

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report in the Group's annual report for the year ended 31 December 2013.

The manner in which the principles and code provisions in the Corporate Governance Code ("CG Code") contained in Appendix 14 of the Listing Rules are applied and implemented is explained as follows:

## Corporate Governance Practices

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the corporate governance code (the "CG Code"), Appendix 14 to the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Throughout the twelve months ended 31 December 2013, the Company has applied the principles and complied with the code provisions set out in the CG Code.

The Company has also put in place certain recommended best practices as set out in the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices periodically to ensure these continue to meet the requirements of the CG Code and align with the latest developments.

## Non-Compliance With The Listing Rules

### Non-Compliance With Rule 13.49(1) and Rule 13.46(2) of The Listing Rules

Pursuant to Rule 13.49(1) of the Listing Rules, the Company is required to publish its preliminary annual results on a date not later than three months after the ended 31 December 2013 (i.e. 31 March 2014).

Pursuant to Rule 13.46(2) of the Listing Rules, the Company is required to dispatch to every shareholder of the Company and other holders of its listed securities its annual report not more than four months after the year ended 31 December 2013 (i.e. 30 April 2014).

However, due to the delay in publication of the Annual Report 2012 and subsequent delay in the publication of the Interim Results Announcement and the delay in publication of the Interim Report 2013, the publication of the final results of the Company for the year ended 31 December 2013 and the despatch of Annual Report 2013 is inevitably affected and therefore delayed. The Board acknowledges that the delay in the publication of the final results of the Company for the year ended 31 December 2013 and the despatch of this annual report constitutes non-compliance with Rule 13.49(1) and Rule 13.46(2).

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### The Board

#### Responsibilities

The management and control of the business of the Company are vested in its Board. It is the duty of the Board to establish policies, strategies and plans, and to provide leadership in the attainment of the objective of creating value to shareholders.

The positions of the Chairman and the Chief Executive Officer are held by separate persons. The Chairman is responsible for the management of the Board and the formulation of strategies and policies of the Company. The Chief Executive Officer is responsible for the management of the business and overall operations. The senior management was delegated the authority and responsibilities for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their respective terms of reference.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

#### Board Composition

The Company has adopted the recommended best practice under the CG Code. The Board has a balanced composition of executive and non-executive Directors to ensure independent viewpoints in all discussions. The Board currently comprises ten Directors, including four executive Directors, two non-executive Directors and four independent non-executive Directors.

The Directors during the financial year and up to the date of this report were:

##### *Executive Directors:*

Xu Zhong Ping (*Chairman*)

Pan Yutang (*appointed as the Chief Executive Officer on 21 November 2013*)

Zhang Fang Hong (*resigned as the Chief Executive Officer on 21 November 2013*)

Song Xuan (*retired on 29 May 2013*)

Xu Xiao Yang

##### *Non-Executive Directors:*

Ge Ze Min

Ma Tianfu

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

Wong Kam Wah (*Chairman of Audit Committee and Remuneration Committee, Member of Nomination Committee*)

Xin Luo Lin (*Chairman of Nomination Committee, Member of Audit Committee and Remuneration Committee*)

Zhu Nan Wen (*Member of Audit Committee, Remuneration Committee and Nomination Committee*)

Zuo Jiane (*Member of Audit Committee, Remuneration Committee and Nomination Committee*)

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The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the CG Code.

Members of the Board are unrelated to one another.

During the year ended 31 December 2013, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. On this basis, the Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules. As at the date of this annual report, none of them had served the Company for more than 9 years.

The executive Directors, with their intimate knowledge of the business, take on the primary responsibility for the leadership for the Company while the non-executive Director and independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgment to the Board. Independent non-executive Directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

### Appointment, Re-election and Removal of Directors

In accordance with article 108(A) of the Articles of Association of the Company, all Directors are subject to retirement by rotation at least once every three years. In accordance with article 111 and article 112 of the Articles of Association of the Company, any new Director appointed to fill a casual vacancy or as an addition to the Board shall submit himself for re-election by shareholders at the next general meeting (in the case of filling a casual vacancy) or the next annual general meeting (in the case of an addition to the Board).

Code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

There is no service contract between the Company and Mr. Ge Ze Min and Mr. Ma Tianfu, the non-executive Directors, and Mr. Xin Luo Lin, Mr. Wong Kam Wah, Prof. Zhu Nan Wen and Prof. Zuo Jiane, the independent non-executive Directors. They were not appointed for any specific length of service with the Company.

Although the non-executive Directors and independent non-executive Directors do not have a specific term of appointment, all Directors are subject to retirement by rotation once every three years in accordance with the Company's Articles of Association.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

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### Nomination Committee

#### Board Diversity Policy

##### *Purpose*

The Board has established a Nomination Committee with authority, responsibility, and specific duties, including but not limited to, recommend to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive of the Company.

