

Corporate Governance Report

The Company recognizes the importance of good corporate governance to the Company's development and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

Corporate Governance Practices

Throughout the year ended 31st December, 2006, the Company has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices (the "CGP Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except for code provision A.2.1, which states that the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual.

The Company does not propose to comply with code provision A.2.1 for the time being. The Chairman currently oversees the management and the Group's business. The Board considers that the present management structure has been effective in facilitating the operation and development of the Group for a considerable period of time and no benefit will be derived from changing it. The current structure allows flexibility and enhances the efficiency of decision-making process in response to the constantly changing environment where the market sentiment may vary quite significantly in different areas of the Asia Pacific region in which the Group operates.

The Board will continue to review and recommend such steps as appropriate in the circumstances of such non-compliance.

Board of Directors

Composition

The Board currently comprises the following nine members:

Executive Directors

Mr. Lu Wing Chi (*Chairman and Managing Director*)

Mr. Lu Wing Yuk, Andrew

Mr. Tse Man Bun

Mr. Lincoln Lu

Mr. Lambert Lu

Non-executive Director

Mr. Lam Sing Tai

Independent Non-executive Directors ("INEDs")

Mr. Walujo Santoso, Wally

Mr. Leung Hok Lim

Mr. Chung Pui Lam

The biographical details of the existing directors are set out on pages 16 and 17 under the heading of "Directors' Biographical Information".

Role and Function

The directors are accountable to the shareholders for the activities and performance of the Group. The Board has reserved for its decision and consideration the following matters:

- i) adoption and overall oversight of objectives and strategic plans;
- ii) amendment to memorandum of association and bye-laws as well as share capital;
- iii) approval of interim dividends and recommendation of final dividends for shareholders' approval;
- iv) establishment of board committees and delegation of powers of the Board to same;
- v) appointment of board members;
- vi) approval of significant accounting policies and practices;
- vii) oversight of corporate governance and internal controls; and
- viii) other significant matters.

Matters other than the above mentioned have been delegated by the Board to the management and the major ones are execution of business strategies and initiatives adopted by the Board, preparation of annual and interim financial statements for the Board's approval before public reporting, implementation of adequate systems of internal control and risk management procedures, and compliance with relevant requirements, rules and regulations.

Meetings

The Board conducts meetings on a regular basis and on an ad hoc basis that are required for significant and important issues. The Board held four regular Board meetings during the year to approve the 2005 final results and 2006 interim results and consider financial and operating performances and substantial transactions of the Group respectively. The Company Secretary attended all regular Board meetings to advise on corporate governance and statutory compliance when necessary and the Group Financial Controller also attended the Board meetings to advise on accounting, financial and internal control matters. All businesses transacted at the Board meetings are well-documented and the records are maintained properly. The Board members are provided with appropriate and sufficient information in a timely manner to keep abreast of the Group's latest developments.

Relationship and Others

Of the directors, Mr. Lu Wing Chi is the father of Messrs. Lincoln Lu and Lambert Lu and Mr. Lu Wing Yuk, Adrew is the cousin of Mr. Lu Wing Chi and the uncle of Messrs, Lincoln Lu and Lambert Lu. Other than these, there is no financial, business, family and other material relationship among other members of the Board. Currently, one-third of the Board members are INEDs. The Board members are free to discuss issues properly put to the Board meetings.

The Company has arranged for appropriate liability insurance for the directors for indemnifying their liabilities arising out of corporate activities.

Non-Executive Directors

The non-executive directors (including the INEDs) of the Company are subject to retirement by rotation at least once every three years. They have brought independent judgement and provided the Group with invaluable guidance and advice on the Group's development.

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INEDs

During the year ended 31st December, 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three INEDs with at least an independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The three INEDs come from diverse business and professional background in the fields of accounting and law, rendering valuable expertise and experience to promote the best interests of the Group and its shareholders as a whole and ensuring that issues are considered in a more objective manner.

The Company has received from each of the INEDs a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all of the INEDs to be independent.

