

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the light of the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") which came into effect on 1st January, 2005, the Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report. The Company has applied the principles of and complied with the applicable code provisions of the CG Code during the year ended 31st December, 2005, except for certain deviations as specified with considered reasons for such deviations as explained below.

THE BOARD

The Board currently comprises nine Directors and its composition is set out as follows:

Executive Directors:

Lee Seng Hui (*Chief Executive*)
Edwin Lo King Yau
Mak Pak Hung
(*appointed on 3rd January, 2006*)

Non-Executive Directors:

Lee Su Hwei
Arthur George Dew

Independent Non-Executive Directors ("INEDs"):

Wong Po Yan
David Craig Bartlett
John Douglas Mackie
Alan Stephen Jones
(*appointed on 3rd January, 2006*)

The brief biographical details of the Directors are set out in the "Profile of Directors and Senior Management" section on pages 15 to 17.

The Non-Executive Directors (a majority of whom are independent) provide the Group with a wide range of expertise and experience. Their active participation in Board and committee meetings brings independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders.

The Company has four INEDs representing more than one-third of the Board. At least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

THE BOARD (CONT'D)

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the year, five Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

	Number of Board meetings attended/eligible to attend
Executive Directors:	
Lee Seng Hui	5/5
Edwin Lo King Yau	5/5
Non-Executive Directors:	
Lee Su Hwei	4/5
Arthur George Dew	4/5
INEDs:	
Wong Po Yan	4/5
David Craig Bartlett	5/5
John Douglas Mackie	4/5
Gordon Macwhinnie (<i>former Chairman</i>) (<i>retired on 30th December, 2005</i>)	5/5

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, annual and interim results, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the daily operations and administration to the executive management under the supervision of the Executive Committee which has its specific written terms of reference. The respective functions of the Board and management of the Company have been formalised and set out in writing in terms approved by the Board in June 2005. The Board will review the same once a year.

Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors and to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before the same are tabled at the following Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

THE BOARD (CONT'D)

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices. In addition, a written procedure was established in June 2005 to confirm the Directors' power in relation to their own duties to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

ROLES OF CHAIRMAN AND CHIEF EXECUTIVE

The roles of the Chairman and the Chief Executive of the Company are separate to reinforce their respective independence and accountability. The Chairman of the Company is responsible for the leadership of the Board while the Chief Executive is responsible for running the business of the Company. On 30th December, 2005, Sir Gordon Macwhinnie retired as the Non-Executive Chairman and an Independent Non-Executive Director of the Company. Thereafter, the post of the Chairman has been temporarily vacant as the Board is seeking for a suitable person to act as the Chairman. The Chief Executive of the Company is Mr. Lee Seng Hui who is also an Executive Director of the Company. The responsibilities of the Chairman and the Chief Executive are clearly segregated and have been set out in writing and approved by the Board in June 2005.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In June 2005, the Board established and adopted a written nomination procedure ("Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Executive Committee shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills and time commitment etc.), identify and recommend a proposed candidate to the Board for approval of an appointment.

Every newly appointed Director of the Company will receive an information package from the Company Secretary on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a director pursuant to the Companies Ordinance, Listing Rules and Securities and Futures Ordinance ("SFO"). In addition, this information package includes materials to briefly describe the operations and business of the Company. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

The Non-Executive Directors of the Company had no fixed term of office prior to 30th June, 2005, but retired from office on a rotational basis in accordance with the relevant provisions of the Company's Articles of Association. According to the Articles of Association of the Company then in effect before 3rd June, 2005, at each annual general meeting of the Company, 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, should retire from office by rotation, provided that no Director holding office as an executive chairman or as a managing director or as a chief executive should be subject to retirement by rotation. Further, any Director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following annual general meeting and would then be eligible for re-election at that meeting.

APPOINTMENT AND RE-ELECTION OF DIRECTORS (CONT'D)

To fully comply with the code provision A.4.1 of the CG Code, all the existing Non-Executive Directors of the Company were appointed for a specific term which shall continue until 31st December, 2006, but subject to the relevant provisions of the Articles of Association of the Company or any other applicable laws whereby the Directors shall vacate or retire from their office. In addition, to ensure full compliance with the code provision A.4.2 of the CG Code, relevant amendments to the Articles of Association of the Company were proposed and approved by the shareholders at the annual general meeting of the Company held on 3rd June, 2005 so that (i) any Director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the Company's first general meeting after the appointment; and (ii) every Director shall be subject to retirement by rotation at least once three years.

BOARD COMMITTEES

The Board has established various committees, including a Remuneration Committee, an Audit Committee and an Executive Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on page 18 in the section "The Board" above, have been adopted for the committee meetings so far as practicable.

