disclosed above and so far as the Directors are aware, as at 31 December 2006, no other person, not being a Director, chief executive of the Company or a Supervisor, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.



# Report of the Directors

## ***Directors' and Supervisors' Interests in Contracts***

No contracts of significance (as defined in Appendix 16 to the Listing Rules) in which a Director or a Supervisor is or was materially interested, directly or indirectly, subsisted at the end of the year or at any time during year 2006.

No contracts of significance in relation to the Company's business in which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director or a Supervisor is or was materially interested, directly or indirectly, subsisted at the end of year 2006 or at any time during year 2006.

No contracts or proposed contracts with the Company in which a Director or a Supervisor is or was materially interested in any way, directly or indirectly, subsisted at the end of the year or at any time during year 2006.

## ***Directors' and Supervisors' Service Contracts***

Each of the Directors and Supervisors has entered into a service contract with the Company for a term expiring upon the conclusion of the annual general meeting of the Company to be held in 2009.

Commencement dates of the term of the non-executive Director and each independent non-executive Director are as follows.

| <b>Name</b>         | <b>Title</b>                       | <b>Commencement Date</b> |
|---------------------|------------------------------------|--------------------------|
| Mr. Shen Maoxing    | Non-executive Director             | 1 January 2006           |
| Mr. Ji Gang         | Independent non-executive Director | 20 November 2006         |
| Mr. Xia Dawei       | Independent non-executive Director | 20 November 2006         |
| Mr. Sun Dajian      | Independent non-executive Director | 20 November 2006         |
| Mr. Rui Mingjie     | Independent non-executive Director | 20 November 2006         |
| Mr. Yang Menghua    | Independent non-executive Director | 20 November 2006         |
| Mr. Tu Qiyu         | Independent non-executive Director | 20 November 2006         |
| Mr. Shen Chengxiang | Independent non-executive Director | 20 November 2006         |
| Mr. Lee Chung Bo    | Independent non-executive Director | 20 November 2006         |

The Company did not enter into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) with any Director or Supervisor.

## ***Emolument Policy of the Group***

The emolument for the Group's staff is comprised of basic salary, social security contribution and discretionary bonus, which is based on the performance of the Group.

The compensation of Directors and Supervisors, and the five highest paid individuals and information regarding pension scheme have been stated in Note 27 to the Consolidated Financial Statements from pages 113 to 116. The Group has adopted the social security system of the PRC government that comprises retirement fund, housing fund and medical insurance. On retirement funds, the employer contribution and employee contribution in Shanghai is currently 22.5% and 7% respectively.

The Company shall determine the remuneration of the Directors on the basis of their qualifications, experience and contributions.

# Report of the Directors

## ***Executive Directors, Non-Executive Director, Independent Non-Executive Directors, Supervisors***

Directors and Supervisors as at 31 December 2006 were as follows:

### ***Executive Directors***

Mr. Yu Minliang (*Chairman*)

Ms. Chen Wenjun

Mr. Yang Weimin (*CEO*)

Mr. Chen Hao

Mr. Yuan Gongyao

Mr. Xu Zurong

Mr. Han Min

Mr. Kang Ming

### ***Non-Executive Director***

Mr. Shen Maoxing (*Vice Chairman*)

### ***Independent Non-Executive Directors***

Mr. Ji Gang

Mr. Xia Dawei

Mr. Sun Dajian

Mr. Rui Mingjie

Mr. Yang Menghua

Mr. Tu Qiyu

Mr. Shen Chengxiang

Mr. Lee Chung Bo

### ***Supervisors***

Mr. Wang Xingze

Mr. Wang Guoxing

Mr. Ma Mingju

Ms. Chen Junjin

Ms. Jiang Ping

Mr. Zhou Qiquan

Detailed biographies of the Directors and the Supervisors are set out on pages 12 to 19.

## ***Pension Schemes***

In accordance with relevant PRC laws and regulations, full time employees of the Group are enrolled in various defined contribution pension schemes established by relevant provincial or municipal governments. During 2006, the Group and its employees made contributions to the plans at a certain percentage of the wages of the employees in accordance with the aforesaid pension schemes.

## ***Audit Committee***

The Company has established an audit committee, the principal duty of which to review the financial controls, internal controls and risk management system of the Company. The audit committee comprises three independent non-executive Directors, namely, Mr. Xia Dawei (chairman), Mr. Sun Dajian and Mr. Yang Menghua.



# Report of the Directors

## **Remuneration Committee**

The Company has established a remuneration committee, the principal duty of which is to make recommendations to the Board in respect of the remuneration policy and structure formulated by the Company for the Directors and the senior management. The remuneration committee comprises a chairman, Mr. Chen Hao, and two independent non-executive Directors, Mr. Ji Gang, and Mr. Yang Menghua.

## **Public Float**

At least 25% of the Company's total issued share capital was held by the public as at the latest practicable date prior to the issue of this report, based on information available to the Company and within the knowledge of the Directors.

## **Non-Executive Director**

There is only one non-executive Director, who is Mr. Shen Maoxing and his biography is stated in the section under 'Directors, Supervisors and Senior Management' of this annual report. Apart from being a vice chairman, chief operation officer and executive president of Jin Jiang International, chairman of Jin Jiang Investment, vice chairman of Eastern Jin Jiang, chairman of Jin Jiang International Group (HK) Co., Ltd. and chairman of Shanghai Jin Jiang Kirin Beverages and Foods Company Limited, he is now the vice chairman of Jin Jiang Hotels Development and the director and chairman of Chengdu Jin He Real Estate Development Co., Ltd.

## **Independence Confirmation**

All independent non-executive Directors, namely Mr. Ji Gang, Mr. Xia Dawei, Mr. Sun Dajian, Mr. Rui Mingjie, Mr. Yang Menghua, Mr. Tu Qiyu, Mr. Shen Chengxiang and Mr. Lee Chung Bo, have provided the Company with confirmation as to their independence pursuant to Rule 3.13 of the Listing Rules. Based on such confirmation, the Company considers all independent non-executive Directors to be independent.

## **Management Contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during year 2006.

## **Pre-emptive Rights**

Under the articles of association and the laws of the PRC, no pre-emptive rights exist which require the Company to offer new shares to its existing shareholders in proportion to their shareholding.

## **Tax Relief and Exemption**

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

## **International Auditor**

The consolidated financial statements of the Company prepared in accordance with HKFRS have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By order of the Board

**Yu Minliang**

*Chairman of the Board*

20 April 2007