Board Committees

The Board has established several Board Committees, namely Audit Committee, Remuneration Committee and Executive Committee to oversee particular aspects of the Company's affairs and assist in the execution of the Board's responsibilities.

Audit Committee

Composition

The Audit Committee was established in 1999 and its terms of reference were revised during 2005 in accordance with the code provisions of the CGP Code. The Audit Committee currently comprises three members and all of them are INEDs, namely:

Mr. Leung Hok Lim (*Chairman*)
Mr. Walujo Santoso, Wally
Mr. Chung Pui Lam

Role and Function

The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reporting and the effectiveness of the audit process in accordance with applicable standards as well as to maintain an appropriate relationship with the external auditors of the Company.

During the year ended 31st December, 2006, the Audit Committee met twice with the representatives of the management and the external auditors of the Company to discuss the auditing, financial reporting and internal control matters. During the meetings, the Audit Committee in particular reviewed and discussed about the accounting principles and policies adopted by the Group, the annual results and the audited financial statements for the year ended 31st December, 2005, the interim results and the financial statements for the six months ended 30th June, 2006, letters of management representation made to the auditors and the internal control system in relation to the tendering, management information and budgeting functions.

On 17th April, 2007, the Audit Committee reviewed with the management the results and consolidated financial statements of the Company for the year ended 31st December, 2006.

Remuneration Committee

Composition

The Company formulated written terms of reference for the Remuneration Committee in accordance with the code provisions of the CGP Code. The Remuneration Committee presently comprises the Chairman of the Company, another executive director and three INEDs. Members of the Remuneration Committee are named below:—

Mr. Chung Pui Lam (*Chairman*)
Mr. Lu Wing Chi
Mr. Tse Man Bun
Mr. Walujo Santoso, Wally
Mr. Leung Hok Lim

Role and Function

The Remuneration Committee is responsible for, amongst other matters, establishing a formal and transparent procedure for developing remuneration policies and overseeing the remuneration packages for the executive and non-executive directors and ensuring that no director will be involved in deciding his own remuneration. In determining the directors' emoluments, the Remuneration Committee takes into consideration factors such as salaries paid by comparable companies, qualifications, experience, time commitment, responsibilities and performance of directors and employment conditions elsewhere in the Group. The Remuneration Committee notes that the Company is operating an employee share option scheme with options granted to the Group's employees (including directors of the Company) on a discretionary basis by the Board.

At the 2005 annual general meeting, the shareholders of the Company approved the authorisation of the directors to fix the directors' fees if the aggregate amount did not exceed HK\$1 million per annum. During the year, the Remuneration Committee met twice and assessed the performance of the executive directors and reviewed and/or approved the remuneration of the executive and non-executive directors.

On 15th February, 2007, the Remuneration Committee held a meeting to further discuss the executive directors' salary increment and performance bonus and recommend to the Board for approval the remuneration of the non-executive directors for the current year.

Executive Committee

Composition

The Executive Committee was set up in 1990 and is currently comprised of the Chairman of the Company and all other executive directors. The Executive Committee members are as follows:—

Mr. Lu Wing Chi (*Chairman*)
Mr. Lu Wing Yuk, Andrew
Mr. Tse Man Bun
Mr. Lincoln Lu
Mr. Lambert Lu

Role and Function

The Executive Committee is primarily responsible for supervising and undertaking the day-to-day operations of the Group. It exercises leadership and develops and keeps under review business development initiatives of the Group and monitors their implementation. The Executive Committee meets as and when necessary.

