

CORPORATE GOVERNANCE REPORT

The Company is committed to the establishment of good corporate governance practices and procedures and the identification and formalization of best practices of corporate governance.

Code on Corporate Governance Practices (the “Code on Corporate Governance Practices”) in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)

During the period commencing from 5th October, 2005, the date of the listing of the Shares commenced on the Main Board of the Stock Exchange (the “Listing Date”) up to the date of the bulk printing of this report (the “Relevant Period”), none of the directors of the Company (the “Directors”) is aware of any information which would reasonably indicate that the Company is not, or was not in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules, save that:-

- (a) Code provision A.1.1 requires that board meetings should be held at least four times a year at approximately quarterly intervals. As the Shares are listed on the Stock Exchange on 5th October, 2005, only two meetings of the Board were held from the Listing Date to 31st December, 2005. Board meetings will be held at least four times a year in the year 2006.
- (b) Code provision A.2.1 requires that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Dr. Sung Chung Kwun is the Chairman of the Board and there is no chief executive officer appointed by the Company and the day-to-day management of the Group is led by Dr. Sung Chung Kwun. There is no time schedule to change this structure as the Directors consider that this structure provides the Group with strong and consistent leadership in the Company’s decision making and operational efficiency.

The Company has adopted some of the recommended best practices as set out in the Code on Corporate Governance Report.

Directors’ securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as the code of conduct regarding securities transactions by the Directors. Having made specific enquires with all the Directors, all of them have confirmed that they have complied with the required standard set out in the Model Code during the Relevant Period.



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The board of Directors

The Board is chaired by Dr. Sung Chung Kwun. There are five executive Directors, namely, Dr. Sung Chung Kwun, Mr. Wong Chiu Hong, Mr. Ip Siu Lam, Ms. Mok Pui Mei and Ms. Sung Lam Ching, one non-executive Director, namely, Mr. Lau Gary Q. and three independent non-executive Directors, namely Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling. The Directors' biographical information are set out in pages 20 to 21 of this report. Since the shares of the Company were listed on the Stock Exchange on the Listing Date, two Board meetings were held from the Listing Date up to 31st December, 2005. Their individual attendance was as follows:-

Dr. Sung Chung Kwun (2/2), Mr. Wong Chiu Hong (2/2), Mr. Ip Siu Lam (1/2), Ms. Mok Pui Mei (2/2), Ms. Sung Lam Ching (2/2), Mr. Lau Gary Q. (1/2), Mr. Chan Tsz Fu, Jacky (0/2), Mr. Ng Man Kin (0/2) and Professor Cai Xiu Ling (0/2).

The Board assumes responsibility for leadership and control of the Company and its members are collectively responsible for promoting the success of the Company by formulating the Group's overall strategies and policies, approval of business plans, evaluating the performance of the Group in pursuit of the Group's overall strategy objectives and oversight of the management of the Group. The Board has established three committees, namely the audit committee, the remuneration committee and the nomination committee. Management of the Group is responsible for the day-to-day operations of the Group with the efforts of the executive Directors and members of the senior management of the Company to implement the business strategies and plans formulated and approved by the Board.

Each of the independent non-executive Directors has made an annual confirmation to the Company concerning his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors meet the guidelines for assessing independence as set out in Rule 3.13 of the Listing and are independent. Mr. Chan Tsz Fu, Jacky is the independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise who is a practicing certified public accountant. The independent non-executive Directors represent one-third of the Board.

Ms. Sung Lam Ching, an executive Director, is the daughter of Dr. Sung Chung Kwun, the Chairman of the Company and is the spouse of Mr. Lau Gary Q., a non-executive Director.

Each of the non-executive Directors (including the independent non-executive Directors) is appointed for a specific term. Each of the appointment is for a term of one (1) year from 1st September, 2005 to 31st August, 2006 subject to retirement by rotation at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

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The Chairman takes the lead to ensure that the Board works effectively and discharges its responsibilities and encourages all directors to make a full and active contribution to the Board's affairs for the best interests of the Company. The Chairman has designated the Company Secretary of the Company for drawing up the agenda for each board meeting and is primarily responsible for approving the agenda taking into account, where appropriate, any matters proposed by the other Directors for inclusion in the agenda.

The Company is in the course of arranging appropriate insurance cover in respect of legal action against the Directors.

Remuneration Committee

According to the Code on Corporate Governance Practices, the Company shall establish a remuneration committee with a majority of the members thereof being independent non-executive Directors. The Company has established its remuneration committee (the "**Remuneration Committee**") in August 2005. The members of the Remuneration Committee comprise all the independent non-executive Directors, namely, Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling with Mr. Chan Tsz Fu, Jacky as the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and members of the senior management of the Company and to determine the specific remuneration packages of all executive Directors and members of the senior management of the Company. The terms of reference of the Remuneration Committee has posted on the website of the Company and are available upon request. It is expected that members of the Remuneration Committee will meet once a year and shall meet as and when required. The Remuneration Committee will consult the Chairman about its proposals relating to the remuneration of other executive Directors.

Nomination Committee

The Company has established its nomination committee (the "**Nomination Committee**") in August 2005 to adopt one of the recommended best practices as set out in the Code on Corporate Governance Practices. The members of the Nomination Committee comprise all the independent non-executive Directors, namely, Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling with Mr. Chan Tsz Fu, Jacky as the Chairman of the Nomination Committee.

The principal responsibility of the Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee has posted on the website of the Company and are available upon request. It is expected that members of the Nomination Committee will meet once a year and shall meet as and when required.



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Audit Committee

As required under Rule 3.21 of the Listing Rules and the Code on Corporate Governance Practices, the Company shall establish an audit committee comprising at least three members who must be non-executive Directors only, and the majority of the members thereof being independent non-executive Directors and at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company has established its audit committee (the “**Audit Committee**”) in August 2005. The members of the Audit Committee comprise all the independent non-executive Directors, namely, Mr. Chan Tsz Fu, Jacky, Mr. Ng Man Kin and Professor Cai Xiu Ling with Mr. Chan Tsz Fu, Jacky as the Chairman of the Audit Committee.

The principal responsibilities of the Audit Committee are to review the relationship with the Auditors of the Company, review the financial information of the Group and oversight of the Group's financial reporting system and internal control procedures. The terms of reference of the Audit Committee has posted on the website of the Company and are available upon request. During the Relevant Period, two Audit Committee meetings were held. Their individual attendance was as follows:-

Mr. Chan Tsz Fu, Jacky (2/2), Mr. Ng Man Kin (2/2) and Professor Cai Xiu Ling (2/2).

Auditors' remuneration

For the year ended 31st December, 2005, the Auditors of the Company received approximately HK\$2,161,425 for audit service and Stephen Liu And Company received approximately HK\$91,575 for taxation fee.

Directors' Responsibility for the Financial Statements

The Directors acknowledge responsibility for preparing the financial statements of the Group.

The Statement by the auditors of the Company about their reporting responsibilities are set out on page 33 of this report.