



CORPORATE GOVERNANCE REPORT

The Company is committed to achieving and maintaining a high standard of corporate governance. The Board recognizes that such commitment is essential in upholding accountability and transparency and to achieve a balance of interests between the shareholders, customers, creditors, employees as well as other stakeholders.

To ensure compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "CG Code"), the Board has reviewed and proposed necessary amendments to the articles of association of the Company to bring the constitution of the Company in line with certain provisions of the CG Code. Such proposed amendments were adopted and approved by the shareholders during the year.

COMPLIANCE WITH THE CG CODE

During the year ended 31 December 2005, the Company has complied with all the code provisions of the CG Code except for the following deviations:

Code provision A.4.1

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing Non-executive Directors of the Company are appointed for a specific term. This constitutes a deviation from the code provision. However, all the Non-executive Directors of the Company are subject to retirement by rotation at the annual general meetings pursuant to the articles of association of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

Code provision A.4.2

Under code provision A.4.2 of the CG Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The rotation of Directors at the annual general meeting of the Company held on 11 May 2005 was in accordance with the previous articles of association of the Company which stipulate that (i) one-third of the Directors for the time being, or if their number is not a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office; and (ii) the Director holding the office of Chairman shall not be subject to retirement by rotation. This constitutes a deviation from the code provision. To fully comply with the code provision, relevant amendments to the articles of association of the Company were proposed and approved by the shareholders at the same annual general meeting whereby every Director (including the Chairman) shall be subject to retirement by rotation once for every three years.



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THE BOARD

The Board currently comprises eight members, namely:

Executive Directors:

Yu Kam Kee, Lawrence (*Chairman*)

Wong Sin Just (*Vice Chairman and Chief Executive Officer*)

Wong Kean Li

Yu Chung Hang, Lucian

Non-executive Director:

Yu Kam Yuen, Lincoln

Independent Non-executive Directors:

Lo Wing Yan, William

Chan Kai Yu, Rudy

Raja Datuk Karib Shah bin Shahrudin

All the above Directors, except Mr Yu Chung Hang, Lucian whose appointment became effective on 1 January 2006, served throughout the year under review. The biographical details of each Director including family relationships among three members of the Board, namely Mr Yu Kam Kee, Lawrence, Mr Yu Chung Hang, Lucian and Mr Yu Kam Yuen, Lincoln, are set out on pages 12 to 14.

The existing Board comprises members with a wide range of business, financial, accounting and legal skills and experience as well as a balanced composition of Executive and Non-executive Directors (including Independent Directors) to ensure independent judgment and effective operation of the Board.

The Board, which meets at least four times a year with additional meetings arranged when necessary, has a schedule of matters reserved for its approval. The specific responsibility reserved for the Board include matters in relation to the strategy and overall management of the Group; capital, corporate and control structures; financial reporting and controls; internal controls; major capital projects and contracts; communication with the shareholders; Board membership and the appointment of Company Secretary and Auditors; Directors' remuneration; delegation of authority to committees and the Group's overall corporate governance arrangements.

Save as those matters mentioned above as specifically reserved for the Board, the Board has delegated general powers to the management to deal with the daily operations of the Company under the supervision of the CEO and various Board Committees.



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THE BOARD (continued)

Roles of the Chairman and Chief Executive Officer

To ensure a balance of power and authority, a clear division of the responsibilities of the Chairman of the Board, Mr Yu Kam Kee, Lawrence, and the Chief Executive Officer, Dato' Wong Sin Just, has been set out in writing.

The Chairman is mainly responsible for providing leadership to the Board, encouraging all Directors to make full and active contribution to the Board's affairs and ensuring that the Board acts in the best interests of the Group.

The Chief Executive Officer is responsible for the implementation of the Group's strategies and policies adopted by the Board in achieving the overall commercial objectives and assumes full accountability to the Board for the operations of the Group.

Nomination of Directors

In view of the size of the Company, no Nomination Committee has been established by the Board. Nevertheless, the Board itself should discharge all duties expected to be dealt with by a Nomination Committee. During the year, the Board has reviewed the composition of the Board, adopted procedures for the nomination of Directors as well as considered and approved the appointment of Mr Yu Chung Hang, Lucian as Executive Director with effect from 1 January 2006.

To ensure that there is a formal, considered and transparent process for the appointment of new Directors to the Board, the following nomination procedures have been adopted which should normally be followed when a need is identified for the appointment of a new Director:

- to compile a list of potential candidates;
- to evaluate potential candidates in the context of the current composition of the Board, the current needs of the Board and the long-term interests of shareholders;
- following the initial evaluation, to select and recommend one or more candidates for interview by at least two members of the Board, normally including the Chairman of the Board (subsequent interviews may also be arranged with the other members of the Board, if appropriate);
- to recommend the best available candidate for consideration by the whole Board.



