



CORPORATE GOVERNANCE REPORT
REPORT OF THE DIRECTORS
REPORT OF AUDITORS



Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Board of Directors (the "Board") of the Company is committed to maintaining high standards of corporate governance. In the year, the Company has adopted the code provisions set out in the Code of Corporate Governance Practices ("the Code") in Appendix 14 of the Listing Rules as its own code of corporate governance practice.

In the opinion of the directors, the Company has complied throughout the year with the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all existing directors, the Company confirms that they have fully complied with the required standard set out in the Model Code throughout the year.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated the day-to-day responsibility to the Executive Directors and senior management who perform their duties under the leadership of the Managing Director.

The Board has scheduled at least four meetings a year and meets as and when required. During the year, the Board held six meetings. The Company Secretary assists the Chairman in establishing the meeting agenda, and each director may request inclusion of items in the agenda. For all such meetings, at least 14 days' notice is given to all directors. Adequate and appropriate information are circulated normally three days in advance of board meetings to the directors. The attendance of the directors at the board meetings are as follows:



Directors' attendance at board meetings

| | Directors | Number of attendance |
|-------------------------------------|--|-----------------------------|
| Executive Directors | Naoyuki Miyashita (<i>Managing Director</i>) (<i>Note 1</i>) | 2/6 |
| | Kozo Murata (<i>Note 2</i>) | 4/6 |
| | Wong Mun Yu | 6/6 |
| | Lam Man Tin | 6/6 |
| Non-executive Directors | Toshiji Tokiwa (<i>Chairman</i>) | 3/6 |
| | Motoya Okada | 0/6 |
| | Tatsuichi Yamaguchi | 4/6 |
| | Kazumasa Ishii | 6/6 |
| Independent Non-executive Directors | Shao You Bao | 6/6 |
| | Lam Pei Peggy | 5/6 |
| | Sham Sui Leung Daniel | 6/6 |

(*Note 1*) Mr. Naoyuki Miyashita was appointed as the Managing Director of the Company on 21 June 2005 and there have been two board meetings held since his appointment.

(*Note 2*) Mr. Kozo Murata resigned as director on 21 June 2005.

Board and committee minutes are recorded in appropriate detail and draft minutes are circulated to all directors and committee members for comments before being approved by the Board and committees respectively at the next immediate meeting. All minutes are kept by the Company Secretary and are open for inspection by the directors.

The directors enable, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the directors to assist the relevant directors to discharge their duties.

The Company has received annual confirmations of independence from all existing Independent Non-executive Directors and considers them to be independent.

The Board members have no financial, business, family or other material/relevant relationship with each other. Given the nature and business objectives of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of directors and their respective biographies are set out on pages 24 and 14 of this annual report respectively.

The Company has not fixed the terms of appointment for all directors but they are subject to re-election at the annual general meeting of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Board considered that the duties of the Managing Director (“MD”) were no difference from that required of a chief executive officer stipulated under the code provision A.2 of the Code. The management would regard that the term MD will have the same meaning as the chief executive officer of the Company.

The Chairman of the Board is a Non-executive Director, who is responsible for the leadership and effective running of the Board, and ensuring that all significant and key issues are discussed and where required, resolved by the Board timely and constructively.

The MD of the Board is delegated with the authority and responsibility to run the Group’s business and day-to-day operation, and implement the Group’s strategy with respect to the achievement of its business objectives with the assistance of the Executive Directors and senior management.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for ensuring that the Company has formal and transparent procedures for developing and overseeing its policies on the remuneration of the directors and senior management. The committee’s authorities and duties are set out in written terms of reference, which are posted on the Company’s website.

Members of the Remuneration Committee and the attendance of each member are set out as follows:

| | Directors | Number of attendance |
|-------------------------------------|---|-----------------------------|
| Non-executive Directors | Tatsuichi Yamaguchi (<i>Chairman</i>) | 3/3 |
| Independent Non-executive Directors | Shao You Bao Lam Pei Peggy (<i>Note</i>) | 3/3 2/3 |

(*Note*) Mdm. Lam Pei Peggy was appointed as the third member of the Remuneration Committee on 6 May 2005 to comply with code provision B.1.2 of the Code and there have been two committee meetings held since her appointment.

During 2005, the Remuneration Committee performed the following duties:

- reviewed the remuneration of the Executive Directors (including the Managing Director) and the senior management; and
- adopted the revised terms of reference for the Remuneration Committee to ensure compliance with the Listing Rules.

NOMINATION OF DIRECTORS

The Company has not established a Nomination Committee. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no director being involved in fixing his / her own terms of appointment and no independent non-executive director being involved in assessing his / her own independence.

AUDITORS' REMUNERATION

During the year under review, the remuneration payable to the Company's auditors, Deloitte Touche Tohmatsu, is set out as follows:

| Services rendered | Fees payable <i>HK\$'000</i> |
|---|--|
| Audit services | 2,171 |
| Non-audit services: | |
| Review of interim results | 475 |
| Taxation services | 64 |
| Audit of occupational retirement scheme | 17 |
| Other services | 57 |
| | 2,784 |
| | 2,784 |

AUDIT COMMITTEE

The Audit Committee is responsible for ensuring the objectivity and credibility of the Group's financial reporting. The committee's authority and duties are set out in written terms of reference, which are posted on the Company's website.

The Audit Committee reviews the Group's financial statements, internal financial reports, and internal control systems. The Audit Committee meets at least twice a year with management and external auditors and reviews their reports.

Members of the Audit Committee and the attendance of each member are set out as follows:

| | Directors | Number of attendance |
|-------------------------------------|----------------------------------|-----------------------------|
| Non-executive Directors | Tatsuichi Yamaguchi | 2/3 |
| Independent Non-executive Directors | Shao You Bao (<i>Chairman</i>) | 3/3 |
| | Lam Pei Peggy | 2/3 |
| | Sham Sui Leung Daniel | 3/3 |

During 2005, the Audit Committee performed the following duties:

- reviewed the audited financial statements for the year ended 31 December 2004 with a recommendation to the Board for approval;
- reviewed the un-audited financial statements for the six months ended 30 June 2005 with a recommendation to the Board for approval;
- reviewed various reports on internal control system covering financial, operational, procedural compliance and risk management functions;
- met the external auditors and reviewed their report to the committee in respect of the audit of the annual results and review of interim results of the Company;
- met the management and reviewed their reports on connected transactions of the Company; and
- adopted the revised terms of reference for the Audit Committee to ensure compliance with the Listing Rules.

All members of the Audit Committee possess in-depth experience in their own profession. At least one of the committee members possesses appropriate professional qualifications in finance and accounting and meets the requirements of rule 3.21 of the Listing Rules.

ACCOUNTABILITY

The directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cashflows of the Group. In preparing the accounts for the six months ended 30 June 2005 and for the year ended 31 December 2005, the directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

INTERNAL CONTROLS

The Board has, through the Audit Committee, conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions.