

CORPORATE GOVERNANCE REPORT

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identify and formalize the best corporate governance practices appropriate to the needs of its business.

The Company's corporate governance practices are based on the principles ("**Principles**") and the code provisions ("**Code Provisions**") as set out in the Code on Corporate Governance Practices ("**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") ("**Listing Rules**"). The Company has complied with most of the Code Provisions save for the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code and certain deviations from the Code Provisions in respect of Code Provisions A.4.1 and A.4.2 and Code Provision E.1.2, details of which are explained below. The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

The Company wishes to highlight the importance of its board of directors ("**Board**") in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

The key corporate governance principles and practices of the Company are summarised as follows:

BOARD OF DIRECTORS

As at 31st December 2005, the Board consisted of six executive directors and five non-executive directors (of whom three are independent).

The independent non-executive directors are all experienced individuals from a range of industries and geographies. Their mix of professional skills and experience is an important element in the proper functioning of the Board and in ensuring a high standard of objective debate and overall input to the decision-making process. The Board has received from each independent non-executive director a written confirmation of their independence and has satisfied itself of such independence up to the approval date of this report in accordance with the Listing Rules.

The biographical details of the directors are provided on pages 9 to 10 of this report.

The Code Provision A.2.1 stipulated that the roles of chairman of the Board (the "**Chairman**") and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive officer should be clearly established and set out in writing.

Mr. Lai Yueh-hsing has been both the Chairman and chief executive officer of the Company. Given the Company's current stage of development, the Board considers that vesting the roles of Chairman and chief executive officer in the same person facilitates the execution of the Company's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

CORPORATE GOVERNANCE REPORT *(continued)*

THE BOARD AT WORK

The Board is accountable to shareholders for the activities and performance of the group. It meets in person on a half-yearly basis and on other occasions when a Board-level decision on a particular matter is required. The Board has reserved for its decision or consideration matters covering corporate strategy, annual and interim results, directors' appointment, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters.

The majority of Board meetings are scheduled to last one full day, with directors receiving details of agenda items for decision and minutes of committee meetings in advance of each Board meeting.

Although the capacity of any board to involve itself in the details of a large international business is limited, the Company aims to provide its independent non-executive directors with extensive exposure and access to its operations and management. Over the past two years, the number and duration of Board meetings have increased and the Board agenda is structured to address the broad spectrum of key governance issues on a regular and systematic basis.

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.

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

Major corporate matters that are specifically delegated by the Board to management include the preparation of annual and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The Group's chief financial officer also attends all board meetings to advise on corporate governance, risk management, statutory compliance, mergers and acquisitions, and accounting and financial matters.

None of the members of the Board is related to one another.

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 each independent non-executive director of his 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.

CORPORATE GOVERNANCE REPORT *(continued)*

The non-executive directors together have substantial experience in fields of auditing, business, accounting, corporate internal control and regulatory affairs. 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.

The Company has not yet adopted Code Provision A.4.1 which provides that non-executive directors should be appointed for a specific term, subject to re-election. All the non-executive directors of the Company are not appointed for a specific term although in practice they are subject to retirement on rotation and re-election at the Company's annual general meetings pursuant to the Company's Articles of Association. In accordance with Article 112 of the Company's Articles of Association, one-third of the directors (save for the Managing Director), or if their number is not three nor a multiple of three, then the number nearest to one-third but exceeding one-third, shall retire from office and being eligible, offer themselves for re-election at annual general meetings.

Code Provision A.4.2 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. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with Article 117 of the Company's Articles of Association, 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.

In order to ensure full compliance of the Company's Articles of Association with Code Provisions A.4.1 and 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 Company's Articles of Association so that all directors will be subject to retirement by rotation 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.

Each newly appointed director receives 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.

CORPORATE GOVERNANCE REPORT *(continued)*

COMMITTEES

The monitoring and assessment of certain governance matters are allocated to three committees which operate under defined terms of reference. The composition of the committees during 2004/05 and up to the date of this report is set out in the table below.

Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Director			
Lai Yueh-hsing (<i>Chairman</i>)		Chairman	Chairman
Lo Haw			
Shen Heng-chiang			
Wu Kuo-lung			
Cheng Dar-terng			
Chiang Jen-chin			
Non-Executive Directors			
Hsiao Ming-chih		Member	Member
Huang Chun-fa			
Independent Non-Executive Directors			
Lin Sheng-bin	Member	Member	Member
Huang Jui-hsiang	Chairman	Member	Member
Alvin Chiu	Member	Member	Member

AUDIT COMMITTEE

The Audit Committee is comprised of three independent non-executive directors who together have substantial experience in the fields of accounting, business, corporate governance and regulatory affairs.

The committee is responsible for monitoring the reporting, accounting, financial and control aspects of the executive management's activities. It has full access to the Group's chief financial officer to hear directly any concerns of the internal audit department that may have arisen during the course of the department's work.

The committee also monitors the appointment and function of the Group's external auditor.

