

The Board of Directors of the Company (the "Board") is committed to the principles of good corporate governance standards and procedures. This report addresses the status of the Company's compliance with the principles and provisions of the new Code on Corporate Governance Practices ("Code"), which came into effect for the reporting financial year after 1 January 2005.

Statement by the Directors on Corporate Governance Policies and Compliance with the Provisions of the Code

The Company's Articles of Association were amended on 14 June 2005 to provide that every Director, including non-executive Directors appointed for a specific term of three years, shall be subject to retirement by rotation at least once every three years. This is in accordance with Code Provision A.4.1 (which provides that non-executive directors should be appointed for a specific term, subject to re-election) and Code Provision A.4.2 (which requires retirement by rotation once every three years). On 14 June 2005, the Board also set up a Remuneration Committee (comprising three independent non-executive Directors, a Managing Director, and a Deputy Managing Director) to review human resource issues and to make recommendations to the Board. This is in accordance with Code Provision B.1.1 which requires companies to have a formal and transparent procedure for setting policy on executive directors' remuneration and fixing the remuneration packages for all directors.

The Listing Rules require every listed company to report how it applies the principles in the Code and to confirm that it complies with Code provisions or to provide an explanation where it does not. The Company is committed to maintaining high standards of corporate governance. In the opinion of the Directors, having taken the steps above and in conjunction with corporate governance procedures already in place, the Company has complied with the Code throughout the year ended 31 December 2005.

Board Composition and Board Practices

The key principles of good governance require the Company to have an effective Board which is collectively responsible for its success. The Board is also responsible for setting the Company's values and aims with the objective of enhancing

shareholder value. Non-executive Directors have a particular responsibility in overseeing the development of the Company, scrutinizing management performance, and advising on critical business issues. The Board is satisfied that it has met these requirements.

The Listing Rules require every listed issuer to have a balanced board of executive and non-executive directors such that no individual or small group can dominate the Board's decision making process. The Board of the Company comprises a total of 14 members, with a Group Executive Chairman ("Chairman"), a Managing Director, a Deputy Managing Director, six executive Directors, and five non-executive Directors, of whom three are independent non-executive Directors. The Board is well-balanced between executive and non-executive Directors and possesses a diverse range of relevant skills to further the interests of shareholders. Independent non-executive Directors possess a range of experience and are of high caliber to ensure the interests of all shareholders of the Company are taken into account and that key issues vital to the success of the Company are subjected to independent and objective consideration by the Board. Brief biographies of each board member and the relationship among board members can be found in the section headed "Management Profile" in this annual report.

Pursuant to the Listing Rules, the Company has received confirmation from each independent non-executive Director about his independence. As at 31 December 2005, each independent non-executive Director had re-affirmed his independent status, and the Company is satisfied as to this.

With respect to the re-election of Board members, all of the Company's Directors (including non-executive Directors) are subject to retirement by rotation once every three years. Non-executive Directors are appointed for a specific term of three years from the date of the last annual general meeting during which the non-executive director was re-elected as a Director. This is in accordance with the Company's Articles of Association, which were amended during the reporting period. Sir Roger Lobo, Dato' Dr. Cheng Yu Tung, Mrs. Mok Ho Yuen Wing, Louise, Mr. Patrick Huen and Ms. Maisy Ho will retire and will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Code requires a formal and transparent procedure for the appointment of new Directors to the Board and recommends a nomination committee. The Company does not have a nomination committee, which is the practice followed by some listed companies. However, the Board believes it currently has adequate measures to ensure new appointments (nil in 2005) will be made on merit and against objective criteria. Candidates to be selected and recommended will be experienced and high caliber individuals. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

In order to ensure the Board works effectively and discharges its responsibilities, all members of the Board have full and timely access to relevant information and are properly briefed on issues arising for discussion at Board meetings. The role of establishing the meeting agenda has been delegated to the Company Secretary and each Director may request inclusion of items on the agenda. Information packages containing analysis and background material are circulated not less than three days in advance of Board meeting to enable the Directors to make informed decisions. Members of the Board also have full access to the Company Secretary who has the responsibility to keep the Directors informed of corporate governance issues and changes in the regulatory environment and ensure board procedures are in compliance with the Code and other statutory requirements. The Board is provided with sufficient resources to discharge their duties and if required, individual Directors may retain outside advisers, at the Company's expense, to provide advice on any specific matter. In situations where Directors have a conflict of interest in matters to be considered by the Board, the relevant matter will be dealt with at a board meeting. Furthermore, it is the Company's practice that Directors shall abstain from voting on any Board resolution in which they have a material interest and that they shall not be counted in the quorum present at the Board meeting.

An open atmosphere exists for Directors to contribute alternative views at meetings and major decisions are taken after a full discussion at Board meetings. Minutes of Board

meetings and committee meetings are recorded in detail and draft minutes are circulated to all Directors and committee members for comment before approval. Minutes of the Board meetings and committee meetings are kept by the Company Secretary and are open for inspection by Directors.

In the course of discharging the Board's duties, each newly-appointed Director is offered training on key areas of business operations and practices of the Company. Newly appointed Directors are offered orientation materials that set out the duties and responsibilities of Directors under the Listing Rules, related ordinances and relevant regulatory requirements of Hong Kong. The Company also encourages its Directors to participate in relevant professional development courses to continually update their relevant skills.

The positions of the Chairman and the Managing Directors are distinct and separate. A clear separation is maintained between the responsibilities of the Chairman and the Managing Directors with the former being mainly responsible for the leadership of the Board while the latter are responsible for the overall performance of the Company.

The Board, headed by Dr. Stanley Ho, is responsible for overseeing the Company's strategic development and setting appropriate policies to manage risks in pursuit of the Company's strategic objectives as well as scrutinizing operating and financial performance.

Management is accountable to the Board of Directors and is principally responsible for day-to-day operations. The Managing Director and the Deputy Managing Director, working with other Executive Directors and the executive management team, are responsible for (i) managing the business of the Company; (ii) formulating policies for consideration of the Board; (iii) carrying out and implementing the strategies adopted by the Board; (iv) making recommendations on strategic planning, operating plans, major projects and business proposals; and (v) assuming full accountability to the Board for the operations of the Company. The Directors conduct regular meetings with the senior management of the Company and its subsidiaries and associated companies at which operational issues and financial performance are evaluated.

Twelve full Board meetings were held during the year. Additional meetings were held when required by circumstances. All Directors have fully and actively participated in the affairs of the Board. Attendance by Directors at Board meetings and committee meetings is shown below.

Directors	Full Board	Audit Committee	Remuneration Committee
	(No. of Attendance / No. of Meeting)		
Group Executive Chairman			
Stanley Ho	7/12	—	—
Non-executive Directors			
Cheng Yu Tung	1/12	—	—
Mok Ho Yuen Wing, Louise	11/12	2/2	—
Independent Non-executive Directors			
Roger Lobo	11/12	2/2	1/1
Robert Kwan	6/12	2/2	1/1
Norman Ho	12/12	2/2	1/1
Managing Director			
Pansy Ho	11/12	—	1/1
Deputy Managing Director			
Daisy Ho	12/12	—	1/1
Executive Directors			
Ambrose So	4/12	—	—
Patrick Huen	10/12	—	—
Andrew Tse	8/12	—	—
Anthony Chan	9/12	—	—
Maisy Ho	12/12	—	—
David Shum	12/12	—	—

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year ended 31 December 2005.

Board Committee

A number of Board Committees have been established by the Board to help with the discharge of its responsibilities.

Remuneration Committee

According to the Code, the Company is required to set up a remuneration committee with a majority of the members being independent non-executive Directors. To ensure full

compliance with the Code, the Company established its remuneration committee on 14 June 2005. The Remuneration Committee consists of Sir Roger Lobo, Mr. Robert Kwan and Mr. Norman Ho (the three independent non-executive Directors), Ms. Pansy Ho (the Managing Director) and Ms. Daisy Ho (the Deputy Managing Director). Ms. Pansy Ho is the Chairman of this committee. Meetings are held at least once per year and additional meetings may be held as required.

The principal role of the Remuneration Committee is to make recommendations to the Board on all aspects of the performance, employment, remuneration and incentives of the executive Directors and senior management. It sets the remuneration and incentives policy of the Company as a whole and approves the remuneration of senior staff in consultation with the Chairman and Managing Director. The

emoluments of Directors, including basic salary and performance bonus, are based on each Director's skill, knowledge and involvement in the Company's affairs, the Company's performance and profitability, remuneration benchmark in the industry and the prevailing market conditions. The terms of reference of the Remuneration Committee are adopted by the Board. No Director has taken part in setting his or her own remuneration.

Directors' interests and short positions in shares, along with Directors' interests in contracts, are listed in the section headed "Report of the Directors" in this annual report. Directors' emoluments are listed in the "Notes to the Financial Statements" in this annual report.

