

Corporate Governance Report

This is the 2nd year when we report on the corporate governance practice of the Company.

THE BOARD

Led by the Chairman, the Board as the highest governing body of the Company has the responsibility for leadership and control of the Group. The Directors are collectively responsible for promoting the success of the Company by directing strategic objectives and overseeing the management's performance on these objectives.

THE CHAIRMAN AND THE MANAGING DIRECTOR

Dr. Che-woo Lui is the Chairman, and Mr. Eddie Hui Ki On is the Managing Director (Acting) of the Company. The roles of the Chairman and Managing Director of the Company are separate. The Chairman is responsible for the leadership of the Board. Managing Director heads the management and focuses on the day-to-day operations of the Group.

BOARD COMPOSITION

Currently, there are 12 Board members, of whom 5 are executive Directors (including the Chairman) and 7 are non-executive Directors. Of the latter, 5 are independent non-executive Directors ("INEDs") and among them, one has accounting professional qualification. The Board considers that the 5 INEDs are independent as within the guidelines under Rule 3.13 of the Listing Rules. The Company has identified INEDs as such in its announcements and circulars to shareholders. Pages 20 to 21 of this annual report contains biographical details of the Directors.

BOARD PRACTICES

In 2006, the Board held 4 board meetings at approximately quarterly intervals, the dates of which were scheduled at the beginning of the year.

Directors actively participated in person at each Board meeting to review the business progress against budget. Matters requiring Board consents were given by vote at the Board meeting. Between scheduled meetings, routine/operational matters were considered and approved by the Board via the circulation of written resolutions with supporting explanatory write-ups from the Company Secretary or briefings from executives as required.

SUPPLY & ACCESS TO INFORMATION

The Company Secretary circulated Board agenda (with arrangements for Directors to include their items) and supporting papers at least 3 days in advance, and attended Board meetings together with the Qualified Accountant to assist proceedings.

All Directors have had access to senior management for any information they require to make informed decision on matter placed before them. Assisted by the Company Secretary, the Chairman has also ensured that Directors have been properly briefed on issues arising at Board meetings and supplied with information and papers as promptly and fully as possible. Directors have access to independent professional advice when it becomes necessary and also the services of the Company Secretary who has been regularly updating Directors on governance and regulatory matters. The service of independent professional advice at Company expenses is also available to the Audit and the Remuneration Committees. External auditors (being PwC) attended all Audit Committee meetings as well as the Board meetings approving full year and interim results.

The Company Secretary has kept all the minutes of Board meetings, which together with any supporting board papers are available to all Board members. These minutes record the matters considered by the Board and views expressed by Directors. Draft and final versions of the minutes are sent to all Directors for their comments and records respectively.

Directors' attendance at Board and other meetings of the Company in 2006 is as follows :

| Name of Director | Number of Meetings | | | Annual General Meeting (1) |
|---|--------------------|---------------------|----------------------------|----------------------------|
| | Board Meeting (4) | Audit Committee (3) | Remuneration Committee (1) | |
| Executive Directors | | | | |
| Che-woo Lui (Chairman) ¹ | 3/4 | N/A | N/A | 1/1 |
| Francis Lui Yiu Tung ² | 2/4 | N/A | N/A | 1/1 |
| Eddie Hui Ki On (Managing Director (Acting)) ³ | 4/4 | N/A | 1/1 | 1/1 |
| Lennon Lun Tsan Kau (Deputy Managing Director) | 4/4 | N/A | N/A | 1/1 |
| William Lo Chi Chung ⁴ | 4/4 | N/A | N/A | 1/1 |
| Paddy Tang Lui Wai Yu ⁵ | 4/4 | N/A | N/A | 1/1 |
| Non-executive Directors | | | | |
| Michael Leung Man Kin | 4/4 | 3/3 | N/A | 1/1 |
| Philip Wong Kin Hang | 3/4 | N/A | N/A | 0/1 |
| Independent Non-executive Directors | | | | |
| Sir David Akers-Jones | 3/4 | N/A | N/A | 1/1 |
| Leo Lee Tung Hai | 3/4 | N/A | N/A | 1/1 |
| Robin Chan Yau Hing | 4/4 | N/A | N/A | 0/1 |
| Charles Cheung Wai Bun | 4/4 | 3/3 | 1/1 | 1/1 |
| Robert George Nield | 1/4 | 3/3 | 1/1 | 1/1 |
| Total | 43/52 | 9/9 | 3/3 | 11/13 |
| Average attendance rate | 83% | 100% | 100% | 85% |

- 1 Father of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.
- 2 Mr. Francis Lui Yiu Tung resigned as Managing Director on 14 September 2006. He is the younger brother of Ms. Paddy Tang Lui Wai Yu.
- 3 Appointed as Managing Director (Acting) on 14 September 2006.
- 4 Resigned as executive Director and member of the Executive Board on 1 January 2007.
- 5 Daughter of Dr. Che-woo Lui, and the elder sister of Mr. Francis Lui Yiu Tung.

