

The Company is firmly committed to maintaining and ensuring high standards of corporate governance in its operations and adheres to the principles of corporate governance emphasising transparency, independence, accountability, responsibility and fairness. The Board believes that good corporate governance practices are an essential element in guiding the growth and management of the business of the Group, achieving the Group's objectives of maximising shareholders' value, safeguarding the interests of shareholders, and enhancing the confidence of current and potential shareholders, investors, employees, business partners and the communities as a whole.

The Board regularly reviews the Group's corporate governance practices and standards to ensure that business activities and decision making processes are regulated in a proper manner, shareholders' interest is protected, legal and professional standards are complied with and that the corporate governance practices and standards of the Group reflect the latest local and international circumstances and development.

### **CODE OF CORPORATE GOVERNANCE PRACTICES**

The Company has adopted, applied and complied with the Code on Corporate Governance Practices (the "Code") 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") throughout the year ended 28 February 2006 (excluding Code provision C.2 in respect of internal controls the compliance with which is not mandatory under the Listing Rules for accounting periods commencing before 1 July 2005) with the exception of the deviation from the Code, all of which were subsequently compiled with, in respect of:-

- (a) retirement and rotation of Directors (see the sub-section headed "Rotation and Re-election" in the section headed "THE BOARD OF DIRECTORS" below);
- (b) term of appointment of independent non-executive Directors (see the sub-section headed "Independent Non-executive Directors" in the section headed "THE BOARD OF DIRECTORS" below); and
- (c) adoption of various practices for good corporate governance at the meeting of the Board on 4 October 2005 (see the sub-section headed "Board Meetings" in the section headed "THE BOARD OF DIRECTORS" below).



## **THE BOARD OF DIRECTORS**

The Board represents shareholders in overseeing the Group's business and has collective responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Company's affairs. It sets strategies for the Company and monitors the performance of the management. The Directors recognised their responsibilities to enhance shareholders' value and to conduct themselves in accordance with their duty of care and loyalty.

### **Composition**

The Board is led by the Chairman and currently comprises four executive Directors (one of whom is the Chairman) and three independent non-executive Directors. The Directors of the Company during the year ended 28 February 2006 and up to the date of this Annual Report were:-

#### **Executive Directors**

Mr. Lee Tze Bun, Marces (Chairman)

Mr. Wan Tat Wah (Chief Executive Officer)

Ms. Chui Kwan Ho, Jacky (Managing Director)

Ms. Tsui Oi Kuen

Mr. Ven Kam Cheong, Eric (resigned on 1 February 2006)

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

Mr. Wong Kong Chi (resigned on 16 January 2006)

Mr. Law King Wan

Mr. Leung Wai Ki, George

Mr. Lam Siu Lun, Simon (appointed on 16 January 2006)

The biographical details of the Directors outlining their respective specialist experience and suitability for the successful long-term running of the Group are set out on page 30 of this Annual Report. There is no relationship (including financial, business, family or other material or relevant relationship) among members of the Board and in particular, between the Chairman and the Chief Executive Officer.

## **THE BOARD OF DIRECTORS** (continued)

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

The Board possesses a balance of skill and experience which are appropriate for the requirements of the business of the Company. One independent non-executive Director possesses recognised professional qualifications in accounting. The Board believes that its independent non-executive Directors comprise a good mix of local and overseas accounting, financial management and other diversified industry experts. The Board also believes that such a group is ideally qualified to advise the management team on future strategy development, finance and other statutory requirements, and to act as guardians of shareholders' interest. The professional opinions of the independent non-executive Directors raised in the Board meetings facilitate the maintenance of good corporate governance practices. The Board evaluates the independence of all independent non-executive Directors on a regular basis and has received written confirmation from each of them regarding his independence. As at the date of this Annual Report, the Board is satisfied that the independent non-executive Directors are in full compliance with the independence guidelines as laid down in the Listing Rules. All independent non-executive Directors are free from any business or other relationship with the Group.

Prior to 1 November 2005, none of the independent non-executive Directors was appointed for specific term but all of them were subject to retirement and rotation and re-election at the Company's annual general meeting. In compliance with Code provision A.4.1, the three independent non-executive Directors entered into, on 1 November 2005, service agreements with the Company respectively for a fixed term of two years commencing on 1 November 2005 or until retirement by rotation in accordance with the Company's Articles of Association, if earlier. Since 1 November 2005, all independent non-executive Directors of the Company are appointed for a specific term of two years, subject to retirement by rotation and re-election.