Executive Committee

For the more efficient operation of the Board, an Executive Committee was established during the reporting period to make recommendations on the strategic aims, objectives and priorities of the Company and to consider and approve matters relating to the day-to-day operations of the Company. The Executive Committee consists of five members being Ms. Pansy Ho (the Managing Director), Ms. Daisy Ho (the Deputy Managing Director) and three Executive Directors (namely Mr. Patrick Huen, Ms. Maisy Ho and Mr. David Shum). Ms. Pansy Ho is the Chairman of this committee. There is no minimum number of meetings required throughout the reporting period. In 2005, seven meetings were held to discuss issues of relevance to the Board.

Audit Committee

The Audit Committee comprises Sir Roger Lobo, Mr. Robert Kwan and Mr. Norman Ho, being the three independent non-executive Directors, and Mrs. Mok Ho Yuen Wing, Louise, a non-executive Director. Mr. Robert Kwan is the Chairman of this committee. The Board reviewed the membership of the Audit Committee during the year and was satisfied that its members collectively possess adequate relevant financial experience to properly discharge its roles and responsibilities.

The Audit Committee meets at least twice a year and did so during the reporting period. The principal duties of the

Audit Committee include reviewing the interim and year-end financial reports and assessing the effectiveness of the internal control system. Apart from the review of work done by the external and internal auditors, the Committee also considers and approves the annual audit and non-audit service fees. For the period ended 31 December 2005, the fees paid/ payable to the external auditor of the Company for providing non-audit services amounted to approximately HK\$1.62 million, which included the following items:

- Interim review: HK\$0.64 million;
- Review of connected transactions: HK\$0.16 million;
- Advisory services on financial reporting: HK\$0.30 million;
- Taxation services: HK\$0.28 million; and
- Others: HK\$0.24 million.

Accountability and Audit

The Board is responsible for overseeing the preparation of financial statements of the Company. The Board is mindful of its responsibility to present a balanced and clear assessment of the Company's financial position and prospects. The Board is satisfied that it has properly discharged this obligation.

In preparing the accounts for the year ended 31 December 2005, the Directors have selected suitable accounting policies and applied them consistently. The Directors also made judgments and estimates that are prudent and reasonable and have prepared the accounts on a going concern basis. The Company has announced its interim and annual results in a timely manner after the end of the relevant periods, as laid down in the Listing Rules.

The statement from the Auditors of the Company about their reporting responsibilities on the financial statements of the Company is set out in the "Report of the Auditors" in this annual report.

The Code requires the Company to maintain a sound system of internal control to safeguard the Company's assets. The Board acknowledges the importance of this ultimate responsibility and, through the Audit Committee, has

reviewed the effectiveness of the system, covering all key controls. The Audit Committee had unrestricted access to information to allow evaluation of all key aspects of the Company's governance process and controls. As the need arises, ad-hoc reviews or investigations are carried out. During the reporting period, no suspected frauds and irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations have come to the Committee's attention which would cause the Committee to believe that the system of internal controls is inadequate. Through this review, the Board is satisfied that the Company has in 2005 fully complied with the Code provisions on internal controls.

The Company's system of controls has been designed to assist in (i) achievement of business objectives; (ii) safeguarding assets against unauthorized use or dispositions; (iii) the maintenance of proper accounting records for the provision of reliable financial information; and (iv) compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage, rather than eliminate, risks of failure in operational systems and achievement of the Company's objectives.

The key procedures that the Board established to provide effective internal controls include (i) a defined management structure with clear lines of responsibility and limits of authority; (ii) effective financial reporting controls to ensure the recording of complete, accurate and timely accounting and management information; and (iii) risk based internal audit approach that focuses on areas of the Company's activities with the greatest perceived risk.

Corporate Communication

The Code requires the Company to have a dialogue with shareholders. It is the responsibility of the Board as a whole to ensure that satisfactory dialogue takes place. The primary communication channel between the Company and its shareholders is through the publication of interim and annual reports. The Company's Registrars serve the shareholders with respect to all share registration matters. The Company's annual general meeting provides a further opportunity for investors to exchange views with the Board.

The Company is committed to maintaining open dialogue with the investment community in order to increase understanding of the Company's strategy, operations and management. In order to promote good investor relations and communications through regular meetings with institutional shareholders and analysts, an investor relations department was set up in 2005. In particular, the Company participated in regular one-on-one meetings, a number of roadshows and investor conferences organized by various investment banks during 2005.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors. Details of the poll voting procedures and rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. The circular also includes relevant details of proposed resolutions, including biographies of each candidate standing for re-election and whether such candidates are considered to be independent.

Looking Forward

The Company will continue to review its corporate governance standards on a timely basis. The Board will also endeavor to take necessary and appropriate actions to ensure compliance with the required practices and standards including the provisions of the Code.