

# **CORPORATE GOVERNANCE REPORT**

## **COMPLIANCE WITH THE CODE PROVISIONS**

The Code of Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") was amended and revised as Corporate Governance Code which took effect on 1 April 2012. Saved as disclosed below, the directors of Beijing Enterprises Holdings Limited (the "Company") believe that during the year ended 31 December 2012, the Company has complied with the code provisions (the "Code Provisions") as set out in Appendix 14 to the Listing Rules as and when they were/are in force.

As at 31 December 2012, the board of directors of the Company comprises 16 members, among them 4 are independent non-executive directors. The Company therefore, failed to meet the requirement set out in Rule 3.10(A) of the Listing Rules that a listed issuer must appoint independent non-executive directors representing at least one-third of the board on or before 31 December 2012. As a remedial step to address non-compliance, on 28 March 2013, the Company appointed Mr. Sze Chi Ching and Mr. Shi Hanmin as independent non-executive directors to fulfill the requirement set out in Rule 3.10(A) of the Listing Rules.

During the year, the Company held two full board meetings instead of at least four full board meetings as required under Code Provision A.1.1. The directors consider it is more efficient to hold board meetings to address emerging issues as appropriate. Sufficient measures have been taken to ensure that there is efficient communication among the directors.

During the year, the chairman of the Company did not hold any meeting with non-executive directors (all of the non-executive directors of the Company were independent non-executive directors) without the executive directors present in accordance with Code Provision A.2.7. Nevertheless, from time to time, independent non-executive directors of the Company express their views directly to the chairman via other means including correspondences and emails. The Company is of the view that there is efficient communication between non-executive directors (all were independent non-executive directors) and the chairman.

Under Code Provision A.6.7, independent non-executive directors and non-executive directors should attend general meetings to develop a balanced understanding of the views of shareholders. During the year, Mr. Lam Hoi Ham attended the 2012 annual general meeting of the Company while the remaining three independent non-executive directors of the Company were not able to attend the meeting due to other business engagements, which deviates from Code Provision A.6.7.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules for securities transactions by the directors. All the directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2012.

## **BOARD OF DIRECTORS**

### **Composition and Role**

The principal focus of the board is on the overall strategic development of the Company and its subsidiaries (collectively the "Group"), while the management is principally responsible for the Group's business operations. The board provides guidance on business plans and monitors the results of such plans implemented by the management; reviews and approves the Company's financial objectives, plans and major financial activities. The board is also responsible for the establishment of the internal control system and the risk management system of the Company; the board discusses with the management regularly to ensure that such systems are operating effectively. The board promotes a culture of integrity at the Company and requires all directors and the management to comply with guidance related to integrity and ethics, including conflicts of interest, related party transactions and the treatment of confidential information. There is no relationship (including financial, business, family or other material/relevant relationships) among the directors (including the chairman and the chief executive officer).

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive directors. In addition, at least one independent non-executive director possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The board considers that all independent non-executive directors meet the specific independence criteria as required by the Listing Rules. The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS (Continued)

### Composition and Role (Continued)

The individual attendance of board or committee meetings is set out below:

Name	Attendance <sup>^</sup>				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
<b>Executive Directors</b>					
Wang Dong (Chairman)	2/2			0/0	1/1
Zhang Honghai* (Vice Chairman and Chief Executive Officer)	2/2				1/1
Lin Fusheng (Vice Chairman) (resigned on 28 March 2013)	1/2				
Li Fucheng (Vice Chairman)	2/2				
Zhou Si*# (Vice Chairman)	2/2				
Hou Zibo (appointed on 30 March 2012)	1/1				
Guo Pujin <sup>®</sup>	0/2				
Liu Kai#	1/2		0/0		
Lei Zhengang	2/2				
E Meng (Executive Vice President)	2/2				
Jiang Xinhao (Vice President)	2/2				
Tam Chun Fai (CFO & Company Secretary)	2/2				1/1
<b>Independent Non-executive Directors</b>					
Wu Jiesi	2/2	2/2	0/0		0/1
Robert A. Theleen	2/2				0/1
Lam Hoi Ham	2/2	2/2	0/0	0/0	1/1
Fu Tingmei	2/2	2/2		0/0	0/1
Sze Chi Ching (appointed on 28 March 2013)	0/0				
Shi Hanmin (appointed on 28 March 2013)	0/0				

Note:

<sup>^</sup> During the year, no meeting was attended by any Director's alternate.

\* On 28 March 2013, Mr. Zhou Si succeeded Mr. Zhang Honghai to act as Chief Executive Officer of the Company.

# On 28 March 2013, Mr. Zhou Si succeeded Mr. Liu Kai to act as member of the Remuneration Committee of the Company.

<sup>®</sup> On 28 March 2013, the Company's Executive Director Mr. Guo Pujin was re-designated as the Company's Non-executive Director.