CORPORATE GOVERNANCE REPORT *(continued)*

REMUNERATION COMMITTEE

The Remuneration Committee was established on 22 August 2005 and is comprised of three independent non-executive directors, one non-executive director and one executive director (as the Committee Chairman).

The committee determines the compensation structure and rewards for the chief executive officer and other executive directors and monitors the policies being applied in remunerating other senior executives in the Group. In addition, it has responsibility for reviewing and making appropriate recommendations to the Board on management development and succession plans for executive directors and senior management levels.

The fundamental policy underlying the Company's remuneration and incentive schemes is to link total compensation for senior management with the achievement of annual and long-term performance goals. By providing total compensation at competitive industry levels for delivering on-target performance, the Company seeks to attract, motivate and retain key executives essential to its long-term success. Senior management incentive schemes include any equity component that is designed to align the long-term interest of management with those of shareholders.

NOMINATION COMMITTEE

The Nomination Committee was established on 22 August 2005 and is comprised of three independent non-executive directors, one non-executive director and one executive director (as the Committee Chairman).

The committee is responsible for the identification and evaluation of candidates for appointment or reappointment as a director, as well as the development and maintenance of the Group's overall corporate governance policies and practices.

CORPORATE GOVERNANCE REPORT *(continued)*

BOARD AND COMMITTEE ATTENDANCE

The Board held six regular meetings in 2005 and the average attendance rate was 76%. Details of the attendance of individual directors at Board meetings and committee meetings during the 2004/05 financial year are set out in the table below.

Directors	Full Board	Number of meetings attended/held		
		Audit Committee	Remuneration Committee	Nomination Committee
Executive Director				
Lai Yueh-hsing	6/6		1/1	1/1
Lo Haw	1/6			
Shen Heng-chiang	1/6		1/1	1/1
Wu Kuo-lung	5/6			
Cheng Dar-terng	6/6			
Chiang Jen-chin	6/6			
Non-Executive Directors				
Hsiao Ming-chih	6/6		1/1	1/1
Huang Chun-fa	6/6			
Independent Non-Executive Directors				
Lin Sheng-bin	5/6	2/2	1/1	1/1
Huang Jui-hsiang	5/6	2/2	1/1	1/1
Alvin Chiu	3/6	2/2	1/1	1/1
Average attendance rate	76%	100%	100%	100%

PRACTICES AND CONDUCT OF MEETINGS

Notices of regular Board meetings are served to all directors at least 14 days before the meetings while reasonable notice is generally given for other Board meetings. For committee meetings, notices are served in accordance with the required notice period stated in the relevant terms of reference.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or to the relevant committee members at least 2 days before each Remuneration Committee Meeting or at least 3 days before each Audit 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.

CORPORATE GOVERNANCE REPORT *(continued)*

Minutes of all Board meetings and committee meetings are kept by the company secretary. 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 Articles of Association 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.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for ensuring that an adequate system of internal controls is maintained within the Group, and for reviewing its effectiveness through the Audit Committee.

The internal control system, which includes a defined management structure with specified limits of authority, is designed to (a) help the achievement of business objectives, and safeguard the Group's assets; (b) ensure proper maintenance of accounting records; and (c) ensure compliance with relevant legislation and regulations.

The internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage, but not to eliminate, risks of failure in achieving the Group's objectives.

The processes to identify and manage key risks to the achievement of the Group's strategic objectives are an integral part of the internal control environment. Such processes include strategic planning, the appointment of senior management, the regular monitoring of performance, control over capital expenditure and investments and the setting of high standards and targets for safety, health and environmental performance.

The management maintains and monitors the system of controls on an ongoing basis.

The Group's internal audit department, under the supervision of the chief financial officer, independently reviews these controls and evaluates their adequacy, effectiveness and compliance, and reports directly to the Audit Committee on a regular basis.

During 2004/2005, based on the evaluations made by the management, the chief financial officer and external auditors, the Audit Committee was satisfied that nothing has come to its attention to cause the Audit Committee to believe that the system of internal control is inadequate; and there is an ongoing process to identify, evaluation and manage significant risks faced by the Group.

CORPORATE GOVERNANCE REPORT *(continued)*

EXTERNAL AUDITOR

The Company's independent external auditor is CCIF CPA Limited. The Audit Committee is responsible for considering the appointment of the external auditor and also reviews any non-audit functions performed by the external auditor for the Group. In particular, the Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest.

COMMUNICATIONS WITH SHAREHOLDERS

The Company uses a number of formal communications channels to account to shareholders for the performance of the Company. These include the annual report and accounts, the interim report, periodic company announcements made through the Stock Exchange, as well as through the annual general meeting. The Company aims to provide its shareholders and potential investors with high standards of disclosure and financial transparency. In order to provide effective disclosure to investors and potential investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcements as required by the Listing Rules. The Company also welcomes comments and questions from shareholders at its annual general meeting.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules.

Employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than the Model Code.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial 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 "Report of the Auditors" on page 28.

CORPORATE GOVERNANCE REPORT *(continued)*

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 Articles of Association. Details of such rights and procedures 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.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Stock Exchange.

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 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.