## **THE BOARD OF DIRECTORS** (continued)

### **Chairman and Chief Executive Officer**

The Code provision A.2.1 stipulates that the roles of chairman of the board and chief executive officer should be separated and should not be performed by the same individual and that the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

In order to have a clear division between the management of the Board and the day-to-day management of the business operation of the Company, the Company segregates the role of the Chairman from that of the Chief Executive Officer and such division of their respective responsibilities have been clearly established and set out in writing at the Board meeting on 4 October 2005. Mr. Lee Tze Bun, Marces is the Chairman of the Company and Mr. Wan Tat Wah is the Chief Executive Officer of the Company. The Chairman provides leadership to the Board, oversees the efficient functioning of the Board and is responsible for the overall strategic planning and direction and corporate development, whereas the Chief Executive Officer is responsible for policy making and all day-to-day corporate management matters in order to implement the strategies approved by the Board. The roles of the Chairman and Chief Executive Officer were segregated and their respective duties were performed separately throughout the year ended 28 February 2006.

### **Rotation and Re-election**

The Code provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Bye-laws of the Company then in effect before 29 July 2005, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything in the Bye-laws of the Company, the Chairman and/or the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

To comply with the Code provision A.4.2, the relevant amendment to the Bye-laws of the Company was proposed by the Board in the Board meeting held on 17 June 2005 and approved by shareholders at the annual general meeting of the Company held on 29 July 2005. Accordingly, the Chairman of the Board and the Managing Director shall also be subject to retirement by rotation as with other Directors.

The Directors to retire each year shall be those appointed by the Board during the year and those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election.



## **THE BOARD OF DIRECTORS** (continued)

### **Board Meetings**

Regular Board meetings are held at least four times a year to approve annual and interim results and review the business operation of the Group. Between regular meetings, Board meetings are held to approve major issues. All minutes of Board meetings are kept by the Company Secretary of the Company and are open for inspection at any reasonable time on reasonable notice by any Director.

During the year ended 28 February 2006, four regular Board meetings were held to review the financial performance of the Group and other major issues (whether or not required by the Listing Rules), and also on other occasions when Board decisions were required. The views of independent non-executive Directors were solicited by the Group if they were unable to attend meetings of the Board.

The major issues which were brought before the Board for their decisions during the year include:

- (a) formulation of operational strategies and review of its financial performance and results;
- (b) policies relating to key business and financial objectives of the Group;
- (c) proposals related to investments, or any significant capital expenditures; and
- (d) the declaration of any interim dividend and recommendation to shareholders on final dividend.

## THE BOARD OF DIRECTORS (continued)

### Board Meetings (continued)

The names of the Directors and individual attendance of each Director at each Board meeting in the year ended 28 February 2006 are as follows:

	<b>Attendance</b>
<b>Executive Directors</b>	
Mr. Lee Tze Bun, Marces (Chairman)	2/4
Mr. Wan Tat Wah (Chief Executive Officer)	4/4
Ms. Chui Kwan Ho, Jacky (Managing Director)	3/4
Ms. Tsui Oi Kuen	3/4
Mr. Ven Kam Cheong, Eric (resigned on 1 February 2006)	3/4
<b>Independent Non-Executive Directors</b>	
Mr. Wong Kong Chi (resigned on 16 January 2006)	3/3
Mr. Law King Wan	3/4
Mr. Leung Wai Ki, George	4/4
Mr. Lam Siu Lun, Simon (appointed on 16 January 2006)	0/0

On 4 October 2005, the Board approved, among other things,

- (a) the procedures to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expenses for the purpose of assisting the Directors to discharge their duties to the Company (Code provision A.1.7 and see also the sub-section headed "Duties and Responsibilities" below);
- (b) the adoption of the Model Code as set out in Appendix 10 to the Listing Rules as the code for securities transactions by Directors of the Company, the procedures in respect of Directors' dealings in the shares of the Company, and the procedures in respect of employees' dealing in the shares of the Company (Code provision A.5.4 and see also the section headed "DIRECTORS' SECURITIES TRANSACTIONS" below);
- (c) the division of responsibilities between Mr. Lee Tze Bun, Marces, the Chairman and Mr. Wan Tat Wah, Chief Executive Officer whereby their respective responsibilities have been clearly established and set out in writing (Code provision A.2.1 and see also the sub-section headed "Chairman and Chief Executive Officer" above);
- (d) the establishment of the remuneration committee and the adoption of its specific written terms of reference which deal clearly with its authority and duties (Code provisions B.1.1-B.1.5 and see also the sub-section headed "Remuneration Committee" in the section headed "BOARD COMMITTEES" below); and
- (e) the formal schedule of matters specially reserved to the Board for its decision (Code provision D.1.2 and see also the sub-section headed "Management Functions" below).

