

# Corporate Governance Report



All members  
of the Board

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The Board recognises their mission of creating values and maximising returns to the Shareholders, while at the same time fulfilling their corporate responsibilities. To this end, the Board strives to promote and uphold a high standard of corporate governance. During 2006, the Company complied with all the principles and provisions and most of the recommended best practices set out in the Code on Corporate Governance Practices ("Corporate Governance Code") of the Listing Rules. The corporate governance practices adopted by the Company are summarised below.

## BOARD OF DIRECTORS

Accountable to the Shareholders, the Board of Directors has the responsibility for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

### The Directors

As at the date of this report, the Board consists of the following eight Directors:

#### **Executive Directors**

Mr. Li Ning (*Chairman*)

Mr. Zhang Zhi Yong (*Chief Executive Officer*)

Mr. Tan Wee Seng (*Chief Financial Officer*)

#### **Non-executive Directors**

Mr. Lim Meng Ann

Mr. Stuart Schonberger

#### **Independent non-executive Directors**

Mr. Koo Fook Sun, Louis

Ms. Wang Ya Fei, Jane

Mr. Chan Chung Bun, Bunny

Mr. Fong Ching, Eddy, a former non-executive Director of the Company, resigned on 20 October 2006 due to his appointment as chairman of the Securities and Futures Commission of Hong Kong.

Biographical details of the Directors are set out on pages 48 to 51 of this annual report. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board. The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and development of the Group. All Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group.

To ensure a balance of power and authority, the role of the Chairman and the Chief Executive Officer is segregated. There is a clear distinction between the Chairman's responsibility for the management of the Board and the Chief Executive Officer's responsibility for the management of the day-to-day operations of the Group's business.

Each of the non-executive and independent non-executive Directors has entered into a service contract with the Company for a term of three years commenced on 28 June 2004. Each of them has agreed with the Company to enter into a new service contract for a further term of three years commencing from 28 June 2007 on terms and conditions to be mutually agreed. The incumbent non-executive and independent non-executive Directors have extensive professional experience and all have participated in the meetings of the Board and related specialised committees in a highly conscientious and responsible manner. They have played an important check-and-balance role to safeguard the interests of the Company and the Shareholders as a whole.

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The Company has received from each of the independent non-executive Directors an annual confirmation of his or her independence as required under the Listing Rules. The Company considers all independent non-executive Directors to be independent.

All Directors should be subject to retirement by rotation at least once every three years and are eligible for re-election. A new Director appointed by the Board is subject to election by Shareholders at the general meeting immediately after his or her appointment.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and officers with the extent of the insurance being reviewed each year.

### **Responsibilities of the Board**

The Board of Directors is collectively responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies. The Board reviews the performance of the operating divisions against their agreed targets and budgets on a regular basis and also exercises a number of reserved powers, including:

- formulating long-term strategies;
- approving the strategic, operational and financial plans;
- approving financial statements and public announcements;
- setting the dividend policy;
- approving financial and treasury policies; and
- committing to major acquisitions, disposal, formation of joint ventures and capital transactions.

### Responsibilities for Accounts

The Directors are responsible for the preparation of the financial accounts of the Company for each financial year and ensuring that these accounts give a true and fair view of the state of affairs of the Group, its results and cash flows for that period. The Directors are also responsible for ensuring that proper accounting records of the Company which disclose the financial position of the Group are kept at all times.

### Board Meetings

The Board meets at least four times a year. Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors. The meeting agenda is set after consulting with members of the Board. The Board held four meetings in 2006 and attendance of each Director at the meetings is set out below:

Member of the Board	Number of Board meetings attended	Attendance rate
<b>Executive Directors</b>		
Li Ning	4 out of 4	100%
Zhang Zhi Yong	4 out of 4	100%
Tan Wee Seng	4 out of 4	100%
<b>Non-executive Directors</b>		
Lim Meng Ann	3 out of 4	75%
Stuart Schonberger	2 out of 4	50%
Fong Ching, Eddy*	3 out of 3	100%
<b>Independent non-executive Directors</b>		
Koo Fook Sun, Louis	4 out of 4	100%
Wang Ya Fei, Jane	4 out of 4	100%
Chan Chung Bun, Bunny	3 out of 4	75%

\* Mr. Fong Ching, Eddy resigned as a non-executive Director on 20 October 2006. Three Board meetings were held during the period from 1 January 2006 to the date of Mr. Fong's resignation.

