

## CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Fund's annual report for the year ended 31st December 2005.

The Fund recognises the importance of good corporate governance to the Fund's healthy growth and has formulated corporate governance practices appropriate to the Fund's needs.

The Fund's corporate governance practices are based on the principles (the "Principles"), code provisions (the "Code Provisions") as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (the "Listing Rules").

The Fund has applied the Principles and the Code Provisions as set out in the CG Code and complied with most of the Code Provisions, except that the Fund does not have a chief executive officer position. Due to the nature of the Fund, being a closed-ended investment company, the day-to-day management is delegated to the Manager. The Fund regularly reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the CG Code.

The Fund wishes to highlight the importance of its Board of Directors (the "Board") in ensuring effective leadership and control of the Fund and transparency and accountability of all operations.

The key corporate governance principles and practices of the Fund are summarised as follows:

### THE BOARD

#### Responsibilities

The overall management of the Fund's business is vested in the Board, which assumes the responsibility for leadership and control of the Fund and is collectively responsible for promoting the success of the Fund by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Fund.

The Board reserves for its decisions all major matters of the Fund, including: the approval and monitoring of all policy matters, overall strategies, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

## CORPORATE GOVERNANCE REPORT

### THE BOARD *(Continued)*

#### Responsibilities *(Continued)*

As the Fund is a close-ended investment company, investment management services have been delegated to the Manager and custodian, fund services and transaction handling services have been delegated to the Custodian. The delegated functions and work tasks are periodically reviewed by the Board.

#### Composition

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Fund and to the exercising of independent judgement.

The Board currently comprises 8 members, consisting of 4 executive directors, 1 non-executive director and 3 independent non-executive directors.

The Board of the Fund comprises the following directors:

#### *Executive directors*

Mr So Chun Ki Louis *(Chairman)*

Mr Cheah Cheng Hye

Mr Teng Ngiek Lian

Mr Ngan Wai Wah, Franco *(member of Remuneration Committee)*

#### *Non-executive director*

Mr Yeung Kin Sing, William *(member of Audit Committee)*

#### *Independent non-executive directors*

Mr Li Aubrey Kwok Sing *(Chairman of Audit Committee and  
member of Remuneration Committee)*

Mr Paul Marin Theil *(member of Audit Committee and Remuneration Committee)*

Mr Ng Ka Wai, Eric *(member of Audit Committee and Remuneration Committee)*

The list of directors (by category) is also disclosed in all corporate communications issued by the Fund pursuant to the Listing Rules from time to time.

Mr Cheah Cheng Hye and Mr Ngan Wai Wah, Franco, are also directors of the Manager. Save as disclosed, none of the members of the Board is related to one another.

## CORPORATE GOVERNANCE REPORT

### THE BOARD *(Continued)*

#### **Composition** *(Continued)*

During the year ended 31st December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least 3 independent non-executive directors with at least 1 independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Fund has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Fund considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

#### **Appointment and succession planning of directors**

The Fund has established formal and transparent procedures for the appointment and succession planning of directors.

Each of the non-executive directors of the Fund is engaged on a service contract for a term of 1 year and is eligible for re-election at each annual general meeting.

In accordance with the Fund's Articles of Association, all directors of the Fund are subject to retirement by rotation once every 3 years. In practice, any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

The Board as a whole 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.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Fund.

## CORPORATE GOVERNANCE REPORT

### THE BOARD *(Continued)*

#### **Appointment and succession planning of directors** *(Continued)*

Where vacancies on the Board exist, the Chairman will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Fund'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.

In accordance with the Fund's Articles of Association, Mr Li Aubrey Kwok Sing, Mr Paul Marin Theil, Mr Ng Ka Wai, Eric, and Mr Yeung Kin Sing, William, shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Board recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Fund.

The Fund's circular dated 28th April 2006 contains detailed information of the directors standing for re-election.