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THE BOARD (continued)

Nomination of Directors (continued)

Criteria for evaluation of potential candidates include:

- character and integrity;
- commitment to the long-term growth and profitability of the Company;
- willingness and ability to give sufficient time and attention to the affairs of the Company;
- accomplishment in his own field;
- professional or personal reputation;
- knowledge about issues affecting the Company;
- particular experience or expertise relevant to the current needs of the Board;
- in case of a new independent Director candidate, whether he would be considered independent.

Re-election of Directors

None of the existing Non-executive Directors of the Company are appointed for a specific term.

Every Director is subject to retirement by rotation and re-election once for every three years at the annual general meeting pursuant to the articles of association of the Company. Any new Director appointed by the Board during the year is also subject to retirement and re-election by the shareholders at the next annual general meeting following his appointment.

BOARD COMMITTEES

The Board is supported by three committees - the Executive Committee, the Audit Committee and the Remuneration Committee. Each of them has defined terms of reference covering its constitution, duties and authorities. Such terms of reference are available on the Company's website.

Executive Committee

The Executive Committee currently comprises four members, all of which are executives, namely:

Yu Kam Kee, Lawrence (*Chairman*)

Wong Sin Just

Wong Kean Li

Yu Chung Hang, Lucian (*effective on 1 January 2006*)



CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (continued)

Executive Committee (continued)

The Executive Committee has all the general powers delegated by the Board to deal with the management and daily operation of the Company save as those matters specifically set out in the schedule of matters reserved for the Board mentioned above.

Audit Committee

The Audit Committee currently comprises four members, all of which are non-executive and a majority of them are independent, namely:

Lo Wing Yan, William (*Chairman*)
Chan Kai Yu, Rudy
Raja Datuk Karib Shah bin Shahrudin
Yu Kam Yuen, Lincoln

The Audit Committee has at least one Independent Non-executive Director possessing recognized professional qualification and experience in finance and accounting matters.

The principal responsibilities of the Audit Committee include:

- to make recommendations to the Board in relation to the appointment, re-appointment and removal of the external Auditors;
- to review and monitor the external Auditors' independence and objectivity;
- to develop and implement policy on the engagement of the external Auditors to supply non-audit services;
- to monitor integrity of the interim and annual financial statements, interim and annual reports and accounts;
- to review significant financial reporting judgments particularly on any changes in accounting policies and practices;
- to ensure that management has discharged its duty to have an effective internal control system and to consider any findings of major investigations of internal control matters;
- to review the external Auditors' management letter, any material queries raised by the Auditors to management in respect of the accounting records, financial accounts or systems of control and management's response.



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BOARD COMMITTEES (continued)

Audit Committee (continued)

During the year, the Audit Committee discharged its responsibilities by:

- reviewing regularly the Group's quarterly management accounts;
- reviewing the interim and annual results of the Group and the relevant statements and reports prior to Board approval and reviewing the external Auditors' reports and findings on the work performed;
- reviewing the appropriateness of the Group's accounting policies particularly on the significant changes due to the adoption of the new Hong Kong Financial Reporting Standards;
- reviewing the external Auditors' audit plan and terms of engagement for the audit;
- considering and approving the audit fee payable to the external Auditors;
- reviewing the independency and objectivity of the external Auditors and approving the non-audit service fee payable to the external Auditors; and
- reviewing and approving corresponding amendments to the terms of reference of the Audit Committee in line with the CG Code.

Remuneration Committee

The Remuneration Committee currently comprises three members, all of which are non-executive and a majority of them are independent, namely:

Lo Wing Yan, William (*Chairman*)

Chan Kai Yu, Rudy

Yu Kam Yuen, Lincoln

The Remuneration Committee is principally responsible for recommending to the Board on the Company's remuneration policy and structure for all remuneration of Directors and senior management; determining the specific remuneration packages of all Executive Directors and senior management; recommending to the Board the remuneration of Non-Executive Directors; reviewing performance-based remuneration; determining compensation payable to Executive Directors and senior management in connection with any loss or termination of office.

During the year, the Remuneration Committee has reviewed the Company's policy and structure for remunerating all Directors, approved the remuneration package of each Executive Directors in respect of the year 2005 and determined the remuneration of the newly appointed Executive Director, Mr Yu Chung Hang, Lucian.