## BOARD COMMITTEES

The Board is supported by a number of committees, including the Executive Committee, the Nomination Committee, the Remuneration Committee and the Audit Committee. Each of them has its defined terms of reference approved by the Board covering its duties, powers and functions. Each of these Committees reports regularly to the Board, addressing major issues and findings with valuable recommendations for the decision making of the Board. The particulars of each of these Committees are set out hereunder.

### Executive Committee

The Board has established the Executive Committee to enhance management efficiency. The Executive Committee currently comprises three executive Directors, namely, Mr. Zhang Zhi Yong (chairman of the Committee), Mr. Li Ning and Mr. Tan Wee Seng and Mr. Guo Jianxin, the Chief Operating Officer of the Company and Mr. Xu Weijun, the Chief Marketing Officer of the Company. The Executive Committee is delegated by the Board to perform mainly the following duties:

- setting the Group's strategic, operational and financial plans for the approval by the Board;
- examining and approving strategic business directions at the subsidiary level;
- examining and approving financial arrangements of the companies of the Group within a limit approved by the Board; and
- deciding on the appointment and removal of senior management members of the Group.

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The Board reviews the terms of reference of the Executive Committee regularly to ensure that proper and appropriate delegation of authority are achieved.

### Nomination Committee

The Nomination Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The members of the Nomination Committee are Mr. Lim Meng Ann (chairman of the Committee), Mr. Koo Fook Sun, Louis and Ms. Wang Ya Fei, Jane.

The Nomination Committee adopts the recommended terms of reference set out in the Corporate Governance Code as its terms of reference which are available on the Company's websites. Its main role is to evaluate the structure, size and composition of the Board, to make recommendations to the Board on the appointment and succession of Directors by reference to certain guidelines, including appropriate professional skills, knowledge and industry experience, personal ethics, integrity and skills and time commitment to the Board's affairs. This is to ensure that the Board comprises a sufficient number of Directors and consists of Directors having sound knowledge, experience and/or expertise pertaining to the business operations and development of the Group.

The Nomination Committee met once in 2006 with full attendance of its members to discharge its responsibilities. There was no nomination of Directors to the Board in 2006. The Committee has formed a view, which has also been endorsed by the Board, that subsequent to the resignation of Mr. Fong Ching, Eddy as a non-executive Director of the Company on 20 October 2006, a new director should be identified and be nominated to the Board to fill the vacancy. The Nomination Committee will use its best endeavour, including consideration of referrals and engagement of professional recruitment consultants where necessary, to identify and recommend candidates suitably qualified to become a board member for the Board's further decision.

### Remuneration Committee

The primary responsibility of the Remuneration Committee is to formulate remuneration policies and practices to enable the Company to attract, retain and motivate quality personnel which is essential to the success of the Company.

The Remuneration Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The members of the Remuneration Committee are Ms. Wang Ya Fei, Jane (chairman of the Committee), Mr. Lim Meng Ann and Mr. Koo Fook Sun, Louis.

The Remuneration Committee has adopted the terms of reference as outlined under the Corporate Governance Code. The current terms of reference of the Remuneration Committee are available on the Company's websites.

The Remuneration Committee met three times in 2006. Individual attendance of each of its members at the Remuneration Committee meetings is set out as follows:

Member of the Remuneration Committee	Number of Committee meetings attended	Attendance rate
Wang Ya Fei, Jane	3 out of 3	100%
Lim Meng Ann	3 out of 3	100%
Koo Fook Sun, Louis	3 out of 3	100%

The following is a summary of the work attended by the Remuneration Committee in 2006:

- review of the Group's long-term incentive policy including, among others, granting of share options and restricted shares under the relevant schemes of the Company;
- annual review and determination of remuneration packages for Directors and senior executives;
- review and setting of key performance indicators for senior management; and
- review and setting of the Company's annual bonus plan according to the Company's key performance indicators.

In discharge of its functions, the Remuneration Committee consults and seeks advice from the Chairman, the Chief Executive Officer, the Chief Financial Officer and the director of Human Resources of the Company. External professional consultants can be engaged to provide advice on issues when the Remuneration Committee considers necessary.