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Attendance Record at Meetings

The attendance record of each director at Board meetings, Audit Committee meetings and Remuneration Committee meetings during the year are set out in the following table:—

Directors	Number of meetings attended/ Number of meetings held		
	Board	Audit Committee	Remuneration Committee
<i>Executive Directors</i>			
Mr. Lu Wing Chi (<i>Chairman</i>)	4/4	—	0/2
Mr. Lu Wing Yuk, Andrew	4/4	—	—
Mr. Tse Man Bun	4/4	—	2/2
Mr. Lincoln Lu	4/4	—	—
Mr. Lambert Lu	4/4	—	—
<i>Non-executive Director</i>			
Mr. Lam Sing Tai *	1/3	—	—
<i>INEDS</i>			
Mr. Walujo Santoso, Wally	2/4	1/2	1/2
Mr. Leung Hok Lim	1/4	2/2	1/2
Mr. Chung Pui Lam	4/4	2/2	2/2

* Appointed as director on 7th April, 2006

Nomination, Retirement and Re-Election Of Directors

The Board reviews the size and composition of the Board and considers the selection and re-appointment of directors. An individual may be appointed as director based on the recommendation of a director or the management. Potential candidates should have the required skills, knowledge and expertise to add value to the Board and be able to commit the necessary time to their position. All directors' appointments shall be approved by the Board and/or the shareholders.

In accordance with the Company's Bye-laws which were amended by a special resolution at the annual general meeting ("AGM") held on 18th May, 2006 for the purpose of compliance with the CGP Code, every director shall retire from office no later than the third annual general meeting after he was last elected or re-elected. In addition, any director appointed by the Board to fill a casual vacancy shall hold office only until the next general meeting of the Company and shall then be eligible for re-election.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company.

In response to the specific enquiry made on them, all the directors of the Company confirm that they have complied with the required standard as set out in the Model Code throughout the year ended 31st December, 2006.

Directors' Responsibility for Preparing Financial Statements

The directors acknowledge their responsibilities for preparing the financial statements of the Group. With the assistance of the Accounts and Finance Department which is under the supervision of the Qualified Accountant of the Company, the directors ensure that the financial statements of the Group are prepared in accordance with statutory requirements and appropriate financial reporting standards. The directors also ensure timely publication of the financial statements of the Group.

Auditor's Reporting Responsibility

The statement of Messrs. Deloitte Touche Tohmatsu, the external auditors of the Company, about their reporting responsibility on the financial statements of the Group is set out in the "Independent Auditor's Report" on page 37.

Going Concern

The directors confirm that, to the best of their knowledge, information and belief and having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Internal Control

The Board has overall responsibility for the Group's system of internal control and the assessment and management of risks. The Group has implemented an effective internal control system which includes a defined management structure with limits of authority, proper procedures for income and expenditure, monthly review by the executive directors of operational and financial reports provided by the management, regular business meetings between the executive directors and the core management team and periodic review of the Group's financial results by the Board.

The Board continues to review its businesses and operations and compliance mechanism in order to identify, evaluate and manage risks and take appropriate measures to mitigate those risks that could adversely impact the Group's business activities.

Auditor's Remuneration

Fees payable to Messrs. Deloitte Touche Tohmatsu, the external auditors of the Group, for audit services for the year ended 31st December, 2006 amounted to approximately HK\$4.2 million.

Communication with Shareholders

The Company has established a number of channels to communicate with shareholders as follows:

- i) printed copies of corporate communication such as annual reports, interim reports and circulars are issued;
- ii) periodic announcements are made through the Stock Exchange and/or published in newspapers;
- iii) corporate information is made available on the Company's website at www.seaholdings.com;

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- iv) AGM and special general meetings provide a forum for shareholders to raise comments and exchange views with the directors and senior management; and
- v) the Company's share registrars serve the shareholders in respect of share registration and related matters.

At the Company's last AGM held on 18th May, 2006, all the resolutions relating to ordinary businesses and special businesses (which included the amendments to the Bye-laws of the Company to ensure compliance with the CGP Code) proposed thereat were unanimously passed. The forthcoming AGM will be held in Hong Kong on 23rd May, 2007 and for details, shareholders may refer to the Notice of such AGM contained in a circular which accompanies this Annual Report.

Investor Relations

The Company continues to promote investor relations and enhance communication with the investors. It welcomes suggestions from investors, stakeholders and the public who can contact the Company by phone on (852) 2828 6363, by fax at (852) 2598 6861 or by e-mail at info@seaholdings.com.

The above corporate governance practices will be reviewed, amended and revoked from time to time as considered necessary by the Board and its committees.