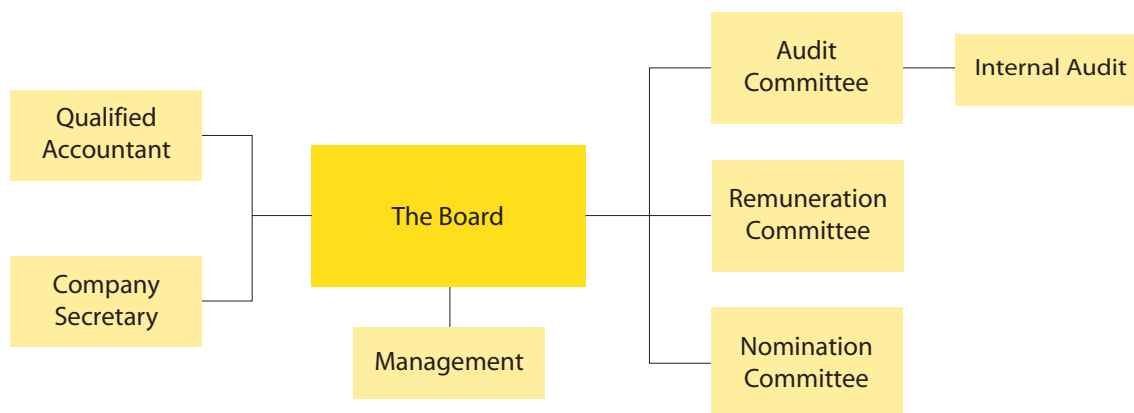


Corporate Governance Report

The Company is committed to improving the quality of corporate governance so as to ensure better transparency and protection of shareholders' interest in general. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence and for stable growth of the Group.

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices ("Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year 2005. To ensure stricter compliance with the Corporate Governance Code, relevant amendments to the Company's Bye-law, such as the provision for rotation of directors, were proposed and approved by shareholders at the special general meeting held on 6th June 2005.

Below are the corporate governance practices adopted by the Company with specific reference to the Corporate Governance Code.



THE BOARD OF DIRECTORS

The principal function of the board of directors (the "Board") is to formulate strategy and to monitor and control operating and financial performance in pursuit of Group strategic objectives. The Board, led by the Chairman, retains full responsibility for setting objective and business development plans, overseeing the processes that management has in place to identify business opportunities and risks, considering and determining major acquisition and disposal and assuming responsibility for corporate governance. The role of the Board is not to manage the business which responsibility remains vested with management.

The management is responsible for implementing the strategies and plans adopted by the Board. Executive Directors and management executives meet monthly to review the performance of the businesses of the business units and of the Group as a whole, co-ordinate overall resources and make financial and operational decisions.

The Board currently consists of eight members, including the Chairman, the Deputy Chairman, three additional Executive Directors and three Independent Non-executive Directors. Two of our Independent Non-executive Directors have the professional and accounting qualifications required by the Listing Rules.

All Directors are appointed and are then subject to periodic re-appointment by the shareholders through rotation at the annual general meeting. Each Director should be subject to retirement by rotation at least once every three years. All the Independent Non-executive Directors have been appointed for a specific term.



Midland Holdings Limited

Corporate Governance Report (continued)

THE BOARD OF DIRECTORS (continued)

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. The Board has received from each Independent Non-executive Director annual confirmation of their independence and satisfied their independence up to the date of this Report in accordance with the Listing Rules. Ms TANG Mei Lai, Metty, the Company's Deputy Chairman and Executive Director, is the spouse of Mr WONG Kin Yip, Freddie, the Chairman of the Company.

There is a segregation of duties between the Chairman's responsibility for leadership and management of the Board and the Group's strategies, and the responsibility of the Chief Executive Officer of respective business units to develop business divisions' objectives and budgets and to implement the Group's strategies. Such division of responsibilities helps to reinforce their accountability and independence.

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and receive adequate and reliable information in a timely manner. The Chairman also encourages Directors to be fully engaged in the Board's affair and make contribution to the Board's functions.

