

Corporate Governance Report

The Board of Directors of the Company (the “Board”) is pleased to present this Corporate Governance Report in the Company’s annual report for the year ended 31 December 2005.

Good corporate governance has always been recognized as vital to the Group’s success and to sustain development of the Group. The Company is committed to a high standard of corporate governance as an essential component of quality and has introduced corporate governance practices appropriate to the conduct and growth of its business.

In November 2004, the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) promulgated the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) which sets out corporate governance principles (the “Principles”) and code provisions (the “Code Provisions”) with which listed issuers are expected to follow and comply.

The Company has applied the Principles set out in the CG Code and complied with most of the Code Provisions save for (i) the Code Provision A.2.1 which requires that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual; (ii) the Code Provision A.4.2 which requires that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years; and (iii) the Code Provision E.1.2 which stipulates that the Chairman of the Board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in their absence, another member of such committee or his duly appointed delegate, to be available to answer questions at the Annual General Meeting. The details of such deviations will be explained below.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code. The key corporate governance principles and practices of the Company are summarised as follows:-

A. THE BOARD

(1) Responsibilities

The overall management of the Company’s business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

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Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Executive Committee, the Chief Executive Officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the senior management to discharge its responsibilities.

(2) Composition

The composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business of the Company and for the exercise of independent judgement.

The Board comprises the following directors:-

Executive directors:-

Mr HSU Chen Shen, *Chairman of the Board and the Executive Committee and member of the Remuneration Committee*

Mr HSU Shui Sheng, *Vice-Chairman and member of the Executive Committee*

Mrs HSU WEI Jui Yun, *member of the Executive Committee*

Mr PAK Ping Chun, *member of the Executive Committee*

Mr YANG Hsien Lin, *member of the Executive Committee*

Mr HSU Chin Liang, *member of the Executive Committee*

Mr HSU Chiang Lung, *member of the Executive Committee*

Independent non-executive directors:-

Mr LEUNG Hok Lim, *Chairman of the Audit Committee*

Mr CHAN Nien-po, *member of the Audit Committee and the Remuneration Committee*

Dr HSIAO Horng Ching, *Chairman of the Remuneration Committee and member of the Audit Committee*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under "Directors and Senior Management Profile" on page 8.

During the year ended 31 December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from all its independent non-executive directors of their independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

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The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

(3) Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the executive directors of the Company is engaged on a service contract with the Company which will continue unless and until terminated by either party by not less than three months' written notice. Each of the independent non-executive directors of the Company is appointed for a specific term up to the date of holding of the Company's 2008 annual general meeting. All the directors of the Company are subject to retirement by rotation and re-election at the annual general meetings.

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

The Company's Bye-laws deviates from the Code Provision A.4.2 of the CG Code as it provides that one-third of the directors for the time being (save for the Chairman/Managing Director), or if their number is not a multiple of three, then the number nearest to one-third but not greater than one-third, shall retire from office by rotation and shall be eligible for re-election at annual general meetings and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

To conform with the Code Provision A.4.2 of the CG Code, a special resolution will be proposed at the forthcoming annual general meeting of the Company to amend the Bye-laws of the Company so that all directors of the Company will be subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Up to the date of this Report, the Board met once (with the presence of Mr. Hsu Chen Shen, Mr. Chan Nien-po and Mr. Hsiao Horng Ching) for reviewing the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Company.

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In accordance with the Company's Bye-laws and for complying with the Code Provision A.4.2 of the CG Code, Mr HSU Chen Shen, Mr HSU Shui Sheng, Mrs HSU WEI Jui Yun, and Mr LEUNG Hok Lim shall retire from office and, being eligible, will offer themselves for re-election at the Company's forthcoming 2006 annual general meeting. The Board recommended the re-appointment of these directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular to be despatched to the shareholders of the Company contains detailed information of such directors standing for re-election.

(4) Training for Directors

There was no director newly appointed during the year ended 31 December 2005. In case there is any newly appointed director, he/she will be provided comprehensive, formal and tailored induction on the first occasion of his/her appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

(5) Board and Board Committee Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2005, 8 Board meetings, 2 Audit Committee meetings and 1 Remuneration Committee meeting were held. The individual attendance record of each director at the meetings of the Board, the Audit Committee and the Remuneration Committee during the year ended 31 December 2005 is set out below:-

Name of Directors	Attendance of Meetings		Remuneration Committee
	Board	Audit Committee	
Mr HSU Chen Shen	8	Not applicable	1
Mr HSU Shui Sheng	8	Not applicable	Not applicable
Mrs HSU WEI Jui Yun	8	Not applicable	Not applicable
Mr PAK Ping Chun	8	Not applicable	Not applicable
Mr YANG Hsien Lin	8	Not applicable	Not applicable
Mr HSU Chin Liang	8	Not applicable	Not applicable
Mr HSU Chiang Lung	8	Not applicable	Not applicable
Mr LEUNG Hok Lim	4	2	Not applicable
Mr CHAN Nien-Po	4	2	1
Dr HSIAO Horng Ching	4	2	1

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Practices and Conduct of Meetings

Annual meeting schedules and draft agendas of Board and Board committee meetings are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and Board committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The *Chief Financial Officer, Qualified Accountant and Company Secretary* normally attend regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr HSU Chen Shen is the Chairman of the Board and the Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies. As such, it is beneficial to the business prospects of the Group.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

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C. BOARD COMMITTEES

The Board has established 3 committees, namely, the Executive Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of the Remuneration Committee are independent non-executive directors. All the members of the Audit Committee are independent non-executive directors. The Executive Committee is composed of all the executive directors of the Company. The list of the chairman and members of the Remuneration Committee and the Audit Committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

(1) Executive Committee

The Executive Committee comprises all the executive directors of the Company with Mr HSU Chen Shen acting as the Chairman thereof.

The principal duties of the Executive Committee include monitoring the execution of the Company's strategic plans and operations of all business units of the Company and discussing and making decisions on matters relating to the management and operations of the Company.

(2) Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets annually for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations on remuneration policy and structure and remuneration packages. The Remuneration Committee shall consult the Chairman/Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

As mentioned before, the Remuneration Committee met once during the year ended 31 December 2005 and reviewed/discussed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management.

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(3) Audit Committee

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:-

- (a) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.
- (b) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor (if any) or external auditors before submission to the Board.
- (c) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

As mentioned before, the Audit Committee held 2 meetings during the year ended 31 December 2005 to review the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

The Company's annual results for the year ended 31 December 2005 have been reviewed by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

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D. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2005.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") in respect of the dealings in the Company's securities by employees of the Group who, because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

No incident of non-compliance of the Employees Written Guidelines by the employees of the Group was noted by the Company.

E. RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Auditors' Report" on page 34.

The remuneration of the external auditors of the Company in respect of audit services for the year ended 31 December 2005 amounted to HK\$1,230,000. There are no non-audit services provided by the Company's external auditors for the year ended 31 December 2005.

F. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

Results on any voting conducted by poll will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

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F. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS (continued)

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the chairmen of the Board committees or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are normally available to answer questions at the shareholders' meetings. However, the Chairman of the Board was unable to attend the Company's 2005 annual general meeting (as stipulated under the Code Provision E.1.2 of the CG Code) due to business trip. Despite his absence, he had arranged for another executive director and the senior management present at the said annual general meeting for answering shareholders' questions and no questions were raised at the meeting. The Chairman will use his endeavours to attend the future shareholders' meetings of the Company.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated executive directors and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

To promote effective communication, the Company also maintains a website at www.big1163.com, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.