

CORPORATE GOVERNANCE REPORT

The Company is committed to maintain good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Stock Exchange has issued the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 of the Listing Rules and the Corporate Governance Report (the "CG Report") set out in Appendix 23 of the Listing Rules, which, with one exception, were in force for the accounting periods commencing on or after 1 January 2005. The exception is in respect of Code Provision C.2 of the CG Code on internal controls and the disclosure requirements in the CG Report relating to the Company's internal controls, which will be effective for the accounting periods commencing on or after 1 July 2005.

In the opinion of the Directors, the Company has complied with the Code Provisions of the CG Code throughout the year ended 31 December 2005, except for Code Provision C.2 of the CG Code on internal controls, which are to be implemented for the accounting periods commencing on or after 1 July 2005 and the deviations in respect of the service term and the rotation of Directors under Code Provisions A.4.1 and A.4.2 of the CG Code.

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. Under Code Provision A.4.2 of the CG Code, all Directors appointed to fill casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

None of the existing Non-executive and Independent Non-executive Directors of the Company is appointed for a specific term. However, all of the Non-executive and Independent Non-executive Directors are subject to retirement by rotation in accordance with the Company's Articles of Association.

According to the Articles of Association of the Company, any Director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. At each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election. As there are eight Directors and one-third of them shall retire subject to rotation, each Director is effectively appointed under a term of not more than 3 years. To align the Articles of Association of the Company with the CG Code, the Company will propose to amend its Articles of Association in the forthcoming annual general meeting.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

(A) BOARD COMPOSITION

The Board currently comprises four Executive Directors, one Non-executive Director and three Independent Non-executive Directors, serving the important function of guiding the management.

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

Executive Directors

Mr. Joseph Wing Kong LEUNG (Chairman)

Mr. James C. NG (Chief Executive Officer)

Mr. Derek Wai Choi LEUNG

Mr. Wing Tung YEUNG

Non-executive Director

Mr. Raymond Wai Pun LAU

Independent Non-executive Directors

Dr. Cecil Sze Tsung CHAO

Dr. Jen CHEN

Mr. Ian Grant ROBINSON

The composition of the Board is reviewed regularly to ensure that it has a good balance of expertise, skills and experience, which can meet the requirements of the business of the Group. The Directors' biographical information is set out on pages 8 and 9.

The composition of the Board, by category of Directors, including names of Chairman, Executive Directors, Non-executive Director and Independent Non-executive Directors, is disclosed in all corporate communications.

To the best knowledge of the Directors, there is no financial, business, family relationship among our Directors. All of them are free to exercise their independent judgment.

(B) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Joseph Wing Kong LEUNG serves as the Chairman of the Board and Mr. James C. NG serves as the Chief Executive Officer of the Group.

The Chairman's responsibility is to manage the Board and the Chief Executive Officer's responsibility is to manage the Group's business. The division of responsibility between the Chairman and the Chief Executive Officer is clearly defined.

The Chairman is also responsible for ensuring that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

CORPORATE GOVERNANCE REPORT**BOARD OF DIRECTORS (CONTINUED)****(C) INDEPENDENT NON-EXECUTIVE DIRECTORS**

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors, of whom Mr. Ian Grant ROBINSON has appropriate professional qualifications and experience in financial matters.

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

(D) APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

The Board as a whole is responsible for the selection and approval of candidates for appointment to the Board, and does not therefore establish a nomination committee.

None of the existing Non-executive and Independent Non-executive Directors of the Company is appointed for a specific term. However, all of the Non-executive and Independent Non-executive Directors are subject to retirement by rotation in accordance with the Company's Articles of Association.

According to the Articles of Association of the Company, any Director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election. As there are eight Directors and one-third of them shall retire subject to rotation, each Director is effectively appointed under a term of not more than 3 years. To align the Articles of Association of the Company with the CG Code, the Company will propose to amend its Articles of Association in the forthcoming annual general meeting.

There was no change in the composition of the Board during the year ended 31 December 2005.

(E) RESPONSIBILITIES OF DIRECTORS

The Directors fully appreciate their role and duties as Directors of the Company.

New Directors will be given an introduction to the Group's major business activities, induction into their responsibilities and duties, and other regulatory requirements.

