

Corporate Governance Report

CORPORATE GOVERNANCE

Maintaining high standards of corporate governance in everything we do.

Sound corporate governance practices are crucial to the smooth, effective and transparent operation of a company and its ability to attract investment, protect rights of shareholders and stakeholders, and enhance shareholder value. Harmony Asset Limited is committed to high standards of corporate governance with a view to being transparent, open and accountable to our shareholders.

On 1st January, 2005, the Code of Best Practices contained in appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”) was replaced by the Code on Corporate Governance Practices (“the Code”). The Company adopted all the code provisions in the Code as its own code on corporate governance practices.

The Company has complied with the code provisions as set out in the Code during the year ended 31st December, 2005.

BOARD OF DIRECTORS

Composition

The Board of Directors of the Company comprises six members. Mr. Lee Fong Lit David acts as Chairman of the Board. Dr. Chow Pok Yu Augustine is Managing Director of the Company. Other executive director is Mr. Lam Andy Siu Wing. The Company has three independent non-executive directors, Mr. Ho Man Kai Anthony, Mr. Tong Kim Weng Kelly and Dr. Wong Yun Kuen. One of whom namely, Mr. Ho Man Kai Anthony has appropriate professional accounting experience and expertise.

All directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each director are disclosed in pages 12 and 13 of this Annual Report.

Each independent non-executive director has pursuant to the rule 3.13 of the Listing Rules, confirmed that he is independent of the Company and the Company also considers that they are independent.

There is no relationship (including financial, business, family or other material relationship) among members of the Board.

Pursuant to the articles of association of the Company, the directors shall hold office subject to retirement by rotation at the annual general meeting of the Company at least once every three years and eligible for re-election.

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The term of office of each independent non-executive director is for a period of 1 year from 1st January, 2006 to 31st December, 2006, subject to retirement by rotation.

Function

The Board of Directors, headed by the Chairman, is responsible for formulation and approval of the Group's development and business strategies and policies, approval of annual budgets and business plans, recommendation of dividend, and supervision of management in accordance with the rules governing the meeting of the Board of Directors, the Managing Director's working guides, articles of association and rules governing the meeting of shareholders.

The executive directors are responsible for day-to-day management of the Company's operations. These executive directors conduct regular meetings with the senior management of the Company and its subsidiaries and associated companies, at which operational issues and financial performance are evaluated.

The Company views well-developed and timely reporting systems and internal controls are essential, and the Board of Directors plays a key role in the implementation and monitoring of internal financial controls.

The Board of Directors has established schedule of matters specifically reserved to the Board for its decision and those reserved for the management. The Board of Directors reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Company.

The Board of Directors has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The articles of association of the Company contain description of responsibilities and operation procedures of the Board of Directors. The Board of Directors holds regular meeting and listens to the operating reports of the Company and makes policies. Significant operating policies of the Company have to be discussed and passed by the Board of Directors. Board meetings include regular meetings and irregular meetings. The Board of Directors meets formally at least 4 times a year.

Besides regular and irregular meetings, the Board of Directors obtains adequate information through working meetings, presided by the Chairman in a timely manner, to monitor objectives and strategies of the management, financial conditions and operating results of the Company and provisions of significant agreements.

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During 2005, the Board of Directors held 4 regular Board meetings at approximately quarterly interval and 16 irregular Board meetings which were convened when deemed necessary. Due notice and Board papers were given to all directors prior to the meeting in accordance with the Company's articles of association and the Code. Details of individual attendance of directors are set out below:

Attendance of individual directors at Board meetings in 2005

Executive directors	No. of Board Meeting attended
Mr. Lee Fong Lit David	11
Dr. Chow Pok Yu Augustine	19
Mr. Lam Andy Siu Wing	14
Independent non-executive directors	
Mr. Ho Man Kai Anthony	5
Mr. Tong Kim Weng Kelly	5
Dr. Wong Yun Kuen	5

Chairman and Managing Director

The role of the Chairman, Mr. Lee Fong Lit David is separate from that of the Managing Director, Dr. Chow Pok Yu Augustine. Such division of responsibilities allows a balance of power between the Board of Directors and the management of the Group, and ensures their independence and accountability.

The Chairman is the leader of the Board and he oversees the Board so that its acts in the best interests of the Group. The Chairman is responsible for deciding the agenda of each Board meeting, taking into account, where appropriate, matters proposed by other directors for inclusion in the agenda. The Chairman has overall responsibility for providing leadership, vision and direction in the development of the business of the Company.

The Managing Director, assisted by other executive directors, is responsible for the day-to-day management of the business of the Group, attends to formulation and successful implementation of policies, and assumes full accountability to the Board for all operations of the Group. Working with the Chairman and the executive management team of each core business division, he ensures smooth operations and development of the Group. He maintains continuing dialogue with the Chairman and all directors to keep them fully informed of all major business developments and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

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Responsibilities

In the course of discharging their duties, the directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- Regular board meetings focusing on business strategy, operational issues and financial performance.
- Active participation on the boards of subsidiaries and associated companies.
- Approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities.
- Monitoring the quality, timeliness, relevance and reliability of internal and external reporting.
- Monitoring and managing potential conflicts of interest of management, Board members and shareholders, including misuse of corporate assets and abuse in related party transaction.
- Ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Company's directors to meet their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

Board Committees

A number of Board Committees, including Audit Committee and Remuneration Committee, have been established by the Board of Directors to strengthen its functions and to enhance its expertise. These committees have been formed with specific written terms of reference which deal clearly with the committees authority and duties.