Remuneration Committee

The Remuneration Committee has been established for more than 10 years and currently consists of five members, including Messrs. David Craig Bartlett (Chairman), Wong Po Yan, John Douglas Mackie and Alan Stephen Jones being the INEDs, and Mr. Arthur George Dew being the Non-Executive Director. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The major roles and functions of the Remuneration Committee are:

- (i) to review and recommend to the Board the remuneration policy and packages of the Directors and, where appropriate, to consult the Chairman and/or the Chief Executive about the committee's proposals relating to the remuneration of other Executive Directors;
- (ii) to review and recommend performance-based remuneration by reference to corporate goals and objectives approved by the Board from time to time;
- (iii) to review and recommend the compensation payable to Executive Directors relating to any loss or termination of their office or appointment;
- (iv) to review and recommend compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- (v) to ensure that no Director is involved in deciding his own remuneration.

BOARD COMMITTEES (CONT'D)**Remuneration Committee (Cont'd)**

The terms of reference of the Remuneration Committee of the Company were revised in June 2005 to comply with the code provision B.1.3 of the CG Code, but with a deviation from the code provision of the remuneration committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of Executive Directors only and not senior management for the following reasons:

- (i) the Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior management and that this evaluation process is more effectively carried out by the Executive Directors;
- (ii) a majority of the Remuneration Committee members are INEDs who may not be industry skilled and come from differing professions and backgrounds and they are not involved in the daily operation of the Company. They may have little direct knowledge of industry practice and standard compensation packages. The Remuneration Committee is thus not in a position to properly determine the remuneration of the Executive Directors;
- (iii) the Executive Directors must be in a position to supervise and control senior management and thus must be able to control their compensation; and
- (iv) there is no reason for Executive Directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The revised terms of reference of the Remuneration Committee have been posted on the Company's website in June 2005.

The Remuneration Committee shall meet at least once a year. One committee meeting was held in 2005 and the attendance of each member is set out as follows:

Committee member	Number of committee meeting attended/eligible to attend
David Craig Bartlett (<i>Chairman</i>)	1/1
Arthur George Dew	1/1
Wong Po Yan	1/1
John Douglas Mackie	1/1
Gordon Macwhinnie (<i>retired on 30th December, 2005</i>)	1/1

BOARD COMMITTEES (CONT'D)**Remuneration Committee (Cont'd)**

In addition to the Committee meeting, the Remuneration Committee also dealt with matters by way of circulation during 2005. In 2005, the Remuneration Committee had performed the work as summarised below:

- (i) recommended for the Board's ratification regarding the increase of the monthly remuneration of the former Chairman;
- (ii) reviewed and recommended for the Board's approval regarding the payment of performance bonus to the Chief Executive, an Executive Director, the Group Financial Controller and other senior staff of the Company for the year ended 31st December, 2004;
- (iii) reviewed and recommended for the Board's approval regarding the renewal of a tenancy agreement for provision of an accommodation to the Chief Executive;
- (iv) reviewed and recommended for the Board's approval regarding the proposed consultancy fee to a newly appointed INED;
- (v) reviewed and discussed the policy and structure for the remuneration of Directors; and
- (vi) reviewed and discussed the existing remuneration packages of all the Executive Directors and Non-Executive Directors (including the INEDs).

The remuneration payable to Directors will depend on their respective contractual terms under their employment contracts or service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 11 to the financial statements.

Audit Committee

The Audit Committee has been established for more than 10 years and currently consists of five Non-Executive Directors, four of whom are INEDs. To retain independence and objectivity, the Audit Committee has been chaired by an INED (with appropriate professional qualifications or accounting or related financial management expertise) in the past years. The current members of the Audit Committee are Messrs. Alan Stephen Jones (Chairman), Arthur George Dew, Wong Po Yan, David Craig Bartlett and John Douglas Mackie. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

The major roles and functions of the Audit Committee are:

- (i) to consider and recommend to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of those auditors;
- (ii) to consider and discuss with the external auditors the nature and scope of each year's audit;

BOARD COMMITTEES (CONT'D)**Audit Committee (Cont'd)**

- (iii) to review and monitor the external auditors' independence and objectivity;
- (iv) to review the interim and annual financial statements before submission to the Board;
- (v) to discuss any problems and reservation arising from the interim review and final audit, and any matters the external auditors may wish to discuss;
- (vi) to review the external auditors' management letters and management's response;
- (vii) to review the Group's financial controls, internal control and risk management systems; and
- (viii) to consider any findings of major investigations of internal control matters as delegated by the Board and management's response.

The terms of reference of the Audit Committee of the Company were revised in June 2005 to comply with the code provision C.3.3 of the CG Code, but with the deviations from the code provision of the audit committee's responsibility to:

- (i) implement policy on the engagement of the external auditors to supply non-audit services;
- (ii) ensure the management has discharged its duty to have an effective internal control system; and
- (iii) ensure coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the listed company.