During 2006, the Board did not have conflict of interest situation involving Director or a substantial shareholder. In case it arises, procedures will be put in place to ensure that conflict of interest will be resolved in accordance with the spirit and requirements of Code Provision A.1.8 in Appendix 14 of the Listing Rules.

DELEGATION BY THE BOARD

Within the clear guidelines which it set, the Board has delegated to an executive board ("Executive Board") (comprising all the executive Directors) authority to see to the implementation of Group strategy set by the Board. The Executive Board monitors the Group's investment and trading performance, funding and finance requirements, and reviews management performance. The Board retains to itself authority on annual budgets and accounts, dividends, share capital, derivative transactions, connected transactions and transactions requiring shareholders approval, and certain financing, acquisitions, disposals and operation issues above predetermined thresholds.

The Executive Board meets regularly and operates as a general management committee under the direct authority of the Board. The Executive Board reports through the Chairman, or the Managing Director if the Chairman is away from Hong Kong, to the Board. The Executive Board sub-delegates day-to-day administration details to members charged with specific operation tasks under the leadership of the Managing Director.

APPOINTMENT, RE-ELECTION & REMOVAL OF DIRECTORS

All non-executive Directors are appointed for a specified term of 3 years, subject to re-election by shareholders in the annual general meeting of the Company.

Other than the Chairman and the Managing Director, every Director is subject to retirement by rotation. Every year one-third of the Directors will retire.

At the forthcoming annual general meeting of the Company, in accordance with the Bye-laws and corporate governance practices of the Company, 3 Directors will retire by rotation, who are Mr. Lennon Lun Tsan Kau and Ms. Paddy Tang Lui Wai Yu (both executive Directors), and

Corporate Governance Report

Dr. Robin Chan Yau Hing (an INED). All of them offer themselves for re-election but none has a service contract with the Company that is not terminable by the Company within 1 year without payment of compensation (other than statutory compensation). The Board considers Dr. Robin Chan continues to bring relevant experience and knowledge to the Board and that, notwithstanding his long service in that capacity since 1999, maintains an independent view of the Company's affairs. The Company is also amending its Bye-laws to bring them in line with the Listing Rules changes on right for shareholder to remove director by ordinary resolution.

Under the Chairman's leadership, the Board is regularly reviewing its succession and nomination policy to ensure that there is a balance of expertise, skill, and experience appropriate for the business and long-term development of the Group and the setting up of a nomination committee is under consideration.

DIRECTOR'S RESPONSIBILITY

The Company has a set of comprehensive induction materials for newly appointed Directors. The Company Secretary has regularly updated Directors on compliance developments, and has directors and officers insurance in place against risks and exposure arising from the Group's business and activities.

Non-executive Directors (including the 5 INEDs) are either senior ex-civil servants or veteran professionals/businessmen who has brought not only a wide range of skills and experience to the Group but also independent judgment to bear on issues of strategy, performance, risk and people of the group, through their contribution at Board (83% attendance rate) and at the Audit and the Remuneration Committee (100% attendance rate) meetings during the year. A high majority of the non-executive Directors attended the Company's 2006 annual general meeting.

MODEL CODE ON SECURITIES TRANSACTIONS

The Board has adopted a code for transactions in the Company's securities by Directors and their connected persons ("*Model Code*") that complies with Appendix 10 of the Listing Rules. Each Director has confirmed he or she has complied with the Model Code throughout the year. The Company has also adopted written guidelines — on no less exacting terms than the Model Code — for transactions in the Company's securities by certain of its employees.

Other than the continuing connected transactions disclosed in the Report of the Directors, none of the Directors had, at any time during the year, a material interest, directly or indirectly, in any contract of significance with the Company or any of its subsidiaries.

REMUNERATION OF DIRECTORS & SENIOR MANAGEMENT

The role and function of the Remuneration Committee are set out in its terms of reference which is posted on the website of the Company. The Remuneration Committee comprises 3 members identified in the table on page 7 of whom 2 are INEDs. Mr. Eddie Hui Ki On is the chairman and the Company Secretary acts as secretary.

In accordance with its terms of reference, the Remuneration Committee:

- on 18 January 2007, reviewed and approved the 2006 year-end bonus paid to the executive Directors of the Company as in line with the Group's remuneration policy for directors and for staff as a whole, and
- at its meeting on 20 March 2007, reviewed the level of remuneration paid to the executive Directors (who constituted senior management of the Company) in 2006 against market pay-level among peer group companies and performance of the executive Directors, and approved individual Director's remuneration packages for 2007.

The Board endorsed the Remuneration Committee's proposals on Directors' remuneration and recommendation on Director's fees for approval by Shareholders at its 2007 annual general meeting.

No Director participates in the determination of his own remuneration.

Details of Directors' Remuneration and Five Highest Paid Individuals of the Group for the financial year 2006 appear respectively at notes 10 and 11 to the 2006 Financial Statements.