The Company Secretary is responsible for keeping all Directors updated on the Listing Rules and other relevant regulatory requirements.

CORPORATE GOVERNANCE REPORT**BOARD OF DIRECTORS (CONTINUED)****(F) 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 Company's code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2005.

(G) BOARD MEETINGS

The Board meets regularly and held four Board meetings for the year ended 31 December 2005. The following was an attendance record of the Board meetings for the year ended 31 December 2005:

	Attendance
Executive Directors	
Mr. Joseph Wing Kong LEUNG (Chairman)	3/4
Mr. James C. NG (Chief Executive Officer)	4/4
Mr. Derek Wai Choi LEUNG	4/4
Mr. Wing Tung YEUNG	4/4
Non-executive Director	
Mr. Raymond Wai Pun LAU	3/4
Independent Non-executive Directors	
Dr. Cecil Sze Tsung CHAO	0/4
Dr. Jen CHEN	3/4
Mr. Ian Grant ROBINSON	4/4

The Directors can attend Board meetings in persons or through other means of electronic communication in accordance with the Company's Articles of Association.

The Directors are consulted to include matters for discussion in the agenda of Board meetings.

The Company gives notice of regular Board meetings at least 14 days in advance and reasonable notice for all other Board meetings.

The agenda and accompanying board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings.

The Directors have full access to the advice and services of the Company Secretary, who is responsible for providing Directors with board papers and related materials and ensuring that Board procedures, and all applicable rules and regulations, are followed.

CORPORATE GOVERNANCE REPORT**BOARD OF DIRECTORS (CONTINUED)****(G) BOARD MEETINGS (CONTINUED)**

The Company Secretary is responsible for taking minutes of Board meetings, which would be sent to all Directors within a reasonable time after each meeting and generally be made available for inspection by Directors. The minutes record the matters discussed and decisions resolved at Board meetings.

Should a potential conflict of interest involving a substantial shareholder or director arise, the matter is discussed in an actual Board meeting, as opposed to being dealt with by written resolution. Independent non-executive Directors are present at Board meetings dealing with conflict issues.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company established the Remuneration Committee in April 2002. In accordance with the requirements of the CG Code, the terms of reference of the Remuneration Committee were revised on 15 April 2005 in terms substantially the same as the provisions set out in the Code Provisions of the CG Code. The revised terms of reference of the Remuneration Committee are available on the Company's website.

The existing Remuneration Committee of the Company comprises the Chairman of the Company, Mr. Joseph Wing Kong LEUNG (Chairman of the Remuneration Committee) and two Independent Non-executive Directors, namely, Dr Cecil Sze Tsung CHAO and Mr. Ian Grant ROBINSON.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and reviewing the specific remuneration packages of all Executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. No Director is involved in deciding his own remuneration.

The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer about their proposals relating to remuneration of other Directors and senior management.

The Remuneration Committee is provided with sufficient resources to discharge its duties and can take independent professional advice at the Company's expenses if considered necessary.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

The Remuneration Committee held one meeting for the year ended 31 December 2005. The following was an attendance record of the Remuneration Committee meeting for the year ended 31 December 2005:

	Attendance
Mr. Joseph Wing Kong LEUNG	1/1
Dr. Cecil Sze Tsung CHAO	0/1
Mr. Ian Grant ROBINSON	1/1

During 2005, the Remuneration Committee's work included:

- (i) Review of remuneration policy of Directors and senior management; and
- (ii) Recommendation to the Board of the Directors' fee for 2006.

ACCOUNTABILITY AND AUDIT

(A) FINANCIAL REPORTING

The Board is responsible for presenting a balanced, clear and comprehensive, assessment of the Group's performance, position and prospects in all corporate communications.

The Directors shall have full access to Management for enquiries and to obtain information on the Group when necessary. The Directors are able to obtain independent professional advice at the Company's expenses whenever deemed necessary by the Directors.

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The statement of the Auditors of the Company about their responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 26.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they 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.

(B) INTERNAL CONTROLS

The Board has overall responsibilities for maintaining a sound and effective internal control system to safeguard the shareholders' investment and the Company's assets. The Board conducts regular reviews of the Group's internal control system.

