

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensuring high standards of corporate governance practices. The Board of Directors of the Company (the "Board") believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices from time to time to ensure they meet public and shareholders' expectation, comply with legal and professional standards and reflect the latest local and international developments. The Board will continue to commit itself to achieving a high quality of corporate governance.

In 2005, the Company took measures to enhance its corporate governance practices so as to comply with the requirements of the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which came into effect on 1st January, 2005. These included, inter alia, modification of the Company's Articles of Association and the terms of reference of its Audit Committee, and the establishment of the Remuneration Committee and the Nomination Committee.

To the best knowledge and belief of the Directors, the Directors consider that the Company has complied with the code provisions of the Code for the year ended 31st December, 2005, except for the provision C.2 in respect of internal controls (which is applicable to the accounting periods commencing on or after 1st July, 2005) and the following deviations from code provisions A.4.1, A.4.2 and D.1.2:

- (i) Not all non-executive Directors (other than two independent non-executive Directors appointed in September 2004 with a term of two years) were appointed for a specific term as required by the Code. However, they are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's Articles of Association.
- (ii) Prior to the amendment of the Company's Articles of Association in the last annual general meeting held on 3rd June, 2005, Directors were not required to retire by rotation at least once every three years. According to the Company's Articles of Association, any director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting, and shall then be eligible for re-election.
- (iii) During the year, the Company had not written out a formalized list of functions reserved to the Board although it had been the long standing practice all these years that all important matters, in particular, those affecting the Group's overall strategic policies, dividend policy, significant changes in accounting policies, material contracts and major investments, would go through the Board for prior approval.

The Company's Articles of Association have been amended on 3rd June, 2005 to provide, inter alia, that every director shall be subject to retirement by rotation at least once every three years. It is proposed that relevant amendment will be made to the Company's Articles of Association in the forthcoming annual general meeting of the Company in order that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. As at the date of this report, all the non-executive Directors have a fixed term of contract of two years with the Company. The Company has formalized the functions reserved to the Board and will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Company.

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DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules as the code for securities transactions by Directors. Having made specific enquiry of all Directors, all Directors have fully complied with the required standard set out in the Model Code throughout the year of 2005.

To enhance the corporate governance, the Company has also established a written guideline on no less exacting terms than the Model Code for the employees of the Group.

BOARD OF DIRECTORS

The Board currently comprises eight members (the composition of the Board is shown on page 2), including four executive Directors and four non-executive Directors of whom three are independent as defined under the Listing Rules (brief biographical details of the Directors are set out on pages 19 to 21). Save as disclosed herein, to the best knowledge of the Directors, the Board members have no financial, business, family or other material/relevant relationship with each other.

The Company has three independent non-executive Directors, representing more than one-third of the Board. At least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. All the independent non-executive Directors have signed the annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules to confirm their independence.

Under the Company's Articles of Association, one-third of the Directors must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders. In addition, every Director is subject to retirement by rotation at least once every three years notwithstanding that the total number of Directors to retire at the relevant annual general meeting would as a result exceed one-third of the Directors.

The Board oversees the Group's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls the operating and financial performance in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the management of the Company under the supervision of the executive Directors. The functions and powers that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic policies, dividend policy, significant changes in accounting policies, material contracts and major investments. The Board members have access to appropriate business documents and information about the Group on a timely basis. All Directors and Board committees have recourse to external legal counsel and other professionals for independent advice at the Group's expense upon their request.

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BOARD OF DIRECTORS *(Continued)*

Three Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, have been established to oversee particular aspects of the Group's affairs.

The Board meets regularly to review the financial and operating performance of the Group and other business units, and to approve future strategy. Nine Board meetings were held in 2005. Individual attendance of each Director at the Board meetings and each committee member at meetings of the Audit Committee, the Remuneration Committee and the Nomination Committee during 2005 are set out below:

Directors	Attendance/Number of Meetings			
	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
Executive Directors				
Mr. Stephen Riady <i>(Chairman)</i>	8/9	N/A	1/1	1/1
Mr. John Luen Wai Lee <i>(Managing Director and Chief Executive Officer)</i>	8/9	N/A	N/A	N/A
Mr. Jark Pui Lee	7/9	N/A	N/A	N/A
Mr. David T. Yeh	5/9	N/A	N/A	N/A
Non-executive Director				
Mr. Leon Nim Leung Chan <i>(Chairman of the Remuneration Committee and Nomination Committee)</i>	9/9	3/3	1/1	1/1
Independent Non-executive Directors				
Mr. Victor Ha Kuk Yung <i>(Chairman of the Audit Committee)</i>	7/9	3/3	1/1	1/1
Mr. Edwin Neo	7/9	2/3	1/1	1/1
Mr. King Fai Tsui	9/9	2/3	1/1	1/1

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer of the Company are segregated. Mr. Stephen Riady is the Chairman of the Board. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. Mr. John Luen Wai Lee is the Chief Executive Officer of the Company. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. Their respective roles and responsibilities are set out in writing which have been approved by the Board.

NON-EXECUTIVE DIRECTORS

There are currently four non-executive Directors of whom three are independent. Under the Company's Articles of Association, every Director, including the non-executive Directors, shall be subject to retirement by rotation at least once every three years. This means that the specific term of appointment of a Director cannot exceed three years.