When the Board considers any material proposal or transaction in which a substantial shareholder or a Director has a conflict of interest, a board meeting is held and Independent Non-executive Directors who have no material interest in the transaction present at such board meeting. At the meeting, the Director who has interests declares his interest and is required to abstain from voting.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and officers. The Board reviews the extent of this insurance annually. Any Director, wishing to do so in the furtherance of his or her duties, may take independent professional advice at the Company's expenses.

The Board meets regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group and/or the business units. It held a total of seven board meetings during the year.

To illustrate the attention given by the Board to the oversight of the Group's affairs, we set out details of the Directors' attendance at the board meetings during the year of 2005 in the following tables.

Date of board meeting	Total number of Directors	Number of Directors present	Attendance rate
24th January 2005	8	6	75%
21st March 2005	8	4	50%
15th April 2005	8	7	87.5%
30th May 2005	8	6	75%
30th May 2005	8	6	75%
29th June 2005	8	5	62.5%
8th September 2005	8	7	87.5%

Corporate Governance Report (continued)

THE BOARD OF DIRECTORS (continued)

Directors	Meetings Attended/Held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General	Special General
Executive Directors						
WONG Kin Yip, Freddie	4/7	–	2/3	2/2	1/1	1/2
TANG Mei Lai, Metty ("Ms Tang") (Note)	–	–	–	–	–	–
LAM Fung Fong	7/7	–	3/3	2/2	1/1	2/2
CHAN Kwan Hing	6/7	–	–	–	1/1	1/2
KWOK Ying Lung	4/7	–	–	–	1/1	2/2
CHEUNG Kam Shing	7/7	–	–	–	1/1	2/2
Independent Non-executive Directors						
KOO Fook Sun, Louis	6/7	2/2	3/3	2/2	1/1	1/2
SUN Tak Chiu	6/7	2/2	3/3	2/2	1/1	1/2
WANG Ching Miao, Wilson	1/7	2/2	3/3	2/2	0/1	0/2

Note: Ms Tang was appointed as the Company's Deputy Chairman and Executive Director on 22nd December 2005.

The Board is supplied with relevant information by the management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each regular board meeting. Agenda for meetings is set and board papers are prepared and disseminated to the Directors and Board Committees in a timely and comprehensive manner. All businesses transacted at the board meetings were well-documented. Minutes of board meetings are taken by the Company Secretary and are available to all Directors.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by all Directors of the Company. A copy of the Model Code is sent to each Director of the Company first on his appointment and a reminder is sent to each Director one month before the date of the board meetings to approve the Company's half-year results and annual results that the Director cannot deal in the securities of the Company until after such results have been published.

Having made specific enquiry of all Directors of the Company, all Directors confirmed they had complied with the required standard set out in the Model Code throughout the year ended 31st December 2005.



Midland Holdings Limited

Corporate Governance Report (continued)

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Company aims to present a balanced, clear and understandable assessment extends to its financial statements. The Board acknowledges its responsibility to prepare the Company's financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31st December 2005, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The Directors, having made appropriate enquires; consider that the Group 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.

COMPANY SECRETARY

Directors have access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. The Company Secretary accounts to the Board directly for ensuring that board procedures and rules and regulations are followed and that activities of the Board are efficient and effective by assisting the Chairman to prepare agendas for meetings and by preparing and disseminating Board papers to the Directors and Board Committees in a timely and comprehensive manner.

The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Securities and Futures Ordinance and Companies Ordinance etc., including publication and dissemination of Report and financial statements and interim reports within the periods laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notification is made of Directors' dealings in securities of the Group.

The Company Secretary also advises the Directors on their obligations for disclosure of interests in securities, connected transactions and price-sensitive information and ensures that the standards and disclosures required by the Listing Rules are observed and, where required, reflected in the annual report of the Directors.

DELEGATION BY THE BOARD

The Board has appointed three board committees to assist the Board in discharge of its duties and to oversee particular aspects of the Group's affairs. Each committee has its defined scope of duties and terms of reference available on the Company's website. The committee members are empowered to make decisions on matters within the terms of reference of each committee. To further reinforce independence, the committees have been structured to include a majority of Independent Non-executive Directors.