#### **Board meetings**

##### *Number of meetings and directors' attendance*

Regular Board meetings are held at least 4 times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Fund.

During the year ended 31st December 2005, 4 regular Board meetings were held and the attendance rate was approximately 94%.

## CORPORATE GOVERNANCE REPORT

### THE BOARD *(Continued)*

#### Board meetings *(Continued)*

*Number of meetings and directors' attendance (Continued)*

The individual attendance record of each director at the meetings of the Board, Remuneration Committee and Audit Committee during the year ended 31st December 2005 is set out below:

Name of directors	Attendance / Number of meetings	
	Board	Audit Committee
Cheah Cheng Hye	3/4	N/A
Teng Ngiek Lian	4/4	N/A
Ngan Wai Wah, Franco	4/4	N/A
So Chun Ki Louis	4/4	N/A
Yeung Kin Sing, William	3/4	2/2
Li Aubrey Kwok Sing	4/4	2/2
Paul Marin Theil	4/4	2/2
Ng Ka Wai, Eric	4/4	2/2
Choi Nga Chung (resigned on 22nd March 2005)	1/1	N/A

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. However, as the Fund is a closed-end investment company, no Chief Executive Officer has been appointed by the Fund.

Mr So Chun Ki Louis is the Chairman of the Fund. The Board believes Mr So has strong and consistent leadership and is capable for effective and efficient planning and implementation of business decisions and strategies.

The Board considers that the current Board structure without the appointment of a Chief Executive Officer will not impair the balance of power and authority between the Board and the management of the Fund.

## CORPORATE GOVERNANCE REPORT

### BOARD COMMITTEES

The Board has established 2 committees, namely, the Remuneration Committee and Audit Committee, for overseeing particular aspects of the Fund's affairs. Both Board committees of the Fund are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of each Board committees are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 1.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Fund's expenses.

#### Remuneration Committee

The primary objective for setting up the Remuneration Committee is to comply with the Code Provision as set out in Appendix 14. In theory, the Remuneration Committee is responsible for making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management and also in establishing transparent procedures for developing the Fund's remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Fund as well as market practice and conditions.

However, due to the Fund's policy, the same level of director's fee is paid to all non-executive directors and 1 executive director, which has been determined by members of the Board who are not entitled to the director's fee, therefore the Remuneration Committee, which comprises a majority of non-executive directors, has not met during the year ended 31st December 2005. Save as disclosed, no other remuneration or fees were paid to any of the directors.

## CORPORATE GOVERNANCE REPORT

### BOARD COMMITTEES (*Continued*)

#### **Audit Committee**

The Audit Committee comprises 3 independent non-executive directors (including 2 independent non-executive directors who possess 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 Fund's existing external auditors.

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 the qualified accountant, compliance officer, internal auditor or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Fund's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held 2 meetings during the year ended 31st December 2005 to review the financial results and reports, financial reporting and compliance procedures, report of Internal Auditor on the Fund's internal control and risk management review and processes and the re-appointment of the external auditors.

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

The Audit Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Fund's annual results for the year ended 31st December 2005 has been reviewed by the Audit Committee.

## **CORPORATE GOVERNANCE REPORT**

### **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Fund has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules.

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 31st December 2005.

The Fund has no employees and the Manager is subject to the in-house staff dealing rules which provide guidance to employees of the Manager who is likely to be in possession of unpublished price-sensitive information of the Fund.

No incident of non-compliance of the in-house staff dealing rules by the employees of the Manager was noted by the Fund.

### **RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS’ REMUNERATION**

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 directors acknowledge their responsibility for preparing the financial statements of the Fund for the year ended 31st December 2005.

The statement of the external auditors of the Fund about their reporting responsibilities on the financial statements is set out in the “Auditors’ Report” on page 24.

The remuneration paid to the external auditors of the Fund in respect of audit services and non-audit services for the year ended 31st December 2005 amounted to HK\$215,900 and HK\$339,400 respectively.