This Policy aims to set out the approach to achieve diversity on the Board. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

##### *Measurable Objectives*

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition (including gender, ethnicity, age, length of service) will be disclosed in the Corporate Governance Report annually.

##### *Monitoring and Reporting*

The Nomination Committee will report annually, in the Corporate Governance Report, on the Board's composition under diversified perspectives, and monitor the implementation of this Policy.

##### *Review of this Policy*

The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

##### *Reporting Procedures*

This Policy will be published on the Company's website for public information.

A summary of this Policy together with the measurable objectives set for implementing this Policy, and the progress made towards achieving those objectives will be disclosed in the annual Corporate Governance Report.

As at 31 December 2013, the Nomination Committee comprised four members, namely Mr. Xin Luo Lin (Chairman), Mr. Wong Kam Wah, Prof. Zhu Nan Wen and Prof. Zuo Jiame, all of them are independent non-executive Directors.



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The principal duties of the Nomination Committee include:

- (a) to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- (b) to develop and formulate relevant procedures for nomination and appointment of Directors;
- (c) to identify individuals suitably qualified to become a Board member;
- (d) to make recommendations to the Board on selection or appointment of individuals nominated for directorships and appointment or re-appointment of Directors and succession planning for Directors; and
- (e) to assess the independence of the independent non-executive Directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the annual general meeting of the Company to be held on 24 June 2014.

A circular containing detailed information of the Directors standing for re-election at the annual general meeting to be held on 24 June 2014 was sent to the shareholders on 22 May 2014.

### Induction and Continuing Development for Directors

Each newly appointed Director should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company may engage external legal and other professional advisers for providing professional briefing and training programmes to the Directors where circumstances arise. Continuing briefings and professional development to Directors will be arranged whenever necessary.

The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials, as well as providing appropriate professional knowledge and latest development of regulatory requirements related to director's duties and responsibilities to all Directors through emails and relevant websites.

During the year of 2013, materials covering the updates of the Listing Rules, especially concerning the corporate governance and internal control have been given for Directors' review and study.



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### Company Secretary

The Company Secretary is an employee of the Company. The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with management. During the year, the Company Secretary had taken the necessary professional training.

### Board Meetings

#### *Board Practices and Conduct of Meetings*

Annual meeting schedules and notice and draft agenda of each meeting are normally made available to Directors and committee members in advance.

Board papers together with all appropriate information is sent to all Directors/committee members well before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management, Financial Controller or Company Secretary attended some regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary/secretary of the committees is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

The Company's Articles of Association contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. Independent non-executive Directors who, and whose associates, have no material interest in the transaction should be present at the Board meeting.

#### *Directors' Attendance Records*

During the year ended 31 December 2013, two regular Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Code provision A.1.1 stipulates that regular Board meetings should be held at least four times a year at approximately quarterly intervals. There were twenty two Board meetings held during the year under review, one of which was regular meeting held for approving the final results for the period ended 31 December 2012. The other Board meetings were held as and when the business and operational needs arose.



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The attendance records of each Director at the meetings of shareholders, the Board, Audit Committee, Remuneration Committee and Nomination Committee during the year ended 31 December 2013 are set out below:

Name of Directors	General Meeting	Attendance/Number of Meetings			
		Board	Audit Committee	Remuneration Committee	Nomination Committee
<b>Executive Directors:</b>					
Xu Zhong Ping	1/1	18/22	—	—	—
Zhang Fang Hong	1/1	21/22	—	—	—
Pan Yutang	0/1	20/22	—	—	—
Song Xuan <i>(retired on 29 May 2013)</i>	0/1	9/22	—	—	—
Xu Xiao Yang	1/1	15/22	—	—	—
<b>Non-Executive Directors:</b>					
Ge Ze Min	0/1	18/22	—	—	—
Ma Tianfu	0/1	15/22	—	—	—
<b>Independent Non-Executive Directors:</b>					
Wong Kam Wah	1/1	22/22	4/4	—	1/1
Xin Luo Lin	0/1	6/22	3/4	—	1/1
Zhu Nan Wen	0/1	16/22	4/4	—	1/1
Zuo Jiane	0/1	12/22	3/4	—	0/1

#### Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding Directors' securities transactions.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2013.

The Company has also established written guidelines of no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

#### Delegation by the Board

The Board takes responsibility for all major matters of the Company including the setting of objectives and overall strategies, the approval and monitoring of all policy matters, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), appointment of Directors and other significant financial and operational matters.

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All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon obtaining approval from the Board.

