

Effects of early exercise factors were also considered in calculating the fair value of share options.

No forfeiture clause was contained in the relevant share option scheme.

In prior years, in order to comply with Rule 17.08 of the Listing Rules, Black-Scholes option pricing model was adopted by the Company to calculate the theoretical value of share options granted for disclosure purpose only. With effect from 1 January 2005, in order to comply with Hong Kong Financial Reporting Standards No. 2, "Share-based payment", the Group has adopted a new policy for employee share options. Under the new policy, the Group recognizes the fair value of share options as an expense with a corresponding increase recognized in a capital reserve within equity. As binomial lattice option pricing model could capture assumption about early exercise of share option and is more appropriate for share options with relatively long contractual lives, the Group used binomial lattice model, instead of Black-Scholes model, to measure the fair value of share options granted.

The binomial lattice model (the "Model") is one of the option pricing models to estimate the fair value of an option. It should be noted that the Model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the fair value of the share options derived from the Model should not be interpreted as the market or actual value of the option.

* According to Rule 17.08 of the Listing Rules, the risk-free rate should be the rate prevailing on debt securities issued by the state, such as the Exchange Fund Notes in case of Hong Kong based entities.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Code on Corporate Governance Practices

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2006, with the exception that certain non-executive directors are not appointed for specific terms as non-executive directors are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. All directors have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2006.

Audit Committee

The Company established an audit committee in 1999 and its terms of reference are in line with the CG Code. The Audit Committee comprises the three independent non-executive directors, Mr. Gerard Joseph McMahon (chairman of the Audit Committee), Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. The principal duties of the Audit Committee include, *inter alia*, the review of the completeness, accuracy and fairness of the Company's financial reports and the Group's internal controls and risk management systems.

The Audit Committee holds regular meetings and it met three times during the six months ended 30 June 2006.

Compensation Committee

The Company established a compensation committee in 1999 and its terms of reference are in line with the CG Code. The Compensation Committee comprises the chairman of the Board, Mr. Liang Jiang, executive director and general manager, Mr. Tan Yunbiao, and the three independent non-executive directors, Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar (chairman of the Compensation Committee). The principal duties of the Compensation Committee include, *inter alia*, making recommendations to the Board relating to the Company's policy for directors' and senior management's

remuneration, determining the executive directors' and senior management's remuneration packages, reviewing and approving their performance-based remuneration and compensation payable for their loss of offices.

During the six months ended 30 June 2006, two meetings were held by the Compensation Committee to explore into relevant issues.

Nomination Committee

The Company established a nomination committee in June 2005. The Nomination Committee comprises the chairman of the Board, Mr. Liang Jiang who is also chairman of the Nomination Committee, and the three independent non-executive directors, Mr. Gerard Joseph McMahon, Miss Tam Wai Chu, Maria and Mr. Li Kar Keung, Caspar. The principal duties of the Nomination Committee include, *inter alia*, identifying suitable and qualified individuals to become board member and making recommendation on appointment and reappointment of directors.

During the six months ended 30 June 2006, a meeting was held by the Nomination Committee to explore into relevant issues.

Review of Interim Results

The Audit Committee has reviewed the unaudited interim financial report and the interim report of the Group for the six months ended 30 June 2006. In addition, the Company's external auditors, KPMG, have also reviewed the aforesaid unaudited interim financial report.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2006, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on the Hong Kong Stock Exchange.

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK1.5 cents (six months ended 30 June 2005: Nil) per share for the six months ended 30 June 2006. The interim dividend will be paid to the shareholders whose names appear on the Register of Members on 5 October 2006. The interim dividend will be paid on 18 October 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed on 4 October 2006 and 5 October 2006, during these two days no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 3 October 2006.

By order of the Board
Liang Jiang
Chairman

Hong Kong, 15 September 2006