## **BOARD OF DIRECTORS** (Continued)

### Directors' Training

It has been the Board's policy that every newly appointed director is given a comprehensive, formal and tailored induction on appointment pursuant to Code Provision A.6.1. Also, from time to time, directors are provided with briefings and trainings to ensure that they have a proper understanding of the Company's operations and business and are fully aware of their responsibilities under relevant statutes, laws, Listing Rules and other regulations.

Pursuant to Code Provision C.1.2, directors are provided with monthly reports updates which give a balanced and understandable assessment of the Company's performance and position to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

During the year, the Company organized an in-house seminar and provided reading materials for the directors to ensure that they have participated in continuous professional development to develop and refresh their knowledge and skills. A summary of training received by directors during the year according to the records provided by the directors is as follows:

<b>Name</b>	<b>Attend Seminars/ Read Training Materials</b>
<b>Executive Directors</b>	
Wang Dong	√
Zhang Honghai	√
Lin Fusheng	√
Li Fucheng	√
Zhou Si	√
Hou Zibo	√
Guo Pujin	√
Liu Kai	√
Lei Zhengang	√
E Meng	√
Jiang Xinhao	√
Tam Chun Fai	√
<b>Independent Non-executive Directors</b>	
Wu Jiesi	√
Robert A. Theleen	√
Lam Hoi Ham	√
Fu Tingmei	√
Sze Chi Ching (appointed on 28 March 2013)	√
Shi Hanmin (appointed on 28 March 2013)	√

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS (Continued)

### Chairman and Chief Executive Officer

Mr. Wang Dong has been the chairman of the board since 18 August 2009 while Mr. Zhou Si has succeeded Mr. Zhang Honghai to assume the position of chief executive officer since 28 March 2013. The Company has complied with Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

### Non-executive Directors

Non-executive directors (including the independent non-executive directors) serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group. They have the same duties of care and skill and fiduciary duties as executive directors.

The Company has entered into letters of appointment with all non-executive directors (including independent non-executive directors) for a term of three years. Their term of appointment is as follows:

<b>Name</b>	<b>Term of Appointment</b>
Mr. Guo Pujin	3 years from 28 March 2013
Mr. Wu Jiesi	3 years from 1 April 2012
Mr. Robert A. Theleen	3 years from 1 April 2012
Mr. Lam Hoi Ham	3 years from 1 April 2012
Mr. Fu Tingmei	3 years from 1 April 2012
Mr. Sze Chi Ching	3 years from 28 March 2013
Mr. Shi Hanmin	3 years from 28 March 2013

Like all other directors, the non-executive directors (including independent non-executive directors) are subject to retirement by rotation and shall offer themselves for re-election in general meetings in accordance with the Company's articles of association.

### Corporate Governance Functions

The board is responsible for performing the corporate governance duties including:

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors; and
- (e) to review the Company's compliance with the Code Provisions.

## **AUDIT COMMITTEE**

The current members of the Audit Committee are:

Mr. Lam Hoi Ham — Committee Chairman

Mr. Wu Jiesi

Mr. Fu Tingmei

All Audit Committee members are independent non-executive directors. The board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial procedure and internal controls system of the Company. The Company has adopted the written terms of reference which describe the authority and duties of the Audit Committee in accordance with Code Provision C.3.3. A copy of the terms of reference is posted on the Company's website. The Audit Committee meets regularly to review the reporting of financial and other information to shareholders, the effectiveness and objectivity of the audit process. The Audit Committee also provides an important link between the board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

During the year ended 31 December 2012, the work performed by the Audit Committee included: reviewed and approved the Company's annual results and interim results; reviewed the external auditors' scope of services including audit work and non-audit work and monitored their independence; reviewed with the management the Company's accounting principles and practices; and discussed with the Company's management the effectiveness of its internal control system.

## **REMUNERATION COMMITTEE**

The current members of the Remuneration Committee are:

Mr. Wu Jiesi — Committee Chairman

Mr. Lam Hoi Ham

Mr. Liu Kai *(resigned on 28 March 2013)*

Mr. Zhou Si *(appointed on 28 March 2013)*

The majority of the Remuneration Committee members are independent non-executive directors. The duties of the Remuneration Committee include: advises the board of directors on the Company's overall remuneration policy and structure as well as remuneration packages for directors and senior management of the Company. The Remuneration Committee ensures that no director of the Company or any of his associate is involved in deciding his own remuneration. The Company has adopted the terms of reference of the Remuneration Committee in accordance with code provision B.1.2. A copy of the terms of reference is posted on the Company's website.