(1) Audit Committee

The Audit Committee comprises three members and is chaired by Mr KOO Fook Sun, Louis, a member of the Hong Kong Institute of Certified Public Accountants and has many years of experience in investment banking and professional accounting. Other two members are Mr SUN Tak Chiu and Mr WANG Ching Miao, Wilson. All the committee members are appointed from the Independent Non-executive Directors of the Company. Under its terms of reference which are aligned with the code provisions set out in the Corporate Governance Code, the Committee is required to evaluate the overall effectiveness of the internal control and risk management frameworks, to review the accounting principles and practices adopted by the Group and other financial reporting matters and ensure the completeness, accuracy and fairness of the financial statements, to monitor compliance with statutory and listing requirements and to oversee the relationship with the external auditors.

Corporate Governance Report (continued)

DELEGATION BY THE BOARD (continued)

(1) **Audit Committee** (continued)

The Audit Committee meets the external auditors at least twice a year to discuss any areas of concerns during the audits. The Audit Committee reviews the interim and annual financial statements before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

Two Committee meetings were held with the management executives and the external auditors. The attendance of individual members is set out as follows:

Names of members	Number of meetings	Attendance rate
KOO Fook Sun, Louis	2/2	100%
SUN Tak Chiu	2/2	100%
WANG Ching Miao, Wilson	2/2	100%

Draft and final versions of minutes of Audit Committee meetings are sent to all members of the committee for their comments and records respectively within the reasonable time after the relevant meeting. The minutes of the Audit Committee meeting were provided to the Board for noting and/or adoption where appropriate.

(2) **Remuneration Committee**

The Remuneration Committee comprises five members, a majority of whom are Independent Non-executive Directors, and is chaired by Ms LAM Fung Fong. The Committee is aimed to review and determine the remuneration policy and packages of the Executive Directors and management executives.

The Executive Directors, assisted by the Group Human Resources Department, are responsible for reviewing all relevant remuneration data and market conditions as well as the performance of individuals and the profitability of the Group, and propose to the Committee for consideration and approval, remuneration packages for Directors and management executives. Executive Directors do not participate in the determination of their own remuneration.



Corporate Governance Report (continued)

DELEGATION BY THE BOARD (continued)

(2) Remuneration Committee (continued)

The Committee is scheduled to meet at least once a year for the determination of the remuneration packages of Directors and management executives of the Group. In addition, the Committee also meets as and when required to consider remuneration related matters. All businesses transacted at the Committee meetings are well recorded and the records are maintained. Three meetings were held in 2005. The attendance of individual members is set out as follows:

Names of members	Number of meetings	Attendance rate
WONG Kin Yip, Freddie	2/3	66%
LAM Fung Fong	3/3	100%
KOO Fook Sun, Louis	3/3	100%
SUN Tak Chiu	3/3	100%
WANG Ching Miao, Wilson	3/3	100%

(3) Nomination Committee

The Nomination Committee comprises five members, a majority of whom are Independent Non-executive Directors, and is chaired by Mr WONG Kin Yip, Freddie. The Committee is responsible for nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointments.

The Company follows a formal and transparent procedure for the appointment of new Directors. Appointments are first considered by the Committee. The recommendations of the Committee are then put to the full Board for decision.

The Committee is scheduled to meet at least once a year for the review of the structure, size and composition of the Board. In addition, the Committee also meets as and when required to consider nomination related matters. All businesses transacted at the Committee meetings are well recorded and the records are maintained. Two meetings were held in 2005. The attendance of individual members is set out as follows:

Names of members	Number of meetings	Attendance rate
WONG Kin Yip, Freddie	2/2	100%
LAM Fung Fong	2/2	100%
KOO Fook Sun, Louis	2/2	100%
SUN Tak Chiu	2/2	100%
WANG Ching Miao, Wilson	2/2	100%

AUDITORS' REMUNERATION

The Group was charged HK\$2.237 million for auditing services and HK\$1.031 million for non-auditing services by the auditors of the Group in respect of the year ended 31st December 2005.