## **THE BOARD OF DIRECTORS** (continued)

### **Duties and Responsibilities**

The Board oversees the Group's strategic development, and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. All Board members have access to appropriate business documents and information about the Group on a timely basis.

To assist the Directors to discharge their duties to the Company, the Board has also established a written procedure to enable Directors and Board committees to have access to external legal counsel and other professionals for independent advice at the Group's expense if they require it. No request was made by any Director for any such independent professional advice in the year ended 28 February 2006.

The Directors are continually updated with the regulatory requirements, business activities and development of the Group to facilitate the discharge of their responsibilities.

The independent non-executive Directors participate actively in the Board meetings. They bring in independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct. They will lead where potential conflicts of interests arise in any connected transaction. They are also members of the audit committee and the remuneration committee.

### **Management functions**

The Board is responsible for determining the overall strategy and corporate development and ensuring the business operations are properly monitored. The Board reserves the right to decide all policy matters of the Group and material transactions. The Board delegates the day-to-day management and operations of the Group's businesses to general managers and department heads of the Company and its subsidiaries, who are responsible for different aspects of the operations of the Group.

In order to have a clear principle and guideline in relation to the matters specifically reserved to the Board for decisions, functions between the Board and the management are formalised. The Board established a written guideline at the Board meeting on 4 October 2005 determining those issues that require a decision of the Board and those that are delegated to the management. The guideline will be reviewed by the Board on a regular basis and has been delivered to the managerial staff of the Company. Matters reserved to the Board for decision include the making of corporate strategy, significant financial and legal commitments, material asset acquisition or disposal, the change of share capital, the approval of financial reporting, budgeting, management succession and communication with shareholders.



## **THE BOARD OF DIRECTORS** (continued)

### **Management functions** (continued)

The management is responsible for the day-to-day running of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of financial statements for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

To enable all Directors to make informed decisions in the Board meetings and to discharge their duties and responsibilities, the management is required to submit appropriate, complete and reliable information and reports on the operations and all relevant matters to the Board on a regular and timely basis and make recommendations to the Board on the development of major projects or business proposals and their respective implementation. To further reinforce independence, the Board and each Director have separate and independent access to and can further enquire to the management of the Company if additional information more than what is volunteered by the management is required. The Board is of the view that such division of responsibilities can enhance the corporate governance of the Company.

### **Financial reporting**

The management provides explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility for preparing in accordance with statutory requirements and applicable accounting standards the financial statements that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern, and the Board has prepared the financial statements on a going concern basis.

The responsibility of the external auditors, Messrs. PricewaterhouseCoopers, is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of Company, as a body, in accordance with Section 90 of The Companies Act of Bermuda. A statement by the auditors about their reporting responsibilities is set out on page 44 of this Annual Report.

The Company has announced its annual and interim results in a timely manner within approximately four months and three months respectively after the end of the relevant periods in order to enhance high level of corporate transparency.



## **BOARD COMMITTEES**

Two Board committees, namely, the audit committee and the remuneration committee, have been established to oversee particular aspects of the Group's affairs. The different committee's independent views and recommendations not only ensure proper control of the Group but also the continual achievement of the high corporate governance standards expected of a listed company.

### **Remuneration Committee**

The Company established a remuneration committee on 4 October 2005 in accordance with the requirement of the Code with written terms of reference, as disclosed on the Company's websites [www.lesaunda.com.hk](http://www.lesaunda.com.hk) since 15 November 2005, which deal clearly with its authority and duties.

For the year ended 28 February 2006, the members of the remuneration committee comprised Mr. Wong Kong Chi (resigned on 16 January 2006), Mr. Law King Wan, Mr. Leung Wai Ki, George and Mr. Lam Siu Lun, Simon (since 16 January 2006) (all being independent non-executive Directors) and Mr. Lee Tze Bun, Marces and Mr. Wan Tat Wah (both being executive Directors). Mr. Lam Siu Lun, Simon is currently the Chairman of the remuneration committee.

The remuneration committee met on three occasions during the year ended 28 February 2006 to consider and approve the service contracts of executive Directors, independent non-executive Directors and senior management, review the long term incentive scheme of the Group, and assess the performance of executive Directors and senior management. Individual attendance of each remuneration committee member in the year ended 28 February 2006 is as follows:

	<b>Attendance</b>
<b>Independent Non-executive Directors</b>	
Mr. Wong Kong Chi (Chairman of the remuneration committee) (resigned on 16 January 2006)	2/2
Mr. Law King Wan	3/3
Mr. Leung Wai Ki, George	3/3
Mr. Lam Siu Lun, Simon (Chairman of the remuneration committee) (appointed on 16 January 2006)	0/0
<b>Executive Directors</b>	
Mr. Lee Tze Bun, Marces	2/3
Mr. Wan Tat Wah	3/3

The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis.