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their compensation with their individual performance as measured against the corporate objectives and the Group's operating results, taking into account also the comparable market conditions. The principal elements of the remuneration package of an executive Director include director's fee, basic salary, discretionary bonus and share options. Remuneration of non-executive Directors includes mainly the director's fee which is a matter for the Board to decide. The Company reimburses reasonable out-of-pocket expenses incurred by the Directors in the course of performing their duties as Directors.

Directors do not participate in decisions or meetings approving their own remuneration. The emoluments paid to each Director for the year ended 31 December 2006 are set out in note 23 to the consolidated financial statements.

**Audit Committee**

The Audit Committee assists the Board in discharging its responsibilities for monitoring the integrity of the Group's financial statements, overseeing the Group's financial reporting systems, internal control procedures and the Company's relationship with the external auditors.

The Audit Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The members of the Audit Committee are Mr. Koo Fook Sun, Louis (chairman of the Committee), Mr. Stuart Schonberger and Ms. Wang Ya Fei, Jane. All of them possess appropriate professional qualifications or accounting or related financial management expertise in discharging their responsibilities as members of the Audit Committee.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and are in compliance with the Corporate Governance Code. The current terms of reference are available on the Company's websites.

The Audit Committee normally meets three times each year. The external auditors, the Chief Executive Officer, the Chief Financial Officer and the department heads of the Internal Audit Department and Accounting Management Department are invited to attend the meetings to provide necessary information and to address questions from the Audit Committee. Individual attendance of each Audit Committee member at the meetings held in 2006 is set out as follows:

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Member of the Audit Committee	Number of Committee meetings attended	Attendance rate
Koo Fook Sun, Louis	3 out of 3	100%
Stuart Schonberger	2 out of 3	67%
Wang Ya Fei, Jane	3 out of 3	100%

The following is a summary of the work performed by the Audit Committee in 2006:

- review of and recommendation for the Board's approval of 2005 annual financial statements and 2006 interim financial statements with focus on compliance with accounting standards, Listing Rules and other requirements in relation to financial reporting;
- review of the external auditors' statutory audit plan and the nature and scope of audit before commencement of audit work;
- discussion with the external auditors and the management on possible accounting risks;
- review of 2006 internal audit findings and recommendations and approval of 2007 internal audit plan;
- review of the effectiveness of the Company's internal control systems;
- approval of the audit fees and terms of engagement of the external auditors; and
- review of independence of the external auditors and recommendation to the Board on the re-appointment of the external auditors.

## EXTERNAL AUDITORS

For the year ended 31 December 2006, the total remuneration for the audit services provided by the external auditors amounted to RMB3,120,000 (2005: RMB2,788,000). The audit fees were approved by the Audit Committee.

For the year ended 31 December 2006, the total remuneration for the permissible non-audit services provided by the external auditors (including any entity under common control, ownership or management with the auditors) amounted to RMB1,131,000 (2005: RMB1,000,000). The non-audit services mainly comprised tax compliance and other tax advisory services. The Audit Committee had been notified with the non-audit services and fees and was satisfied that such services did not (in terms of the nature of services and the amount of fees charged) affect the independence of the external auditors.

Prior to commencement of the audit of 2006 accounts of the Company, the Audit Committee had received written confirmation from the external auditors on their independence and objectivity.

The re-appointment of PricewaterhouseCoopers as auditors of the Company has been recommended by the Audit Committee and endorsed by the Board and is subject to approval by the Shareholders at the forthcoming annual general meeting.

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## INTERNAL CONTROL

### System and Framework

The Company has put in place an integrated system of internal control, which adopts the globally recognised framework outlined by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO"), with the nature of the Group's business, operational and financial risks, organisation culture and management philosophy being taken into account. The system plays a key role in managing the risks that are significant to safeguard the shareholders' investment and the assets of the Company.

Under the Company's internal control framework, it is the Board's responsibilities to maintain a sound and effective system of internal control and to review its effectiveness through the Audit Committee, while the management is responsible for designing, operating and monitoring the system and for providing assurance to the Audit Committee and the Board that they have done so.