Corporate Governance Report (continued)

RISK MANAGEMENT

The Group endeavors to strengthen and enhance its risk management policies and monitoring system. The objectives of such management system are to identify and evaluate key risks existed in business operations and financial management on a continual basis and to monitor and control the reasonableness of decisions in operations and resources allocation.

For operational risk, the Group manages this risk through a control-based environment in which framework of policies, procedures and tools are in place to identify, assess, monitor, control and report such risks.

For reputational risk, the Board and executives will consider and assess the risk during the setting of business goals as well as the formulation of policies and standards for the Group. These policies and standards are communicated through manuals and guidelines and are promulgated through internal communications and training.

INTERNAL CONTROL

The Board is committed to managing risk and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The Board, through the Audit Committee, has conducted quarterly reviews of the effectiveness of the Group's system of internal control covering all controls, including financial, operational and compliance controls and risk management processes. The Board, through the review of the Audit Committee, is satisfied that the Group has fully complied with the code provisions on internal controls during the year under review as set forth in the Corporate Governance Code.

The internal control system is designed to provide reasonable, but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The key procedures that the Board established to provide effective internal controls are as follows:

- (a) A comprehensive monthly management reporting system is in place providing financial and operational performance indicators to the management, and the relevant financial information for reporting and disclosure purpose;
- (b) Management structure with defined roles, responsibilities and reporting lines are established. Delegated authorities are documented and communicated;
- (c) System and procedures are in place to identify, measure, manage and control risks including liquidity, credit, market, business, regulatory, operational and reputational risks that may have an impact on the Group; and
- (d) Group's Internal Audit ("IA") performs independent reviews of the risks and key controls to provide reasonable assurance to the management and the Audit Committee that risks and controls have been adequately addressed.

The IA function is mainly responsible for monitoring the internal control system of the Group. The IA covers financial controls, business operations, compliance and risk management. Independent reports are submitted to the Audit Committee on a regular basis.



Midland Holdings Limited

Corporate Governance Report (continued)

INVESTOR RELATIONS

The Company continues to promote and enhance investor relations and communications with potential investors. Communication channel has been established with media, analysts and fund managers via meetings and roadshows. The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors to keep them abreast of the Company's development.

COMMUNICATION WITH SHAREHOLDERS

Shareholders are encouraged to attend the annual general meetings for which at least 21 days' notice is given. All shareholders have statutory rights to call for special general meetings and put forward agenda items for consideration by shareholders. The Chairman and/or Directors are available to answer questions on the Group's businesses at the meetings. In respect of each substantially separate issue at a general meeting, a separate resolution is proposed by the Chairman of that meeting. All substantive resolutions at the general meeting are decided on a poll.

To foster effective communications with shareholders and investors, the Company is committed to providing clear and full performance information of the Group in its annual report, interim report and press releases. In addition to dispatching circulars, notices, financial reports to shareholders, the Company also disseminates information relating to the Group and its business electronically through its website at www.midland.com.hk.

The Company values feedback from shareholders on its efforts to promote corporate governance. It despatches shareholders with opinion collection forms twice a year together with its annual and interim reports. Comments and suggestions are welcome and can be addressed to our Company Secretary or by e-mail to the Group's website.

The market capitalisation of the Company as at 30th December 2005, the last trading day in 2005, was HK\$2,938,653,700 (issued share capital: 734,663,425 shares at closing market price: HK\$4.00 per share). The public float is around 81.33%.

The amendments to the Company's Bye-laws were approved in the special general meeting held in mid-2005 to reflect the changes brought by the Corporate Governance Code effective on 1st January 2005.

DIVIDEND POLICY

The Group's dividend policy is to provide relatively steady dividend payout ratio, linked to the Group's earnings performance and cash flow position as well as the business environment.

In view of its growth potentials, it is also the intention of the Group to maintain a position of financial stability and solid cash holdings to take advantage of any expansion or investment opportunities that may arise from time to time.

CODE OF CONDUCT

To enhance the ethical standards of employees and thus to ensure the high standard of integrity in our businesses, the Company has through employee handbook, staff orientation procedure and training program introduced the standards of professional and ethical conduct expected of all employees of the Group. The employees at all levels are expected to conduct themselves in an honest, diligent and responsible manner.