## **BOARD COMMITTEES** (continued)

### **Remuneration Committee** (continued)

In order to attract, retain and motivate talented executives/employees to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the executives/employees, a share option scheme was adopted by the Company in 2002. Details of the 2002 share option scheme are set out in the sub-section headed “Share Option Scheme” under section headed “DISCLOSURE OF INTERESTS” of this Annual Report.

The primary function of the remuneration committee is to make recommendations to the Board on the Group’s policy and structure for all remuneration of Directors and senior management and to ensure that executive Directors and senior management could be retained and motivated by being fairly rewarded for their individual contribution to the Group’s overall performance as measured against corporate objectives, having regard to the interests of shareholders. The principal duties of the remuneration committee include determining the specific remuneration packages of all Directors and senior management as well as reviewing and approving performance-based remuneration on the basis of their merit, qualification and competence by reference to corporate goals and objectives resolved by the Board from time to time.

The Chairman of the remuneration committee will report the findings and recommendations of the remuneration committee to the Board. The minutes of all meetings of remuneration committee are circulated to the Board for information.

No Director or senior management or any of his associate will be involved in deciding his own remuneration.



## **BOARD COMMITTEES** (continued)

### **Remuneration Committee** (continued)

When fixing the remuneration packages of executive Directors and senior management, considerations have been given to the level of directors' and senior management's remuneration of other comparable listed companies in Hong Kong, qualifications and experience of the executive Directors and their performance and contributions to the Company. The principal elements of the remuneration packages of executive Directors and senior management of the Company include salary, discretionary bonus and share option.

For the year ended 28 February 2006, the remuneration committee has:-

- (a) considered and approved the Group's policy for the remuneration of Directors and senior management; and
- (b) assessed the performance of the executive Directors and senior management and considered the remuneration package of executive Directors and senior management by reference to the prevailing packages with companies listed on the main board of the Stock Exchange.

Details of the remuneration of Directors are disclosed on an individual basis and are set out in note 9 to the financial statements.

### **Audit Committee**

An audit committee was established by the Company in 1999. The audit committee comprises Mr. Wong Kong Chi (resigned on 16 January 2006), Mr. Law King Wan, Mr. Leung Wai Ki, George and Mr. Lam Siu Lun, Simon (since 16 January 2006) (the three independent non-executive Directors), one of whom possesses recognised professional qualifications in accounting and have wide experience in audit, accounting and financial management. Mr. Lam Siu Lun, Simon is currently the chairman of the audit committee. No member of the audit committee is a member of the former or external auditors of the Company. The audit committee members possess diversified industry experience.

The primary responsibilities of the audit committee include overseeing the relationship with the Company's external auditors, review of financial information of the Group, oversight of the Group's financial reporting system, internal control procedures and risk management and making relevant recommendations to the Board. The Company has adopted a term of reference of the audit committee which complies with the provisions of the Code. The full terms of reference of the audit committee are available on the Company's website [www.lesaunda.com.hk](http://www.lesaunda.com.hk).

## **BOARD COMMITTEES** (continued)

### **Audit Committee** (continued)

Four audit committee meetings were held during the year ended 28 February 2006. The attendance of each member is set out as follows:

	<b>Attendance</b>
<hr/>	
<b>Non-executive Directors</b>	
Mr. Wong Kong Chi (resigned on 16 January 2006)	3/3
Mr. Law King Wan	4/4
Mr. Leung Wai Ki, George	4/4
Mr. Lam Siu Lun, Simon (Chairman of the audit committee) (since on 16 January 2006)	0/0

The Chairman of the audit committee will report the findings and recommendations of the audit committee to the Board after each meeting. The minutes of all meetings of the audit committee are circulated to the Board for information.

A summary of the work performed by the audit committee for the year ended 28 February 2006 is set out below:

- (a) reviewed the effectiveness of the audit process in accordance with the applicable standards;
- (b) reviewed the draft interim and annual financial statements and the related draft results announcements;
- (c) reviewed the change in accounting standards and assessment of potential impacts on the Group's financial statements;
- (d) reviewed the continuing connected transactions and provided comments on the fairness and reasonableness of the transactions;
- (e) discussed the relevant issues including financial, operational and compliance controls and risk management functions; and
- (f) made recommendations on the appointment or reappointment of the external auditors and approved their terms of engagement.