The Board delegates day-to-day management, administration and operation of the Company to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management. The Board has the full support of the senior management to discharge its responsibilities.

The Board has established 3 committees, namely the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website ([www.cethl.com](http://www.cethl.com)) and the website of the Stock Exchange of Hong Kong Limited ([www.HKEX.com.hk](http://www.HKEX.com.hk)) and are available to shareholders upon request.

### Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2013 are set out in note 10 to the financial statements.

### Remuneration Committee

As at 31 December 2013, the Remuneration Committee comprised four members, namely Mr. Wong Kam Wah (Chairman), Mr. Xin Luo Lin, Prof. Zhu Nan Wen and Prof. Zuo Jiame, all of them are independent non-executive Directors. The primary objectives of the Remuneration Committee include:

- (a) to make recommendations on the establishment of procedures for developing remuneration policy and structure of the executive Directors and the senior management, such policy shall ensure that no Director or any of his associates will participate in deciding his own remuneration;
- (b) to make recommendations on the remuneration packages of the executive Directors and the senior management;
- (c) to review and approve the remuneration packages of the executive Directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and
- (d) to review and approve the compensation arrangements for the executive Directors and the senior management.

The human resources department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and the remuneration packages.



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The remuneration of the Directors has been determined with reference to their respective qualification, experience, duties and responsibilities in the Company as well as the Group's results and performance for the financial year concerned. The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year under review.

### **Accountability and Audit**

#### *Directors' Responsibilities for Financial Reporting in Respect of Financial Statements*

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2013.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

### **Internal Controls**

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and the assets of the Company and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

The Board has conducted and was satisfied with the result of a review of the effectiveness of the system of internal control of the Group.

### **Audit Committee**

As at 31 December 2013, the Audit Committee comprised four members, namely Mr. Wong Kam Wah (Chairman), Mr. Xin Luo Lin, Prof. Zhu Nan Wen and Prof. Zuo Jiame, all of them are independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

- (a) to review the financial statements and reports and consider any significant or unusual items raised by staff responsible for the accounting and financial reporting function or external auditor before submission to the Board;
- (b) to review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor;

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- (c) to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures; and
- (d) to monitor the corporate governance of the Group including compliance with statutory and Listing Rules requirement.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2013 and the interim results for the period ended 30 June 2013, the financial reporting and compliance procedures, risk management review and processes and the re-appointment of the external auditor.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no different view taken by the Audit Committee regarding the selection, appointment and resignation of the external auditor.

The Audit Committee held four meetings during the year ended 31 December 2013 and the attendance records are set out under "Directors' Attendance Records" on page 23.

### External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 37 to 38.

During the year ended 31 December 2013, the remuneration paid to the Company's auditor, Crowe Horwath (HK) CPA Limited, is set out below:

<b>Category of services</b>	<b>Fee paid/ payable</b>
Audit service	HK\$1,300,000
Non audit service	HK\$66,000
<b>Total</b>	<b>HK\$1,366,000</b>

### Communications with Shareholders and Investors

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide an important channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Audit Committee, Remuneration Committee and Nomination Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, normally attend the annual general meeting and other relevant shareholders' meetings to answer questions at the shareholders' meetings.

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The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. As a channel to promote effective communication, the Company maintains a website at [www.cethl.com](http://www.cethl.com), where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong or via facsimile at (852) 2511-1878 for any inquiries.

### Shareholders' Rights

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholders' meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the website of the Company and Hong Kong Exchanges and Clearing Limited after the shareholders' meeting.

### Procedures For Shareholders To Propose/Move A Resolution At General Meetings

There are no provisions allowing shareholders of the Company to make proposals or move resolutions at a general meeting under the Company's constitution or the laws of the Cayman Islands. Shareholders who wish to make proposals or move a resolution may, however, convene an extraordinary general meeting by the following procedures below.

#### Procedures for Shareholders to Propose Convening Extraordinary General meetings

Extraordinary General Meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Secretary for the purpose of requiring an Extraordinary General Meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

#### Procedures for Shareholders to Propose a Person for Election as a Director

Pursuant to Article 113 of the Articles of Association of the Company, a notice in writing of the intention to propose a person for election as a Director and a notice in writing by that person of his willingness to be elected shall be lodged at the Head Office or at the Registration Office of the Company.

These notices shall be lodged during a period commencing no earlier than the day after the despatch of the notice of the general meeting appointed for such election and ending no later than seven days prior to the date of such meeting, provided that such period shall be at least seven days subject to and to such extent permitted by and in accordance with the laws and the Listing Rules.

The Company can also accept the said notice earlier than the day after the despatch of the notice of the meeting appointed for such election of Director(s).