The Company's internal control system is designed to achieve (i) effectiveness and efficiency of operations; (ii) reliability of internal and external financial reporting; and (iii) compliance with applicable laws and regulations. The system provides reasonable, but not absolute, assurance against material misstatement, fraud or loss and manages, rather than eliminates risks of failure in operational system in order to ensure that the Company will meet its agreed objectives and goals. The system comprises the following aspects:

- (i) A governance structure has been established with defined lines of responsibility and appropriate delegation of authority, embracing the Board, the Audit Committee, the Internal Audit Department, senior management members and division/department heads. During the year under review, an Internal Control Working Group, which is a functional unit reporting to the Chief Financial Officer, has been newly established by the Company. Its primary responsibilities are to coordinate with and provide support to the implementation and on-going assessment of the internal control system throughout the Group and to organise and conduct the annual review of the effectiveness of the Group's internal control system.
- (ii) A strategic plan which sets out the corporate strategies to be pursued in the next three years for achieving the annual operating and financial targets will be prepared each year under which resources are allocated in accordance with identified and prioritised business opportunities. On-time and regular operational and financial reports are received and reviewed by the senior management, the Board or its designated committees. This allows them to monitor and control situation against the agreed annual operating and financial targets and to consider necessary action as well as to ensure such action is carried out promptly to remedy any significant failing or weakness.

- (iii) Written policies and standards are developed from time to time for safeguarding assets against unauthorised use or disposition; maintaining proper accounting records to ensure reliability of financial information used within the business or for publication; and compliance with applicable laws. Standardised internal control manuals for key operational and functional divisions of the Group have also been established since 2005 and are updated at least annually with an aim to further enhance and monitor the effectiveness of the internal control system on a continuing basis.
- (iv) Independent reviews of the risks associated with, and internal controls over, key operations and financial and compliance functions, are performed by the Internal Audit Department and the external auditors. Significant issues, together with recommendations for improvement, are adequately addressed to the Audit Committee or the Board.

### System Review

The Board recognises that internal control needs to be responsive and to remain relevant over time in the continuously evolving business environment. The Company's internal control system is therefore subject to continuous review and improvement to enable the Company to be responsive to any change in the risks faced by the Company. In addition, a comprehensive review of the effectiveness of the Company's internal control system is conducted annually, covering all material controls, including financial, operational and compliance controls and risk management functions. The review is performed internally using the control self-assessment approach, with each division and individual member of senior management of the Company being requested to assess the effectiveness of the Company's internal control system against the five elements outlined by the COSO internal control system, namely, control environment, risk assessment, control activities, information and communication and monitoring. Through the reviewing process, process owners are able to certify whether the internal control system is working as intended or to identify failings or weaknesses and the relevant actions taken or to be taken in order to rectify them. The Internal Audit Department will also carry out independent examination on the reviewing process and results. Based on the results, the Chief Executive Officer and the Chief Financial Officer will submit a declaration to the Audit Committee and the Board, certifying the adequacy and effectiveness of the Company's internal control system.

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The results of the review conducted for the year ended 31 December 2006 have been reported to the Audit Committee and the Board. Judging on the results, the Audit Committee and the Board confirm that the systems and procedures of the Company's internal control are in good order so as to identify, control and report on significant risks involved in achieving the Company's strategic objectives. Deficiencies and weaknesses have been identified and remedial actions have been taken or designed to be taken. No material deficiencies had been identified so far and there were no significant areas of concern which may affect the Shareholders. The Board considers that the Company's internal control system is adequate and effective and the Company has complied with the provisions in respect of internal control under the Corporate Governance Code for the year ended 31 December 2006.

### Internal Audit

The Company has an Internal Audit Department which plays an important role in the Group's internal control framework with an aim to provide objective assurance to the Audit Committee and the Board that a sound internal control system is maintained and operated and that the risks associated with the achievement of business objectives are being managed properly. The Internal Audit Department reports directly to the Chief Financial Officer and can refer matters to the Audit Committee directly. The head of the internal audit team attends the regular meetings of the Audit Committee and maintains constructive dialogue with the Company's external auditors.

By adopting the risk assessment methodology, the Internal Audit Department schedules its internal audit program annually which is endorsed by the Audit Committee. The tasks of the Internal Audit Department include regular review and audit of the practices, procedures and internal control systems of different financial and operational activities of the Group with resources being focused on higher perceived risks. Special reviews will also be conducted in various concerned areas identified by the management or the Audit Committee.