The Board considers that the Audit Committee of the Company should recommend (as opposed to implement) the policy for the following reasons:

- (i) it is proper, and appropriate for the Board and its committees to develop policy and make appropriate recommendations;
- (ii) the proper and appropriate mechanism for implementation of such policy and recommendations is through the Executive Directors and management; and
- (iii) INEDs are not in an effective position to implement policy and follow up the same on a day-to-day basis.

Further, the Board considers that the Audit Committee of the Company only possesses the effective ability to scrutinize (as opposed to ensure) whether management has discharged its duty to have an effective internal control system. The Audit Committee is not equipped to ensure that the same is in place as this would involve day-to-day supervision and the employment of permanent experts. The Audit Committee is not in a position either to ensure coordination between internal auditors (if any) and external auditors but it can promote such co-ordination. Similarly, the Audit Committee is not in a position to ensure that the internal audit function (if any) is adequately resourced but it can monitor whether it is adequately resourced.

BOARD COMMITTEES (CONT'D)**Audit Committee (Cont'd)**

The revised terms of reference of the Audit Committee have been posted on the Company's website in June 2005.

The Audit Committee shall meet at least twice a year. Two committee meetings were held in 2005 and the attendance of each member is set out as follows:

Committee member	Number of committee meetings attended/eligible to attend
Gordon Macwhinnie (<i>former Chairman</i>) (<i>retired on 30th December, 2005</i>)	2/2
Arthur George Dew	2/2
Wong Po Yan	2/2
David Craig Bartlett	2/2
John Douglas Mackie	1/2

During the meetings held in 2005, the Audit Committee had performed the work as summarised below:

- (i) reviewed the external auditors' report of finding in relation to the final audit of the Group for the year ended 31st December, 2004;
- (ii) reviewed the external auditors' independent review report in relation to the 2005 interim review for the six months ended 30th June, 2005;
- (iii) reviewed the financial reports for the year ended 31st December, 2004 together with the relevant letter of representation and recommended the same to the Board for approval;
- (iv) reviewed the financial reports for the six months ended 30th June, 2005 and recommended the same to the Board for approval; and
- (v) reviewed the audit scope and fees proposed by the external auditors regarding the 2005 interim review for the six months ended 30th June, 2005 and recommended the same to the Board/Executive Committee for approval.

Executive Committee

The Executive Committee has been established in January 1993 and currently consists of two Executive Directors, being Messrs. Lee Seng Hui (Chairman) and Edwin Lo King Yau. The Executive Committee is vested with all the general powers of management and control of the activities of the Group as are vested in the Board of the Company, save for those matters which are reserved for the Board's decision and approval pursuant to the written terms of reference of the Executive Committee.

BOARD COMMITTEES (CONT'D)

Executive Committee (Cont'd)

The Executive Committee meets as and when necessary to discuss the operating affairs of the Group. It is mainly responsible for undertaking and supervising the day-to-day management and is empowered:

- (i) to formulate and implement policies for the business activities, internal control and administration of the Group; and
- (ii) to plan and decide on strategies to be adopted for the business activities of the Group.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code.

To comply with the code provisions A.5.4 of the CG Code, the Company has also established and adopted in June 2005 the Model Code, to regulate dealings in the securities of the Company by certain employees or officers of the Company who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing, with the support from Accounts Department, the financial statements of the Group. In preparing the financial statements for the year ended 31st December, 2005, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance were complied with.

The reporting responsibilities of the Company’s external auditors, Messrs. Deloitte Touche Tohmatsu (“Deloitte”), are set out in the Auditors’ Report on page 36.

ACCOUNTABILITY AND AUDIT (CONT'D)**External Auditors' Remuneration**

During the year, the remuneration paid to former external auditors, namely Messrs. Ernst and Young ("EY") and Messrs. PricewaterhouseCoopers ("PWC"), of two subsidiaries and the Company's external auditors, Deloitte respectively, are set out as follows:

Services rendered for the Group	Fee paid to EY HK\$'000	Fees paid to PWC HK\$'000	Fees paid to Deloitte HK\$'000
Audit services	170	3,786	3,826
Non-audit services			
– Taxation services	–	433	59
– Other professional services	–	457	1,386
Total	170	4,676	5,271

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. As a channel to further promote effective communication, the corporate website is maintained to disseminate shareholder information and other relevant financial and non-financial information electronically on a timely basis.

The Company's AGM is a valuable forum for the Board to communicate directly with the shareholders. The Chairman actively participates in the AGM and he or his nominee personally chairs the meeting to answer any questions from the shareholders. A separate resolution is proposed by the Chairman in respect of each issue to be considered at the AGM. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the AGM, and (except where a poll is demanded) reveals how many proxies for and against have been received in respect of each resolution.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders are also welcome and will be taken into account in the ongoing enhancement of our transparency.

On behalf of the Board



Lee Seng Hui
Chief Executive

Hong Kong, 12th April, 2006