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BOARD AND COMMITTEE MEETINGS – Attendance

The number of full Board and Committee Meetings held and attended by each Director during the year is as follows:

	Board			Executive Committee	Audit Committee	Remuneration Committee
	Nomination related	Other than Nomination	Total			
Total number of meetings	1	5	6	9	4	1
Number of meetings attended by respective Directors						
Yu Kam Kee, Lawrence	1	4	5	7		
Wong Sin Just	1	5	6	8		
Wong Kean Li	1	4	5	9		
Wang Ruiping (Note)	0	4	4			
Yu Kam Yuen, Lincoln	1	3	4		3	1
Lo Wing Yan, William	1	4	5		4	1
Chan Kai Yu, Rudy	1	4	5		4	1
Raja Datuk Karib Shah bin Shahrudin	1	4	5		4	

Note : Mr Wang Ruiping subsequently resigned as Executive Director on 1 January 2006.

REMUNERATION OF DIRECTORS

The Board has set out a formal policy for determining Directors' remuneration, the main elements involved are:

- There should be a formal and transparent procedure for fixing the remuneration packages of individual Directors and no individual should determine his own remuneration.
- Remuneration should reflect performance, complexity and responsibility with a view to attracting, motivating and retaining high performance individuals but the Group should avoid paying more than is necessary for these purposes.
- The total remuneration package should be competitive in relation to comparable organizations in each of the countries or regions in which the Group operates.



CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS (continued)

Remuneration of Executive Directors

The key components to Executive Directors' remuneration are basic salary, performance bonus, retirement and other benefits.

The remuneration of ongoing Executive Directors are mainly subject to an annual performance appraisal. A performance standard is established and fixed for duties and responsibilities of each single Executive Director and appraisal results are discussed with the Chairman and Chief Executive Officer by reference to corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee should then consult the Chairman and/or the Chief Executive Officer regarding their proposals relating to the remuneration of the Executive Directors. It is a duty of the Remuneration Committee to determine the specific remuneration packages of all Executive Directors by considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Executive Directors, employment conditions elsewhere in the Group and individual performance. No Executive Director serves on the Remuneration Committee.

Remuneration of Non-executive Directors

In view of the growing responsibilities of Non-executive Directors, their role has become more complex and demanding. The remuneration for any particular Non-executive Director should reflect the likely workload and responsibility involved, the scale and complexity of the business and the market practice.

The directors' fees of Non-executive Directors are based on a formal independent review undertaken no less frequently than every three years. Such fees should be proposed by the executive management, reviewed and recommended to the Board by the Remuneration Committee and approved by the shareholders at each annual general meeting.

Share Options

A Director (either Executive or Non-executive Director) may also benefit from the share option scheme adopted by the Company. Such reward is to provide additional incentive to Directors and to reward loyal Directors who have contributed to the Company's success in various ways. Any share options granted to a Director should be approved by all Independent Non-executive Directors (excluding any Independent Non-executive Director who is the grantee of the options) or approved by shareholders whenever it is applicable pursuant to the scheme rules and the Listing Rules. Such options are normally vested immediately and exercisable during a period not exceeding ten years from the date of grant under an exercise price to be determined by the Board with reference to the prevailing market price, and in any event not less than the nominal value of HK\$0.1 per share.

Details of share options granted to the Directors by the Company are set out in the Report of Directors on page 19.



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MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of all Directors, each of them has confirmed that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2005.

COMMUNICATION WITH SHAREHOLDERS

Communication with shareholders is given high priority. Extensive information about the Group's activities is provided in the annual reports and accounts as well as the interim reports which are sent to shareholders on a timely basis. All shareholders are encouraged to attend the general meetings of the Company to discuss the businesses of the Group.

FINANCIAL REPORTING

The Directors hereby acknowledge their responsibility for preparing the accounts for each accounting 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. The interim and annual results of the Group are announced on a timely manner within the time limits set by the regulatory authorities.

In preparing the accounts for the year ended 31 December 2005, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable.

The statement of the Auditors of the Company regarding their reporting responsibilities is set out in the Report of the Auditors on pages 40 to 41.

INTERNAL CONTROLS

Internal control systems have been designed to allow the Board to monitor the Group's overall financial position, to protect its assets and to assure against material financial misstatement or loss. It is the responsibility of the Board to maintain the internal control systems of the Group.



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AUDITORS' FEES

The Company's external Auditors are PricewaterhouseCoopers. For the year ended 31 December 2005, the fees payable to the external Auditors for audit service and consultancy service (non-audit service) were HK\$1,773,000 and HK\$18,000 respectively.

By Order of the Board

WONG KEAN LI

Executive Director & Company Secretary

HONG KONG, 30 March 2006