

Corporate Governance Report

The Company is committed to maintain a high standard of corporate governance. During the year, the Company endeavours to comply with the Code of Corporate Governance Practice as set out in Appendix 14 of the Listing Rules (the "CG Code"). The Company considers that it has complied with the CG Code during the year. The Board of Directors continues to review and update the practices from time to time to ensure compliance with the legal and commercial standards.

BOARD OF DIRECTORS

The Board of Directors ("the Board") comprises ten directors including two executive directors, five non-executive directors and three independent non-executive directors. The Board has a number of Board Committees, namely, Executive Committee, Audit Committee, Remuneration Committee and Investment Committee to oversee particular aspects of the Company's affairs. Each of the Committee has been delegated with certain functions of the Board. The directors are responsible for causing the preparation of the accounts for each financial period which give a true and fair view of the financial results of the Group.

The Board operates in accordance with the Articles of Association. The Board meets from time to time according to the business requirement of the Company. During the year, four board meetings were held to review financial results and business development. In order to make timely decision and have effective implementation of the Company's policy and decision, written resolutions signed by all directors have been adopted from time to time. The Company Secretary and Qualified Accountant shall attend all regular board meetings to advise on statutory compliance, corporate governance, accounting and financial matters when necessary.

The role undertaken by Mr. Lam Ko Yin, Colin as Chairman of the Company and Dr. Ho Chi Shing, David as Group General Manager (whose status is equivalent to chief executive officer for the purpose of the CG Code but not otherwise) are segregated. The key function of the Chairman of the Company is the management of the Board whereas the key function of the Group General Manager is the day-to-day management of the Company's business. The functions reserved to the Board are basically provided by the Articles of Association of the Company and the Board will from time to time delegate the functions to the senior management whenever required. Basically, all kind of important business decision matters whether it is of strategic development, financial, legal or substantial compliance nature, should be approved by the Board whereas the senior management is responsible for daily business operation.

Dr. Lee Shau Kee and Mr. Li Ning are deemed as having substantial interests in the issued share capital of the Company under the Securities and Futures Ordinance. Dr. Lee is the father-in-law of Mr. Li Ning. Dr. Lee Shau Kee, Mr. Lam Ko Yin, Colin, Mr. Li Ning, Mr. Leung Hay Man and Mr. Lau Yum Chuen, Eddie are directors of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited ("Henderson Investment"). Mr. Au Siu Kee, Alexander and Mr. Wu King Cheong are directors of Henderson Land (Mr. Wu is the independent non-executive director of Henderson Land). Both Henderson Land and Henderson Investment have discloseable interests under the provisions of Part XV of the Securities and Futures Ordinance in the Company.

Save aforesaid, there is no financial, business, family or other material or relevant relationship among the directors. There is no relationship between the Chairman and the Group General Manager.

Corporate Governance Report (Continued)

All non-executive directors (including independent non-executive directors) of the Company have been appointed for a specific term to 31 December 2007. They are eligible for re-appointment and subject to re-election on retirement by rotation in accordance with the Company's Articles of Association. To ensure stricter compliance with the CG Code, relevant amendments to the Articles of Association of the Company will be proposed to the shareholders at the forthcoming Annual General Meeting of the Company.

During the year, a Remuneration Committee was formed to comply with the CG Code. In addition to the Remuneration Committee, each committee has its own terms of reference. Terms of reference of the Audit and Remuneration Committees in English are placed on the Company's website at www.hkf.com.

AUDIT COMMITTEE

The Audit Committee is primarily responsible for review of financial information of the Company and oversight of the Company's financial reporting system and internal control procedures.

In 2005, the Audit Committee met twice and reviewed the 2004 annual report and accounts, the 2005 interim report and accounts, the Ongoing/Continuing Connected Transactions, the Annual Internal Audit Report for the year 2004 and the Internal Audit Interim Review of Audit Assignments for 2005. The Committee also oversaw internal control and risk management of the Group and discussed with the external auditors on financial reporting and compliance. During the Audit Committee Meetings, the external auditors were invited to attend the meetings to present their reports and reviews.

The Audit Committee comprises independent non-executive directors only. Mr. Kan Yuet Loong, Michael is the Chairman of the Audit Committee. Initially, Mr. Au Siu Kee, Alexander was an independent non-executive director and a member of the Audit Committee, and ceased to be a member of the Audit Committee upon him being re-designated as a non-executive director in November 2005.

AUDITORS' REMUNERATION

Apart from carrying out the annual audit, KPMG, being the auditors of the Company carried out the interim review on the interim results of the Company. The fee of the annual audit is HK\$1,052,000 whereas the fee for the interim review is HK\$198,000. Engagement agreement with KPMG had been reviewed by the Audit Committee and approved by the Board. Save the interim review, KPMG did not provide any substantial non-audit services to the Company.

INTERNAL CONTROLS

The Company maintains a comprehensive and effective internal control system on income and capital and revenue expenditures. As part of internal audit, the Company has its own internal audit department and maintained a system of internal control, with manuals guiding internal controls on business operation. The Company will review the internal controls manuals from time to time to meet with the changing business operation environment. Internal controls report was submitted to the Audit Committee for review.