Audit reports addressing significant audit findings or identified risks, together with recommendations for remedial action are submitted to and discussed with the Audit Committee and the management on a regular basis. All reports will be followed up by the Internal Audit Department to ensure that all issues have been satisfactorily resolved. The Internal Audit Department is also responsible for assessing the Group's internal control system and formulating an impartial opinion on the effectiveness of the system.

## PRICE SENSITIVE INFORMATION

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Company is fully aware of its obligations under the Listing Rules and the overriding principle that price-sensitive information should be announced immediately when it is the subject of a decision. The Company's policy has adopted a strict prohibition on the authorised use of confidential or insider information and has established and implemented procedures for responding to external enquiries about the Group's affairs. The Chief Financial Officer, the Chief Executive Officer and the Chairman are identified and authorised to act as the Company's spokespersons to respond to enquiries made in relation to the Group's affairs.

## CONDUCT ON SHARE DEALINGS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules regarding securities transactions by its Directors. Directors are reminded of their obligations under the Model Code on a regular basis. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2006 and up to the date of this report.

Employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company in 2006.

## SHAREHOLDERS' RIGHTS

Under the Company's articles of association, any one or more Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board to require an extraordinary general meeting to be called by the Board for transactions of any business specified in such requisition.

To safeguard Shareholders' rights, the Company adopts the policy of voting by poll for all resolutions put forward at any Shareholders' meeting. Details of the poll voting procedures and the rights of Shareholders to demand a poll are set out in every circular to Shareholders accompanying the notice convening the Shareholders' meeting.

For the year under review, there was no change made in the Company's articles of association.

To facilitate communication further, Shareholders may send their enquiries which require the Board's attention to the Company Secretary at the Company's principal place of business in Hong Kong. Relevant contact information is set out on page 5 of this annual report and is also available on the Company's websites. Important Shareholders' dates are set out on page 45 of this annual report and posted on the Company's websites.

## SHAREHOLDERS' MEETINGS

The Company's annual general meeting is one of the principal channels of communication between the Company and the Shareholders. It provides the best opportunity for Shareholders to better understand the Company's operation, financial performance, business strategies and outlook. To encourage Shareholders to attend the meeting, more than 21 clear days' notice and a circular containing necessary information would be given to Shareholders so as to enable them to make informed decisions on the resolutions proposed to be considered in the meeting. Q & A section is available for Shareholders to raise questions and the Directors would respond to such questions at the meeting.

The last annual general meeting, which was also the last Shareholders' meeting of the Company, was held on 12 May 2006 at the Four Seasons Hotel, Hong Kong. Most of the Directors and the Company's external auditors were present at the meeting. At the annual general meeting, separate resolutions were proposed for each issue and were voted by poll. Apart from the ordinary business of adopting the audited financial statements for the year ended 31 December 2005, matters including declaring final dividend, re-electing Directors, re-appointing auditors and authorising the Directors to fix their remuneration were approved in the meeting. Ordinary resolutions providing Directors with general mandates to repurchase and issue and allot shares of the Company subject to the relevant limits under the Listing Rules were also approved. All the resolutions proposed at the meeting were approved by Shareholders and details of the poll results were declared at the meeting and are published on the Company's websites.

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The next annual general meeting of Shareholders will be held on 11 May 2007. Details of the meeting and necessary information on issues to be considered in the meeting are set out in the circular dispatched to Shareholders together with this annual report.

## GOING FORWARD

In 2006, the Company's commitment to corporate governance gained recognition from the investment community. The Company was ranked one of the top 10 Chinese companies with the best corporate governance by investment professionals and financial analysts in the "Asia's Best Companies Poll 2006" conducted by FinanceAsia Magazine. Going forward, the Board will continue to review and improve its corporate governance regime in response to internal and external changes with an aim to maintain a high degree of transparency, accountability and independence to all stakeholders.

By order of the Board

**ZHANG Zhi Yong**

*Executive Director & Chief Executive Officer*

**TAN Wee Seng**

*Executive Director & Chief Financial Officer*

Hong Kong, 20 March 2007