

Corporate Governance Report

The Board and the Senior Management of the Company are committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders.

The Company's corporate governance practices are based on the principles of the Code Provisions under the 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 Rule") throughout the year ended 31 December 2005. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business operation and enhancing shareholders' value.

Key corporate governance principles and practices of the Company are summarised below:

THE BOARD

The Board assumes responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs. Every Director ensures that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the best interests of the Company and its shareholders at all times.

The Board and Senior Management have clearly defined responsibilities under various internal control and check-and-balance mechanism. The day-to-day operation of the Company are delegated to the Senior Management while the Board provides leadership and approves strategic policies and plan with a view to enhance shareholders' interests. The Board reserves for its decisions on all major matters, including: annual budget and financial matters, equity related transactions such as issuance of shares/options, repurchase of shares, dividend, raising of capital loan; determination of major business strategy, merger and acquisition; disposal of business unit; major investment; annual financial budget; and matters as required by laws and ordinance.

Board Meetings

The Board held 4 Meetings during the year under review. The Financial Controller and Company Secretary attended all the scheduled Board Meetings to report matters arising from corporate governance, risk management, statutory compliance, business operation, accounting and finance. The individual attendance (either in person or through other electronic means of communication) record of each Director at the meetings of the Board and the Audit Committee during the year ended 31 December 2005 is set out below:

Directors	Attendance/Number of Meetings		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr. Yao Yuan (<i>Chairman</i>)	3/4	N/A	N/A
Mr. Chien Hoe Yong, Henry	4/4	N/A	N/A
Mr. Hu Jun	2/4	N/A	N/A
Mr. Yu Tin Jun	2/4	N/A	N/A
Dr. Hu Geng Xi (<i>Note 1</i>)	1/4	N/A	N/A
Independent Non-Executive Directors			
Dr. Lam Lee G.	2/4	2/2	N/A
Mr. Hu Jin Hua (<i>Note 2</i>)	1/4	1/2	N/A
Mr. Lee Sze Ho, Henry	2/4	2/2	N/A
Dr. Xiao Chuan Guo (<i>Note 3</i>)	1/4	N/A	N/A

THE BOARD (continued)

Board Meetings (continued)

Notes:

1. Dr. Hu Geng Xi resigned as Executive Director of the Company with effect from 29th December, 2005.
2. Mr. Hu Jin Hua was appointed as Independent Non-Executive Director of the Company with effect from 1st June, 2005.
3. Dr. Xiao Chuan Guo resigned as Independent Non-Executive Director of the Company with effect from 1st June, 2005.

Notices of regular Board Meetings are served to all Directors at least 14 days before the meetings while reasonable notice is generally given for other Board Meetings. For Committee Meetings, notices are served in accordance with the required notice period stated in the relevant terms of reference. Minutes of all Board Meetings and Committee Meetings are kept by the Company Secretary. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection

According to the Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Board is Mr. Yao Yuan. Provision A.2.1 of the Code requires that the roles and responsibilities of the Chairman and Chief Executive Officer should be separate. During the year under review, the Company did not have any officer or director designated as "Chief Executive Officer". The functions of Chief Executive Officer are collectively performed by all the Executive Directors. Mr. Chien Hoe Yong, Henry Executive Director of the Company, is acting as coordinator for all the different sources of management contributions and together with other Executive Directors, collectively responsible for implementation of the Company's overall strategies, and coordination of overall business operations. The Board considers that this arrangement allows contributions from all Executive Directors with different experience and expertise. The Board will review, and if thought fit, change this practice.

The Chairman will continue to provide leadership in formulating overall strategies and policies of the Company, ensures the effective performance by the Board of its functions including compliance with good corporate governance practices. The Chairman also ensures effective communication with shareholders of the Company and receipt by the Directors of adequate and complete information.

DIRECTORS

The Board currently consists of four Executive Directors and three Non-Executive Directors. All three Non-Executive Directors are independent.

Provision A.4.1 of the Code provides that non-executive directors should be appointed for a specific term, subject to re-election. During the year, the Non-Executive Directors of the Company have not been appointed for a specific term and they are subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Company's Bye-laws.

Bye-law 109 of the Bye-laws of the Company provides that at each general meeting of the Company, with the exception of the Executive Chairman and Managing Director, one-third of the Directors of the Company (or if their number is not three or a multiple of three, the then number nearest to but not exceeding one-third) who have been longest in office since their last election shall retire from office and the retiring Directors shall be eligible for re-election.

DIRECTORS (continued)

Based on the number of Directors as at 31st December, 2005, a Non-Executive Director will serve on the Board for a term of about two year until he becomes due to retire from the Board by rotation. In the opinion of the Directors, this arrangement meets the same objective as the Code.

