

# CORPORATE GOVERNANCE REPORT

The Group continues to achieve high standards of corporate governance which, it believes, is crucial to the development of the Group and to safeguard the interests of the Company's shareholders.

The Company complied with the applicable Code on Corporate Governance Practices (**the "Code"**) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (**the "Listing Rules"**) throughout the year ended 31 December 2005, except for the deviations from code provisions A.2.1, A.4.1, A.4.2 and E.2.1 which are explained in the relevant paragraphs below.

## BOARD OF DIRECTORS

The Board currently consists of 2 executive directors, namely Mr. Yim Yuk Lun, Stanley and Mr. Wong Sui Chuen and 1 non-executive director, namely Dr. Chang Chu Cheng and 5 independent non-executive directors ("**INEDs**") (**collectively the "Directors"**), namely Mr. Chang Ping Kin, Mr. Cheung Chi Kwan, Mr. Liu Chun Ning, Wilfred, Dr. Lui Ming Wah, J.P. and Mr. Wong Tak Yuen, Adrian.

The principal functions of the Board are to supervise the management of the business and affairs; to approve the strategic plans, investment and funding decision; to review the Group's financial performance and operative initiatives.

The role of INEDs is to bring an independent and objective view to the Board's deliberations and decisions. The Company has received annual confirmation of independence from the five INEDs pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent within the definition of the Listing Rules.

The Board held a total of four board meetings during the year. The attendance of the Directors at meetings of the Board and Board Committees are disclosed below in this report.

Having considered the current business operation and the size of the Group, the Board is of the view that Mr. Yim Yuk Lun, Stanley acting as both the Chairman and the Managing Director of the Group is acceptable and in the best interest of the Group. Mr. Yim is responsible for the formulation of corporate strategies and the overall direction for the Group's management team.

Under the code provision A.4.1 & A.4.2 of the Code, (a) non-executive directors should be appointed for a specific term and subject to re-election; and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The non-executive directors have not been appointed for a specific term. However, according to the Bye-laws of the Company, one-third of the directors for the time being shall retire from office by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those in the Code.

Under the existing Bye-laws of the Company, no provision has been provided for allowing the chairman of a meeting and/or directors holding proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies.

In order to confirm with the code provision A.4.2 and E.2.1, resolutions will be proposed at the AGM scheduled on 23 May 2006 to amend the Bye-laws.

In considering the nomination of a new director, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. Furthermore, as the full Board is responsible for selection and approval of candidates for appointment as executive director to the board, the Company has not established a Nomination Committee for the time being.

#### DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the year under review.

#### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements for each half and full financial year which give a true and fair view of the state of affairs of the Group.

#### AUDIT COMMITTEE

The Audit Committee consists of three INEDs, namely Mr. Wong Tak Yuen, Adrian, Mr. Cheung Chi Kwan and Mr. Chang Ping Kin. Mr. Wong Tak Yuen, Adrian is the Chairman of the Audit Committee. In accordance with the terms of reference of the Audit Committee, the Audit Committee met twice in 2005 to review the interim and final results of the Company. The terms of reference of the Committee are aligned with the recommendations set out in "A Guide For Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Code.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the Auditors of the Company.

During the financial year ended 31 December 2005, the Group has engaged the external auditors to provide the following services and their respective fees charged are set out as below:

Type of Services	Amount HK\$'000
Audit fee for the Group	1,166
Other non-audit services for the Group	196

## REMUNERATION COMMITTEE

The Remuneration Committee comprises 3 members, namely Mr. Wong Sui Chuen, Dr. Lui Ming Wah J.P. and Mr. Wong Tak Yuen, Adrian, majority of whom are independent non-executive directors, and is chaired by Mr. Wong Sui Chuen.

The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policies and structure for all remuneration of Directors and senior management and to review the specific remuneration packages of Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. One meeting has been held during the year under review.

The following table summarizes the attendance of Directors at meetings of the Board and the above committees during the year:

	Board	Audit Committee	Remuneration Committee
<b>Number of Meetings</b>	4	2	1
<b>Executive Directors</b>			
Yim Yuk Lun, Stanley	4/4	N/A	N/A
Wong Sui Chuen	4/4	N/A	1/1
Cheung Yuk Kuen*	1/4	N/A	N/A
<b>Non-Executive Directors</b>			
Dr. Chang Chu Cheng	0/4	N/A	N/A
Lau Ping Cheung**	2/4	N/A	N/A
<b>Independent Non-Executive Directors</b>			
Chang Ping Kin	4/4	2/2	N/A
Cheung Chi Kwan	4/4	2/2	N/A
Liu Chu Ning, Wilfred	3/4	N/A	N/A
Dr. Lui Ming Wah, J.P.	1/4	N/A	1/1
Wong Tak Yuen, Adrian	4/4	2/2	1/1

\* Mr. Cheung Yuk Kuen retired on 25 May 2005.

\*\* Mr. Lau Ping Cheung retired as an executive director on 25 May 2005, appointed as a non-executive director on 1 July 2005 and subsequently resigned on 27 February 2006.

### INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority for the achievement of business objectives, safeguarding assets against unauthorized use or disposition, ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance with relevant legislation and regulations. The system is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against the risks of material misstatement, fraud or losses.

### COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with its shareholders, the Company provides extensive information in its annual report and press release. Also the Group disseminates information relating to its business electronically through its website at [www.sasdragon.com.hk](http://www.sasdragon.com.hk).

The Company regards the AGM as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders. All directors and senior management will make an effort to attend. All shareholders will be given at least 21 days' notice of the AGM and are encouraged to attend the AGM and other shareholders' meetings.