All the non-executive Directors have a fixed term of contract of two years with the Company.

REMUNERATION OF DIRECTORS

A Remuneration Committee was established by the Board in June 2005. It has clear terms of reference and is accountable to the Board. Its terms of reference can be found in the Company's website (www.lippold.com.hk). The principal role of the Committee is to exercise the powers of the Board to determine and review the remuneration package of individual Directors and key executives, including salaries, bonuses and benefits in kind, considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and key executives, employment conditions elsewhere in the Group and desirability of performance-based remuneration so as to align management incentives with shareholders' interests. During the year, the Remuneration Committee has reviewed the scope of its duties and responsibilities. It also reviewed and approved the remuneration packages of the executive Directors for the year.

Majority of the Committee members are non-executive Directors and three of them are independent. The Remuneration Committee currently comprises five members including one executive Director, namely, Mr. Stephen Riady, one non-executive Director, namely, Mr. Leon Nim Leung Chan (being the Chairman of the Remuneration Committee) and three independent non-executive Directors, namely, Messrs. Edwin Neo, Victor Ha Kuk Yung and King Fai Tsui. One meeting was held in 2005 and the individual attendance of each member is set out on page 13.

Details of Directors' emoluments and retirement benefits are disclosed in Notes 9 and 11 to the financial statements, respectively.

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NOMINATION OF DIRECTORS

The Board has the power to appoint Director(s) pursuant to the Company's Articles of Association. No new Director was appointed during 2005.

A Nomination Committee was established by the Board in June 2005. It has clear terms of reference and is accountable to the Board. Its terms of reference can be found in the Company's website (www.lippold.com.hk). The principal role of the committee includes, inter alia, review of the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and making recommendations to the Board regarding any proposed changes; assessment of the independence of independent non-executive Directors; and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. During the year, the Nomination Committee reviewed the scope of its duties and responsibilities.

Majority of the Committee members are non-executive Directors and three of them are independent. The Nomination Committee currently comprises five members including one executive Director, namely, Mr. Stephen Riady, one non-executive Director, namely, Mr. Leon Nim Leung Chan (being the Chairman of the Nomination Committee) and three independent non-executive Directors, namely, Messrs. Edwin Neo, Victor Ha Kuk Yung and King Fai Tsui. One meeting was held in 2005 and the individual attendance of each member is set out on page 13.

AUDITORS' REMUNERATION

Messrs. Ernst & Young has been appointed by the shareholders annually as the Company's auditors. During the year, the fees charged to the accounts of the Group for the statutory audit and non-statutory audit services provided by Messrs. Ernst and Young (which for the purpose includes any entity that is 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 auditors nationally and internationally) amounted to approximately HK\$4.3 million (2004 – HK\$4.1 million) and approximately HK\$2.8 million (2004 – HK\$0.6 million) respectively. The non-statutory audit services provided in 2005 mainly consist of the followings:

	HK\$
Financial due diligence	1,497,000
Taxation services	566,000
Others	760,000
	2,823,000

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AUDIT COMMITTEE

The Board established an Audit Committee in December 1998. The Audit Committee has clear terms of reference and is accountable to the Board. Its terms of reference can be found in the Company's website (www.lippold.com.hk). It assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. All Committee members are non-executive Directors and three of them including the Chairman are independent. The Audit Committee comprises four members including one non-executive Director, namely Mr. Leon Nim Leung Chan, and three independent non-executive Directors, namely Messrs. Victor Ha Kuk Yung (being the Chairman of the Audit Committee), Edwin Neo and King Fai Tsui. Three meetings were held in 2005 and the individual attendance of each member is set out on page 13.

The Committee members possess diversified industry experience and the Chairman of the Audit Committee has appropriate professional qualifications and experience in accounting matters. Under its current terms of reference, the Committee will meet at least two times each year. Senior management and auditors shall normally attend the meetings.

During the year, the Audit Committee discharged its duties by reviewing the financial and audit matters of the Group, including management accounts, financial statements, and interim and annual reports as well as internal control and risk management matters of the Group, discussing with executive Directors, management and auditors regarding the financial matters of the Group, and making recommendations to the Board on financial-related matters.

INTERNAL CONTROLS

The Board recognises its responsibility for maintaining an adequate system of internal control and prompt and transparent reporting of the Company's activities to the shareholders and to the public. A review of the effectiveness of the system of internal control of the Group has been conducted.

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations.

FINANCIAL REPORTING

The Board recognizes its responsibility to prepare the Company's financial statements which give a true and fair view and are in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies are selected and applied consistently. Judgments and estimates made are prudent and reasonable. Hong Kong accounting standards have always broadly followed international accounting standards. The Group has changed some of its accounting policies following the adoption of the new and revised Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and applicable interpretations which came into effect on 1st January, 2005. The new and revised accounting standards which have been adopted by the Group are set out in the "Summary of Significant Accounting Policies" of the Notes to the financial statements on pages 58 to 75. The Directors use their best endeavours to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting.

The responsibilities of the auditors with respect to financial reporting are set out in the Report of the Auditors on page 36.