

Corporate Governance Report

The Company is committed to fulfilling its responsibilities to shareholders by ensuring a high standard of corporate governance practices. This report describes its corporate governance practices and explains the applications of the principles of the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which became effective on 1st January 2005.

Corporate Governance Practices

The Company has complied with the CG Code provisions except certain deviations and some of the recommended best practices throughout the year ended 31st December 2005. The following deviations from the CG Code provisions in respect of which remedial steps for compliance have been taken or considered reasons are given below.

CG Code Provision A.1.7

Board Procedure for Seeking Independent Professional Advice

This CG Code provision requires that there should be a procedure agreed by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense.

On 7th September 2005, the Board confirmed and ratified the understanding that the normal procedure for proposing a Board resolution should apply to a request to seek independent professional advice at the Company's expenses.

CG Code Provision A.2.1

Chairman and Chief Executive Officer ("CEO")

This CG Code provision requires that the roles of chairman and CEO should be separate and should not be performed by the same individual.

Mr. Lo Ying Shek, the founder of the Company, is the Chairman of the Board and Dr. Lo Ka Shui is the Deputy Chairman. Both Mr. Lo Ying Shek and Dr. Lo Ka Shui are Managing Directors of the Company but the role of CEO has been assumed by Dr. Lo Ka Shui alone since 1985.

After due consideration, the Board determines that the existing structure, which has been working very well, should be maintained in order to ensure consistent leadership for the Company.

Corporate Governance Practices (continued)

CG Code Provision A.4.1 and A.4.2

Appointments, Re-Election and Removal

CG Code Provision A.4.1 requires that non-executive directors should be appointed for a specific term, subject to re-election.

The Non-executive Directors have no fixed term of office. The Bye-laws of the Company requires that one-third of the directors (other than the executive chairman and managing directors) should retire by rotation. The Company considers that its corporate governance measures in this respect are no less exacting than those prescribed by CG Code Provision A.4.1 and therefore does not intend to take any steps in this regard.

CG Code Provision A.4.2 requires that every director should be subject to retirement by rotation at least once every three years.

Under the existing Bye-laws of the Company, the executive chairman and managing directors of the Company are not subject to retirement by rotation. The same provision is contained in The Great Eagle Holdings Limited Company Act, 1990 of Bermuda. As such, the executive chairman and managing directors are by statute not required to retire by rotation.

CG Code Provision D.1.1 and D.1.2

Delegation by the Board

CG Code Provision D.1.1. requires that when the Board delegates to management, it must give clear directions as to the powers of the management, in particular, with respect to the circumstances where management should report back and obtain prior approval of the Board before making decisions or entering into any commitments on behalf of the Company.

CG Code Provision D.1.2 requires that the Company should formalise the functions reserved to the Board and those delegated to the management.

On 7th September 2005, the Board formally adopted and ratified the following established practice with respect to the functions reserved to the Board and the functions delegated to the management. The Board also formally adopted and ratified the practice of giving directions to the management with respect to circumstances where management should report back to the Board and obtain the prior approval of the Board before making any decisions or entering into any commitments on behalf of the Company.

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Corporate Governance Practices (continued)

CG Code Provision D.1.1 and D.1.2 (continued)

Delegation by the Board (continued)

Functions reserved to the Board:

- provide leadership for the Company and its subsidiaries (collectively, the “Group”) and promoting the success of the Group
- determine the overall objectives, strategies, policies and business plan for the Group
- monitor and control the operating and the financial performance of the Group
- formulate risk management policy
- review the effectiveness of the internal control system of the Group
- review and if thought fit, adopt the recommendations of the Audit Committee, Remuneration Committee and Nomination Committee
- review and if thought fit, approve all notifiable and connected transactions under the Listing Rules and all transactions in which any director or directors has/have a conflict of interest
- review and set the corporate governance practices of the Group
- approve public announcements including financial statements
- set the dividend policy for the Group
- approve major acquisitions and dispositions by the Group and the issue or buy-back of equity securities

Functions delegated to the management:

- implement the strategies, policies and business plan for the Group
- undertake day-to-day operation of the Group

CG Code Provision E.1.2

Communication with Shareholders

This CG Code provision requires that the Chairman of the Board should attend the annual general meeting (the “AGM”) and arrange for the chairmen of the audit, remuneration and nomination committees (or in the absence of the chairman of any such committee, another member of the committee) to be available to answer questions at the AGM.

The Chairman of the Board and the chairmen/members of the said committees had not attended the AGM held in 2005. The date of the AGM to be held in 2006 was fixed in consultation with the Chairman and Deputy Chairman of the Board as well as the chairmen and members of the aforesaid committees regarding their availabilities of attendance.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard as set out in the Model Code throughout the financial year ended 31st December 2005.