Remuneration Committee

The Board has established a Remuneration Committee comprising one executive director, Dr. Chow Pok Yu Augustine and two independent Non-Executive Directors, Mr. Ho Man Kai Anthony and Dr. Wong Yun Kuen. It is chaired by Mr. Ho Man Kai Anthony.

The terms of reference of the Remuneration Committee have been reviewed with reference to the Code.

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The Remuneration Committee's responsibilities are to review and consider Company's policy for remuneration of directors and senior management, to determine remuneration packages of executive directors and senior management including benefits in kind, pension rights and compensation payments, and to recommend to the Board of Directors remuneration of independent non-executive directors.

Set out below is the summary of work of the Remuneration Committee done in 2005:

- to review of the remuneration policy for 2005/2006;
- to review of the remuneration of the executive directors and the independent non-executive directors.

The Remuneration Committee held one meeting during 2005. Details of individual attendance of its members are set out in the table below:

Attendance of individual members of Remuneration Committee in 2005

Names	No. of meeting attended
Dr. Chow Pok Yu Augustine	1
Mr. Ho Man Kai Anthony	1
Dr. Wong Yun Kuen	1

Audit Committee

The Company's Audit Committee is composed of three independent non-executive directors, namely Mr. Ho Man Kai Anthony, Mr. Tong Kim Weng Kelly and Dr. Wong Yun Kuen. It is chaired by Mr. Ho Man Kai Anthony. It reports directly to the Board of Directors and reviews matters within the scope of audit, such as financial statements and internal controls, to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditors to discuss audit process and accounting issues, and reviews effectiveness of internal controls and risk evaluation. Written terms of reference, which describes the authority and duties of the Audit Committee are regularly reviewed and updated by the Board.

Set out below is the summary of work done in 2005:

- to review of the financial statements for the year ended 31st December, 2004 and for the six months ended 30th June, 2005;

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- to review of effectiveness of the internal control system;
- to review of auditors' statutory audit plan and letters of representation; and
- to consider and approve 2005 audit fees and audit work.

The Audit Committee held three meetings during the year. Details of individual attendance of its members are set out in the table below:

Attendance of individual members of Audit Committee in 2005

Names	No. of meeting attended
Mr. Ho Man Kai Anthony	3
Mr. Tong Kim Weng Kelly	3
Dr. Wong Yun Kuen	3

Nomination of Directors

The Board of Directors has not established a nomination committee. According to the articles of association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. In assessing nomination of new directors, the Board has taken into consideration of the nominee's qualification, ability and potential contributions to the Company. There is no change in the directorship of the Company during the year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the codes of conduct regarding securities transactions by directors. All directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year 2005.

The Company has also established written guidelines regarding securities transaction on no less exacting terms of the Model Code for senior management and specific individual who may have access to price sensitive information in relation to the securities of the Company.

EXTERNAL AUDITORS

The Audit Committee reviews each year a letter from the external auditors of the Company, Chu and Chu, Certified Public Accountants ("Chu and Chu"), confirming their independence, approves their appointment, discusses the scope of their audit, approves their fees, and the scope and appropriate fees for any non-audit services requested to be provided by them.

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Chu and Chu provided annual statutory services in respect of the Company's financial statements prepared under Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKFRSs") for the year 2005. Chu and Chu also reviewed the 2005 unaudited interim financial report of the Company, prepared under HKFRSs.

During the year, the fees paid to Chu and Chu in respect of audit services amounted to HK\$220,000. In respect of non-audit services, the fees paid to Chu and Chu amounted to HK\$80,000.

INTERNAL CONTROL

The Company places great importance on internal control and risk management. The Company is making comprehensive improvements to its internal control system and will implement a stricter and more regulated internal control system in the new financial year and disclose the relevant measures to the public in a timely manner.

The Company encourages a risk aware and control conscious environment throughout the Company. The Board of Directors, either directly or through its committees, sets objectives, performance targets and policies for management of key risks facing the Company. These include strategic planning, political and regulatory, acquisitions, investments, expenditure control, treasury and environment.

Pursuant to the code provision C.2.1, the Board should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries and report to shareholders that they have done so in the corporate governance report. Under the transitional arrangement, the said code provision C.2.1 will be implemented for accounting periods commencing on or after 1st July, 2005.

GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

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The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. Procedure for voting by poll has been included in all circulars accompanying notice convening general meeting and has been read out by the chairman at general meeting.

At the 2005 annual general meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including re-election Directors. The Chairmen of the Board of Directors, Audit Committee and Remuneration Committee attended the 2005 Annual General Meeting to answer questions of shareholders.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities in preparing the Financial Statements. The Statement of the Auditors about their reporting responsibilities on the Financial Statements is set out in the Auditors' Report on page 24.