The Internal Audit Manager, who is independent to the Company's daily operations, reports directly to the Audit Committee and Group General Manager and regularly conducts audits of the practices, procedures, expenditures and internal control.

Corporate Governance Report (Continued)

REMUNERATION COMMITTEE

The Company has set up the Remuneration Committee. The Remuneration Committee meets at least once a year to review the structure of all remuneration of directors and senior management.

The Remuneration Committee is constituted of executive directors and independent non-executive directors. Mr. Kan Yuet Loong, Michael is the Chairman of the Remuneration Committee. Initially, Mr. Au Siu Kee, Alexander was an independent non-executive director and a member of the Remuneration Committee, and ceased to be a member of the Remuneration Committee, upon him being re-designated as a non-executive director in November 2005.

The Committee reviewed the remuneration of the directors and senior management with reference to the skill, knowledge, experience and the tasks assigned and also to the individual performance and the overall profitability of the Company. In determining the remuneration package, the Committee also obtained reports, surveys and relevant information from external source for the competitive level of remuneration and market trend for the directors and senior management. The Committee regards that the current directors' fee to the directors and remuneration to the senior management for their duties and responsibilities undertaken are commensurate with the market.

ATTENDANCE RECORD AT BOARD, AUDIT AND REMUNERATION COMMITTEES' MEETINGS

The following table shows the attendance records of directors at meetings of the Board, Audit and Remuneration Committees during the year:

	No. of meetings attended/ No. of meetings held		
	Board	Audit Committee	Remuneration Committee
Executive directors			
Mr. Lam Ko Yin, Colin	4/4	N/A	1/1
Mr. Li Ning	4/4	N/A	1/1
Non-executive directors			
Mr. Au Siu Kee, Alexander	4/4	2/2	1/1
Mr. Lau Yum Chuen, Eddie	4/4	N/A	N/A
Dr. Lee Shau Kee	2/4	N/A	N/A
Mr. Leung Hay Man	4/4	N/A	N/A
Mr. Wong Man Kong, Peter	3/4	N/A	N/A
Independent non-executive directors			
Mr. Ho Hau Chong, Norman	4/4	2/2	N/A
Mr. Kan Yuet Loong, Michael	4/4	2/2	1/1
Mr. Wu King Cheong	4/4	2/2	1/1

Corporate Governance Report (Continued)

NOMINATION OF DIRECTORS

The Company does not have a nomination committee, and the power to nominate or appoint additional directors is vested in the Board according to the Articles of Association, in addition to the power of the shareholders to nominate any person to become a director of the Company in accordance with the Articles of Association of the Company and the law of Hong Kong.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically follows Article 94 of the Articles of Association which empowers the Board 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. The Directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deem fit. The Directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

The Board appointed two additional directors in January 2005, namely Mr. Au Siu Kee, Alexander and Mr. Wu King Cheong as independent non-executive directors to the Board to meet the business needs of the Company and to comply with the Listing Rules.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has received confirmation of independence from Messrs. Kan Yuet Loong, Michael, Ho Hau Chong, Norman and Wu King Cheong pursuant to Rule 3.13 of the Listing Rules.

The Board is of the view that during the year, the Company had maintained a sufficient number of independent non-executive directors and had an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise.

The Board notes that Mr. Ho Hau Chong, Norman is a non-executive director of Miramar Hotel and Investment Company, Limited ("Miramar") and a director of Wealth Team Development Limited ("Wealth Team"), which is an indirect subsidiary of Henderson Land. Mr. Ho also has an indirect beneficial interests of 9.9% in all issued share capital of Wealth Team, but is not involved in the management and operation of Wealth Team. Miramar, Wealth Team and Henderson Land are connected persons of the Company under the Listing Rules. Save aforesaid, Mr. Norman Ho has complied with other conditions set out in Rule 3.13 of the Listing Rules.

Corporate Governance Report (Continued)

In view of the fact that Mr. Norman Ho does not have any material interests in any principal business activity of and is not involved in any material business dealings with the Company, or any of its subsidiaries or with any connected persons of the Company, and that both the management and the operations of the Miramar group and the Group are totally independent from each other, the Board in good faith considers that the independence of Mr. Norman Ho as an independent non-executive director of the Company is not in any way affected by his directorships in both Miramar and Wealth Team.

In conclusion, the Board considers Messrs. Kan Yuet Loong, Michael, Ho Hau Chong, Norman and Wu King Cheong as independent.

DIRECTORS' SECURITIES TRANSACTIONS

The Board adopted the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 of the Listing Rules (the "Model Code"), as a code of conduct to govern the dealing of securities by the directors on 10 September 2004. The Model Code was further adopted as the code of conduct for those relevant employees, (including employees of the Company or directors or employees of its subsidiaries who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities) in respect of their dealings in the securities of the Company.

Having made specific enquiry of all directors, the Board confirms that the directors of the Company have complied with the required standard set out in the Model Code regarding directors' securities transactions.