### **NOMINATION AND APPOINTMENT OF DIRECTORS**

The Directors are aware of their collective and individual responsibilities to its shareholders for the well-being and success of the Company. During the year ended 28 February 2006, the executive Directors were charged with the responsibility to consider and to assess candidates for directorships on the Board based on their characters, qualifications and experience appropriate for the businesses of the Group. The recommendations of the executive Directors were then put forward for consideration and adoption by the Board as a whole, including independent non-executive Directors.

During the year, the executive Directors, along with independent non-executive Directors, had considered and accepted the resignation of Mr. Ven Kam Cheong, Eric, (an Executive Director) on 1 February 2006 and Mr. Wong Kong Chi (an independent non-executive Director) on 16 January 2006, and the appointment of Mr. Lam Siu Lun, Simon as an independent non-executive Director on 16 January 2006 who, according to the Bye-laws of the Company, will retire and, being eligible, offer himself for re-election at the annual general meeting of the Company in 2006.

All independent non-executive Directors are appointed for a fixed term; however, there is no fixed term of appointment for each of the executive Directors.

The Board is empowered under the Company's Bye-laws to appoint any person as a Director either to fill a casual vacancy on or as an additional member of the Board. The selection criteria are mainly based on the professional qualification and experience of the candidate. A newly appointed Director must retire and be re-elected at the first general meeting after his appointment.

### **AUDITORS' REMUNERATION**

During the year ended 28 February 2006, the fee paid/payable in respect of audit and non-audit services provided by Messrs PricewaterhouseCoopers, auditors of the Company (which for the purpose of this Corporate Governance Report includes any entity under common control, ownership or management with the auditors or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) are set out as follows:

	<b>Fee paid/payable</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK'000
Audit services	<b>1,200</b>	1,038
Non-audit services	<b>196</b>	102
	<b>1,396</b>	1,140

### **SHAREHOLDERS' RIGHTS AND COMMUNICATION WITH SHAREHOLDERS**

To foster effective communications, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its websites.

The Company regards the annual general meeting ("AGM") as an important event as it provides an important opportunity for direct communication between the Board and shareholders. Directors and senior management will make effort to attend the AGM. The Chairman of the Board, as well as the Chairman of the audit committee and the remuneration committee respectively and external auditors will be available at the AGM to address shareholders' queries. All shareholders are given at least twenty-one days' notice of the AGM and they are encouraged to attend the AGM and other shareholders' meetings. Questioning by the shareholders at such meetings are encouraged and welcomed.

According to the Bye-laws of the Company, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the voting right at general meetings of the Company can convene, by written requisition to the Board or the Company Secretary of the Company, a special general meeting for the transaction of any business specified in such requisition. Any general meeting at which the passing of a special resolution is to be considered shall be called by not less than twenty-one clear days' notice, whilst others may be called by not less than fourteen clear days' notice. The Chairman of any general meetings ensures that the shareholders are informed of the procedure for voting by poll by way of making the disclosure in the circulars to shareholders and the explanation during the general meetings. The chairman of general meetings also ensures compliance with the requirements about voting by poll contained in the Listing Rules and the Bye-laws of the Company.

Shareholders' comments and suggestions as well as any proposals put forward to shareholders' meetings at a reasonable time are welcome and such comments and proposals can be sent in writing to the Company Secretary at the Company's address in Hong Kong. The Board endeavors to answer all invaluable questions from the shareholders.

On 29 July 2005, the Company's Bye-laws were amended to incorporate the changes that are required under the revised Listing Rules.



### **CODE OF CONDUCT AND BUSINESS ETHICS**

The Directors have a duty and responsibility to act honestly and with due diligence and care when carrying out their duties on behalf of the Group. Employees of the Group have maintained high level of ethical standards. The Group published an employee handbook, setting out standards of professional and ethical conduct for all employees of the Group. Trainings on the contents of the Employee Handbook have been held regularly. The employees at all levels are expected to act in an honest, diligent and responsible manner.

### **DIRECTORS' SECURITIES TRANSACTIONS**

On 4 October 2005, the Company adopted the full set of the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by Directors. The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are likely to be in possession of unpublished price sensitive information in relation to the Group or securities of the Company. Having made specific enquiry of all Directors, no incident of non-compliance was noted by the Company for the year ended 28 February 2006. The interests in the Company's securities held by the Directors as at 28 February 2006 are disclosed on pages 32 to 37 of this Annual Report.