ACCOUNTABILITY

The Board is accountable for the proper stewardship of the Group's affairs, and Directors acknowledge their responsibility for preparing the financial statements of the Company in accordance with the requirements of the Listing Rules and applicable laws and the integrity of financial information so reported. Such responsibility extends to cover not only the annual and interim reports but also announcements and other financial disclosures of the Company required under the Listing Rules. The Directors' statements of responsibility for the financial statements should be read in conjunction with — but distinguished from — the statements of reporting responsibilities of PwC on page 29.

The management of individual businesses within the Group provides the Directors with such information and explanations as necessary to enable them to make an informed assessment of the financial and other information put before the Board for approval.

The Group has adopted the going concern basis in preparing its financial statements.

INTERNAL CONTROLS

The Board acknowledges its responsibility for maintaining and reviewing the effectiveness of the Group's system of internal controls.

The Company has a clear organizational structure with well-defined responsibilities, reporting lines and authority limit, and imposes budgetary controls on managers of operating divisions. The scope of internal control and risk management covering financial, operational, and compliance areas and control procedures is to identify and then manage risks.

The Company's internal audit function — currently staffed by 3 qualified professionals — is set up to provide the Board with reasonable assurance that the internal control systems of the Company are effective, and that the risks associated with the achievement of business objectives of the Group are being managed properly. During the year, the internal audit function drew up internal audit plan, discussed with management on areas of risk identified, and reviewed its internal audit report with the Audit Committee. Chairman of the Audit Committee has open access to the head of the internal audit function.

During financial year 2006 and up to the date of the financial statements, there was no significant control failure, as the internal audit function so reported to the Board through the Audit Committee. The Group Chief Operating Officer endorsed the internal audit report for implementation with operating units.

AUDIT COMMITTEE

The Audit Committee is accountable to the Board and assists the Board in ensuring an effective system for meeting its external financial reporting obligations and internal control and compliance.

The Committee consists of 3 Non-executive Directors, identified in the table on page 7, 2 of whom are independent with one — being Dr. Charles Cheung Wai Bun — as chairman. All the members served for the whole of 2006 and meetings attendance rate is 100%. The Company Secretary acted as secretary, who has kept full minutes of Audit Committee

Corporate Governance Report

meetings with draft and final versions to members for their comment and record soon after the relevant meeting. Regular attendees at the Audit Committee meetings are the Qualified Accountant, head of internal audit, and senior representatives from PwC. The Company has posted the terms of reference of Audit Committee on its website.

In 2006, the Audit Committee met 3 times, in March 2006 to review Group's 2005 final results and financial statements, then in August 2006 on certain developments in the recently introduced Hong Kong Financial Reporting Standards, and in September 2006 to review the Group's 2006 interim results and financial statements. At its meeting on 20 March 2007, the Audit Committee reviewed the Group's final results for 2006 and also the report on the effectiveness of the risk assessment and internal control systems of the Group by the group's internal audit function. Each meeting received written report and papers from PwC.

The Audit Committee has been satisfied with the independence of PwC during the year and has recommended to the Board that PwC be re-appointed as auditors of the Company at the forthcoming annual general meeting of the Company. An analysis of the fees paid to PwC appears in note 8 to the financial statements.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

In addition to sending annual reports, interim reports, circulars and notices to Shareholders, the Company also makes these materials, which contain extensive information about the Group's activities, timely available for access by Shareholders at both the Stock Exchange's and the Company's own websites.

The Company has a member of its senior management specifically charged with investors relationship. The Company responds to enquiries from Shareholders and investors on matters relating to the business of the Company in an informative and timely manner. Every year, upon announcing results, the Company has press conference and briefings with the investment community, and the executive Directors also have regular dialogue with institutional investors and financial analysts. In between times, the Company organised site visits for analysts to have in depth understanding of our products. The Company received coverage on its

business and stock performance from leading financial commentators and research team from international securities house.

The Company encourages its Shareholders to attend annual general meeting and all its other shareholders meetings to discuss progress and matters. The Chairman and Directors are available there to answer Shareholders' questions. All substantive resolutions at annual general meeting of the Company, insofar as the Listing Rules require, will be decided on a poll, which the Company's Branch Share Registrars in Hong Kong will conduct and which results the Company will publish in newspaper. The Chairman (and chairman of any shareholders meeting) will ensure that in all circulars to Shareholders, the Company will set out in full the procedures for and shareholders' rights in demanding voting by poll, and that in all the Company's Shareholders meetings, all efforts will be made to ensure compliance with the requirements of Rules 13.39(3) and (4) of the Listing Rules.

COMPLIANCE WITH APPENDIX 14

Throughout the year under review, save for Code Provision A.4.2, the Company has complied with all the other Code Provisions in Appendix 14 to the Listing Rules. In relation to the deviation from Code Provision A.4.2, the Board has reviewed but continues to hold the view that, given its rotation policy, the spirit of that Code Provision has been sufficiently upheld. The Board believes that it is in the interest of the Group to have continuity in the leadership of both the Chairman and the Managing Director, without being subject to rotation. Any risk of entrenchment is counteracted by the fact that the Company has a well represented Board. The Board will continue to review and recommend such step and action as appropriate in the circumstances of such deviation.