Independence

During the year ended 31 December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-Executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each Independent Non-Executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-Executive Directors to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

Each Director, upon reasonable request, is given access to independent professional advice in circumstances he may deem appropriate and necessary for the discharge of his duties to the Company, at the expense of the Company.

Training for Directors

The Company provides every newly appointed Director with comprehensive induction program on the first occasion of his appointment, where such Directors are provided with information on the Company's organization and business; the membership, duties and responsibilities of the Board, Board Committee and Senior Management; corporate governance practices and procedures; and latest financial information on the operation of the Company and with visits to the Company's key plant sites.

There are also arrangements in place for providing continuing briefing of the latest development of the Listing Rules, other applicable legal and regulatory requirements, and professional development to Directors on a regular basis.

Accountability and Internal Control

Directors are provided with a review of the Company's business activities and detailed financial information on a quarterly basis. The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements of the Company for the year under review. The Directors consider that the financial statements have been prepared in accordance with statutory requirements and in conformity with generally accepted accounting standards in Hong Kong. As at 31 December 2005, the Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as referred to in Provision C.1.2 of the Code.

The Directors have overall responsibility for maintaining sound and effective internal control system of the Company. The Company's system of internal control includes a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulation.

THE BOARD COMMITTEES

Audit Committee

The Audit Committee of the Company comprises the three Independent Non-Executive Directors (including two Independent Non-Executive Directors who possess the appropriate professional qualifications or accounting or related financial management expertise) and Dr. Lam Lee G. is the Chairman of the committee. None of the members of the Audit Committee is a former partner of the company'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 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 Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee had two meetings with the Financial Controller during the year ended 31 December 2005 to review the financial results and reports; financial controls, internal controls and risk management systems; and the re-appointment of the external auditors. The Company's annual results for the year ended 31 December 2005 has been reviewed by the Audit Committee.

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

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors.

Remuneration Committee

The Remuneration Committee is duly formed on 27th March, 2006 and is comprised of two Independent Non-Executive Directors, namely: Dr. Lam Lee G (Chairman) and Mr. Lee Sze Ho and the Executive Director, Mr. Chien Hoe Yong. As the Remuneration Committee has been duly formed recently on 27th March, 2006, it has yet to discharge its functions under the Code. The first Remuneration Committee Meeting is scheduled to be held in May, 2006.

The primary objectives of the Remuneration Committee include establishing a formal and transparent procedure for setting policy on the remuneration of Directors and Senior Management. The Remuneration Committee is also responsible for ensuring the remuneration packages are sufficient to attract and retain top caliber executives and Directors; to fairly and responsibly reward executives based on their performance and the performance of the Company, and the general pay environment.

The Remuneration Committee normally meets twice a year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the Directors and Senior Management. The Remuneration Committee has the right to seek any information it considers necessary to fulfill its duties, which includes the right to obtain appropriate external advice at the Company's expense.

THE BOARD COMMITTEES (continued)

Nomination and Appointment of Directors

Directors of the Company are responsible for the selection and recommendation of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidate, the Company's needs and other relevant statutory requirements. The Board also formulates the policy, reviews the size, structure and composition of the Board, and assesses the independence of its Independent Non-Executive Directors in accordance with the criteria prescribed under the Listing Rule and the Code.

CODE OF CONDUCT ON SECURITIES TRANSACTION

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") based of the Model Code for Securities Transaction by Directors of Listed Issuers set out in Appendix 10 of the Listing Rule. The Code of Conduct applies to all Directors and members of the Senior Management who, because of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.

Specific enquiry has been made of all Directors and members of the Senior Management who have confirmed their compliance with the required standards set out in the Code of Conduct during the year under review.

AUDITORS' REMUNERATION

Messrs. Deloitte Touche Tohmatsu ("Deloitte") has been appointed as the External Auditors of the Company for the year. An amount of HK\$1,192,000 (2004: HK\$950,000) was charged to the 2005 financial statements of the Group for Deloitte's audit services. The amount paid by the Company for other non-audit services provided by Deloitte for the Company and its subsidiaries during the year under review (i.e. taxation assessment and computation) was HK\$58,000 (2004: HK\$50,000).

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Auditors' Report".

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company regards the Annual General Meeting as an important event as it provides an opportunity for direct communications between the Board and its shareholders. The Chairman, all Directors, Senior Management and external auditors will make effort to attend such meetings to address shareholders' queries.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights and procedures are included in all circulars to shareholders and will be explained during the proceeding of the meetings.

The Company adopts a proactive policy of promoting investor relations and communication by maintaining regular meetings with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. The Company provides information relating to its operating and financial performance in its interim and annual report, and also disseminates such information electronically through its website at www.mymedicare.com.hk on a timely basis.