CORPORATE GOVERNANCE REPORT**ACCOUNTABILITY AND AUDIT (CONTINUED)****(C) AUDIT COMMITTEE**

The Company established the Audit Committee in January 1999 with reference to “A Guide for the Formation of an Audit Committee” issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised on 15 April 2005 in terms substantially the same as the provisions set out in the Code Provisions of the CG Code. The revised terms of reference of the Audit Committee are available on the Company’s website.

The existing Audit Committee of the Company comprises one Non-executive Director, Mr. Raymond Wai Pun LAU and three Independent Non-executive Directors, namely Dr. Cecil Sze Tsung CHAO, Dr. Jen CHEN and Mr. Ian Grant ROBINSON. It is chaired by an Independent Non-executive Director, Mr. Ian Grant ROBINSON.

None of the four Audit Committee members is a former partner of the external auditors one year before joining the Company.

The principal duties of the Audit Committee include the review and supervision of the Group’s financial reporting system and internal control procedures, review of the Group’s financial information and oversight of the relationship with the Auditors of the Company.

The Audit Committee is provided with sufficient resources to discharge its duties and can take independent professional advice at the Company’s expenses if considered necessary.

For the year ended 31 December 2005, the Audit Committee held two meetings, in which the external auditors were in attendance. The following was an attendance record of the Audit Committee meetings for the year ended 31 December 2005:

	Attendance
Mr. Ian Grant ROBINSON	2/2
Dr. Cecil Sze Tsung CHAO	1/2
Dr. Jen CHEN	1/2
Mr. Raymond Wai Pun LAU	1/2

During 2005, the Audit Committee’s work included:

- (i) Review of the Group’s interim and annual financial statements;
- (ii) Review of the non-audit services provided by the external auditors; and
- (iii) Recommendation to the Board of the reappointment of Ernst & Young as the Company’s Auditors.

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

The Company Secretary is responsible for taking minutes of Audit Committee meetings, which would be sent to all committee members within a reasonable time after each meeting.

CORPORATE GOVERNANCE REPORT**ACCOUNTABILITY AND AUDIT (CONTINUED)****(D) AUDITORS' REMUNERATION**

For the year ended 31 December 2005, the Group's external auditors provided the following services to the Group:

	<i>HK\$'000</i>
Audit services	1,618
Non-audit services	
Due diligence on potential investments	700
Taxation services	209
Review on connected parties transaction	20
	<hr/>
	2,547
	<hr/> <hr/>

DELEGATION BY THE BOARD**(A) MANAGEMENT FUNCTIONS**

The Board, led by the Chairman, is responsible for formulating overall group strategies and overseeing the management's performance. Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

Matters reserved for Board decision include:

- (i) Formulation of long-term strategy;
- (ii) Approving public announcements;
- (iii) Approving material bank facilities;
- (iv) Committing to material acquisitions and disposals;
- (v) Committing to material connected transactions; and
- (vi) Reviewing internal control system.

(B) BOARD COMMITTEES

The Board currently has three Board Committees, including two corporate governance related committees (being the Audit Committee and the Remuneration Committee) and the Investment Committee. All Board Committees have clear written terms of reference. Board Committees report regularly to the Board on their work and findings.

CORPORATE GOVERNANCE REPORT**COMMUNICATION WITH SHAREHOLDERS****(A) EFFECTIVE COMMUNICATION**

In order to develop and maintain continuing relationships with the shareholders of the Company, the Company establishes various communication channels to facilitate and enhance communication:

- (i) interim and annual reports are sent to shareholders of the Company;
- (ii) the annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board;
- (iii) updated and key information of the Group is available on the Company's website; and
- (iv) the Company's website offers a communication channel between the Company and its shareholders.

The Chairman and the Directors are available at general meetings to answer questions raised by shareholders of the Company. To facilitate enforcement of shareholders' rights, separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

The Chairman of the Board, the Chairman of the Audit Committee, the Chairman of the Remuneration Committee and all Executive Directors attended the 2005 Annual General Meeting of the Company (the "2005 AGM"). The Company's Auditors also attended the 2005 AGM.

(B) VOTING BY POLL

The procedures for demanding and conducting a poll is disclosed in all the Company's circulars to shareholders accompanying the notice of general meetings. These procedures are also explained by the chairman of general meetings at the commencement of the meetings.

Votes cast for each resolution dealt in general meetings are properly counted and recorded.