# **CORPORATE GOVERNANCE REPORT**

## **REMUNERATION COMMITTEE** (Continued)

The objective of the compensation policy of the Company is to provide an equitable and competitive compensation package so as to attract and retain the best employees to serve corporate needs. The compensation package for each employee is structured to include: base salary which is fixed to commensurate with market rate and each individual's experience and ability; share options granted with reference to an individual employee's position, performance and ability to contribute to the overall corporate success (the granting of share options is subject to shareholders' mandates as required and all applicable laws and regulations of relevant jurisdictions); and other customary and/or mandatory benefits to employees, such as retirement fund scheme, insurance and paid holiday, with reference to prevailing practices in relevant jurisdictions.

In determining the emolument payable to directors, the Remuneration Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, and employment conditions elsewhere in the Group. During the year ended 31 December 2012, no Remuneration Committee meeting was held as the terms of employment of directors remained unchanged.

## **NOMINATION COMMITTEE**

The current members of the Nomination Committee are:

Mr. Wang Dong — Committee Chairman  
Mr. Lam Hoi Ham  
Mr. Fu Tingmei

Since 30 March 2012 when the Nomination Committee was established and until 31 December 2012, no Nomination Committee meeting was held as the composition of the board remained unchanged.

## **AUDITORS' REMUNERATION**

During the year ended 31 December 2012, fees paid and payable to the Company's external auditors for audit services were approximately HK\$8.8 million; fees paid and payable for non-audit services were approximately HK\$3.86 million, which included fees for the issue of guaranteed senior notes, an agreed-upon procedures engagement in connection with the Group's interim financial report and tax compliance services.

## **DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS**

The directors acknowledged responsibility for reviewing the accounts of the Company prepared by the executive board for the year ended 31 December 2012 and ensuring the accounts are prepared in accordance with the Hong Kong Financial Reporting Standards. A statement by the auditors about their reporting responsibilities is contained in the Independent Auditors' Report.

The board confirmed that it has taken the same view from that of the Audit Committee regarding the appointment of the external auditors.

## **INTERNAL CONTROL**

The board has delegated power to oversee the internal control system of the Company to ensure that such system is operating effectively. During the year ended 31 December 2012, the board conducted an annual review and engaged in a discussion with the management on the effectiveness of the internal control system to satisfy itself that the internal control system of the Company was designed and operated effectively during the year. The review has covered all material controls, including financial, operational and compliance controls and risk management functions.

## **COMPANY SECRETARY**

The executive director and chief financial officer Mr. Tam Chun Fai has been the company secretary of the Company since 1997. Pursuant to Rule 3.29 of the Listing Rules, starting from 1 January 2015, he will be required to take no less than 15 hours of relevant professional training per annum.

## **SHAREHOLDERS' RIGHTS**

### To Convene an Extraordinary General Meeting ("EGM") by Shareholders

Shareholder(s) holding not less than one-twentieth of the Company's paid-up capital can submit a written requisition to convene an EGM pursuant to Section 113 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

The written requisition must:

1. state the objects of the EGM;
2. contain the signatures of all the requisitionists (which may be contained in one document or in several documents in like form); and
3. be deposited at the Company's registered office for the attention of the company secretary.

If directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any EGM so convened shall not be held after the expiration of 3 months from the said date.

### To Make Enquiries to the Board

1. Shareholders should direct their questions about their shareholdings to the Company's share registrar.
2. Enquiries made to the board may be deposited at the Company's registered office for the attention of the company secretary (email: mailbox@behl.com.hk).



# **CORPORATE GOVERNANCE REPORT**

## **SHAREHOLDERS' RIGHTS** (Continued)

### To Put forward Proposals at an Annual General Meeting ("AGM")

Shareholder(s) can submit a written requisition to move a resolution at an AGM pursuant to Section 115A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) if they:

1. represent not less than one-fortieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the AGM; or
2. are no less than 50 shareholders holding the Company's shares on which there has been paid up an average sum, per shareholder, of not less than HK\$2,000.

The written requisition must:

1. state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the AGM;
2. contain the signatures of all the requisitionists (which may be contained in one document or in several documents in like form);
3. be deposited at the Company's registered office for the attention of the company secretary not less than 6 weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than 1 week before the AGM in the case of any other requisition; and
4. be accompanied by a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionists to all shareholders in accordance with the requirements under the applicable laws and rules.

### To Propose a Person other than a Director for Election as a Director at any General Meeting

Pursuant to Article 109 of the articles of association of the Company, if a shareholder wishes to propose a person, other than a retiring director or a person recommended by the directors, for election as a director of the Company at a general meeting, such shareholder, who is duly qualified to attend and vote at such general meeting, should lodge a written and signed notice of nomination and a notice signed by the person to be proposed of his willingness to be elected at the Company's registered office or at the Company's share registrar. The notices should be given within the period commencing on the day after dispatch of the notice of the general meeting appointed for such election and ending no later than 7 days prior to the date of such general meeting and such period shall be at least 7 days.

## **CONSTITUTIONAL DOCUMENTS**

During the year ended 31 December 2012, there is no significant change in the Company's constitutional documents.