Board of Directors

The Board comprises 12 Directors, of whom 3 are Independent Non-executive Directors. The participation of Independent Non-executive Directors in the Board brings independent judgement on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The Board members for the year ended 31st December 2005 were:

Mr. LO Ying Shek, *Chairman and Managing Director*

Madam LO TO Lee Kwan

Dr. LO Ka Shui, *Deputy Chairman and Managing Director*

Mr. LO Kai Shui, *Deputy Managing Director*

Mr. CHENG Hoi Chuen, Vincent*

Professor WONG Yue Chim, Richard*

Mrs. LEE Pui Ling, Angelina*

Mr. LO Hong Sui, Antony

Madam LAW Wai Duen

Mr. LO Hong Sui, Vincent

Dr. LO Ying Sui, Archie

Mr. KAN Tak Kwong

* *Independent Non-executive Directors*

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Board of Directors (continued)

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

The Board has four meetings held during the financial year ended 31st December 2005 and the attendance record, on a named basis, of all the four Board meetings is set out below:

Attendance of individual Directors at Board meetings in 2005

Number of meetings	4	
Mr. Lo Ying Shek	0/4	0%
Madam Lo To Lee Kwan	0/4	0%
Dr. Lo Ka Shui	4/4	100%
Mr. Lo Kai Shui	4/4	100%
Mr. Cheng Hoi Chuen, Vincent *	4/4	100%
Professor Wong Yue Chim, Richard *	4/4	100%
Mrs. Lee Pui Ling, Angelina *	4/4	100%
Mr. Lo Hong Sui, Antony	4/4	100%
Madam Law Wai Duen	4/4	100%
Mr. Lo Hong Sui, Vincent	1/4	25%
Dr. Lo Ying Sui, Archie	3/4	75%
Mr. Kan Tak Kwong	4/4	100%

* *Independent Non-executive Directors*

Average attendance rate	75%
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The relationships (including financial, business, family or other material or relevant relationships) if any, among members of the Board are disclosed in the 2005 Annual Report.

Remuneration of Directors

The Company established a Remuneration Committee on 8th March 2004 and adopted the terms of reference of the Remuneration Committee in 2005 in alignment with the provisions set out in the CG Code, with additional functions and duties covering the Company's employees and share option scheme(s).

The terms of reference include the specific duties as set out in the CG Code Provision B.1.3 as well as the following:

- (a) to have the delegated responsibility to determine the Company's policy and structure for all remuneration of the Company's employees; and
- (b) to decide on the grant of share options under such Share Option Scheme as may from time to time be adopted by the Company.

The Remuneration Committee now comprises all of the three Independent Non-executive Directors, namely, Mrs. Lee Pui Ling, Angelina (who is the chairman of the Remuneration Committee), Mr. Cheng Hoi Chuen, Vincent and Professor Wong Yue Chim, Richard.

During the financial year ended 31st December 2005, two meetings of the Remuneration Committee were held on 4th January 2005 and 8th March 2005 respectively. The chairman of the Remuneration Committee and the other two members had attended the two meetings.

The review by the Remuneration Committee of the emoluments of Directors and senior management during the year was based on the skill, knowledge and involvement in the Company's affairs and were determined by reference to the Company's performance and profitability as well as remuneration benchmark in the industry and the prevailing market conditions.

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Nomination of Directors

The Company established a Nomination Committee on 8th March 2005 and adopted the terms of reference of the Nomination Committee in 2005 in alignment with the provisions set out in the CG Code. The Nomination Committee now comprises all of the three Independent Non-executive Directors, namely, Professor Wong Yue Chim, Richard (who is the chairman of the Nomination Committee), Mr. Cheng Hoi Chuen, Vincent and Mrs. Lee Pui Ling, Angelina.

As there was no change in the Board composition and no new Director was appointed during the financial year ended 31st December 2005, no meeting of the Nomination Committee was held in the year.

Auditors' remuneration

The remuneration in respect of the services provided by the Company's auditors, Messrs. Deloitte Touche Tohmatsu, is analysed as follows:

	31st December 2005 HK\$000	31st December 2004 HK\$000
Services rendered		
Audit services	4,581	3,703
Non-audit services		
Taxation services	594	339
Other services	1,099	1
	<u>6,274</u>	<u>4,043</u>

Audit Committee

The Board is responsible for preparing the financial statements and the external auditors have a primary responsibility for auditing and reporting on the financial statements.

The Company established an Audit Committee in 1999 and adopted the terms of reference of the Audit Committee based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants.

The principal duties of the Audit Committee are as follows:

- (a) to review the half-year and annual financial statements of the Company and provide comments and advices thereon to the Board;
- (b) to review the Company's internal control systems, where an internal audit function exists, to review the internal audit programme, and internal auditors' reports, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and
- (c) to consider the appointment and resignation of the external auditor and the audit fee, and to review the external auditor's management letter and management's response to the points raised.

The Audit Committee now comprises all of the three Independent Non-executive Directors, namely, Mr. Cheng Hoi Chuen, Vincent (who is the chairman of the Audit Committee), Professor Wong Yue Chim, Richard and Mrs. Lee Pui Ling, Angelina. None of the three Audit Committee members was former partner of the Company's external auditor.

During the financial year ended 31st December 2005, two meetings of the Audit Committee were held on 8th March 2005 and 7th September 2005 for discussion of the 2004 annual results and 2005 interim results respectively. The chairman of the Audit Committee and the other two members had attended the two meetings.

The financial statements of the Company for the year ended 31st December 2005 have been reviewed by the Audit Committee.

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Internal Controls

The Board has overall responsibility for the effectiveness of the internal control systems of the Group. The Board delegates such responsibility to the Audit Committee who monitors the internal control systems through the Group's Internal Audit Department.

The Internal Audit Department reviews the material controls of the Group on a continuous basis and aims to cover all major operations of the Group on a cyclical basis. The annual audit plan and the long-term strategy plan of the Internal Audit Department are approved by the Audit Committee. The Head of Internal Audit Department reports directly to the Deputy Chairman and Managing Director and the Audit Committee of the Group. Results of the audit reviews are submitted in reports to the members of the Audit Committee and discussed in the Audit Committee meetings. The audit reports are also followed up by Internal Audit Department to ensure findings previously identified have been properly resolved.

Overall, internal audits are designed to provide the Board with reasonable assurance that the internal control systems of the Group are sound and effective.