

# Report of the Directors

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The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group's principal subsidiaries are set out in note 38 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 53 to 150.

An interim dividend of HK2 cents per ordinary share was paid on 20 October 2006. The Directors recommend the payment of a final dividend of HK1 cent per ordinary share in respect of the year to shareholders on the register of members on 11 June 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheets.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 6. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements.

## SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the share capital, share options and warrants of the Company during the year are set out in notes 35 and 36 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 37 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

## **DISTRIBUTABLE RESERVES**

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$70,030,000 of which HK\$56,954,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$8,357,579,000, may be distributed in the form of fully paid bonus shares.

## **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for less than 30% of the Group's total turnover for the year and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

# Report of the Directors

## DIRECTORS

During the year, the Directors of the Company were:

### Executive Directors:

Mr. Zhang Xuewu (*Chairman*)

Mr. Xiong Weiping (*Vice Chairman, General Manager*) (*Appointed on July 17, 2006*)

Mr. Zheng Heshui (*Vice Chairman*)

Mr. Lo Sui On (*Vice Chairman*)

Mr. Zheng Hongqing

Ms. Jiang Yan (*Appointed on July 17, 2006*)

Mr. Mao Jianjun (*Appointed on July 17, 2006*)

Mr. Zhang Fengchun

Mr. Ng Chi Man, Michael

Mr. Liu Li

Mr. Che Shujian (*Resigned on July 17, 2006*)

Mr. Shen Zhuying (*Resigned on April 7, 2006*)

### Independent Non-Executive Directors:

Dr. Yeh Meou Tsen, Geoffrey

Mr. Yeh V Nee (*Alternate Director to Dr. Yeh Meou Tsen, Geoffrey*)

Dr. Fong Yun Wah

Mr. Wong Man Kong, Peter

Mr. Sze, Robert Tsai To

The Company has received annual confirmations of independence from Dr. Yeh Meou Tsen, Geoffrey, Mr. Yeh V Nee (Alternate Director to Dr. Yeh Meou Tsen, Geoffrey), Dr. Fong Yun Wah, Mr. Wong Man Kong, Peter and Mr. Sze, Robert Tsai To and still considers them to be independent.

In accordance with Article 101 of the Company's Articles of Association ("the Articles"), Messrs. Zheng Heshui, Lo Sui On, Zheng Hongqing, Wong Man Kong, Peter and Dr. Fong Yun Wah will retire by rotation, being eligible, Messrs. Zheng Heshui, Lo Sui On, Wong Man Kong, Peter and Dr. Fong Yun Wah offer themselves for re-election at the forthcoming annual general meeting (the "AGM"), and Mr. Zheng Hongqing will not offer himself for re-election at the AGM. The Company understands that Mr. Zheng Hongqing will resign as a Director of the Company before the AGM and the Company will make a separate announcement after his resignation takes effect in accordance with Rule 13.51(2) of the Listing Rules.

In accordance with Article 92 of the Articles, Messrs. Xiong Weiping, Mao Jianjun and Ms. Jiang Yan who were appointed by the board of Directors (the “Board”) on 17 July 2006, will retire at the forthcoming AGM and, being eligible, offer themselves for re-election.

## **BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT**

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 8 to 11 of the annual report.

## **DIRECTORS’ SERVICE CONTRACTS**

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## **DIRECTORS’ REMUNERATION**

The Directors’ fees are subject to shareholders’ approval at general meeting every year. Other emoluments are determined by the Board with reference to Directors’ duties, responsibilities and performance and the results of the Group.

## **DIRECTORS’ INTERESTS IN CONTRACTS**

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party during the year.

## **MANAGEMENT CONTRACTS**

- (i) In 1992, the Company entered into a management service contract with China Travel Service (Holdings) Hong Kong Limited (“CTS (Holdings)”), the controlling shareholder of the Company, pursuant to which CTS (Holdings) has undertaken to provide or procure the provision of additional Executive Directors of the Company as and when required by the Company under the terms and conditions stipulated therein. The term of the agreement is for a period of 5 years from 25 September 1992 and will continue thereafter unless it is terminated by either party giving to the other one month prior written notice. No payment has been made during the year by the Group under such agreement.

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- (ii) On 29 March 2000, three wholly-owned subsidiaries of the Company, Hotel Metropole Holdings Limited, Glading Development Limited and Metrocity Hotel Limited which are the owners of Metropark Hotel Kowloon Hong Kong (formerly known as Metropole Hotel), Metropark Hotel Mongkok Hong Kong (formerly known as Hotel Concourse) and Metropark Hotel Wanchai Hong Kong (formerly known as Hotel New Harbour) respectively, entered into hotel management agreements with CTS H.K. Metropark Hotels Management Company Limited (previously known as China Travel Hotel Management Services Hong Kong Limited) ("CT Hotel").

CT Hotel is a wholly-owned subsidiary of CTS (Holdings). Pursuant to these hotel management agreements, CT Hotel was appointed as the manager to manage the respective hotels owned by each of these companies for an initial term of eight years with an option of renewal and at an annual remuneration, which is calculated at 1% of the total revenue and 4% of the gross profit of such hotels for the year. The maximum aggregate annual value on the hotel management fees payable by the Group to CT Hotel under these hotel management agreements for each of the two years ending 31 December 2007 are HK\$10,000,000 and HK\$10,000,000 respectively.

- (iii) On 11 September 2006, two wholly-owned subsidiaries of the Company, Well Done Enterprises Inc. and Sociedade De Fomento Predial Fu Wa (Macau) Limitada which are owners of Metropark Hotel Causeway Bay Hong Kong and Metropark Hotel Macau respectively entered into the new hotel management agreements with CT Hotel.

Pursuant to these hotel management agreements, CT Hotel was appointed as the manager to manage the respective hotels owned by each of these companies for an initial term from 1 September 2006 to 31 December 2007 with an option of renewal for further 3 years provided that the shareholders of these companies approved such renewal and at an annual remuneration, which is calculated at 2% of the total revenue and 5% of the gross profit of such hotels for the year. The maximum aggregate annual value on the hotel management fees payable by the Group to CT Hotel under these hotel management agreement for the four months ended 31 December 2006 and the year ending 31 December 2007 are HK\$3,200,000 and HK\$8,500,000 respectively.

Messrs. Zhang Xuewu, Xiong Weiping, Zheng Heshui, Lo Sui On, Zheng Hongqing, Mao Jianjun, Zhang Fengchun and Ms. Jiang Yan are Directors of the Company and CTS (Holdings). None of the above-named Directors has any beneficial interest in the share capital of CTS (Holdings) or any of its subsidiaries.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year of 2006, the Group had the following transactions, details of which are as follows:

### Connected Transactions

On 8 November 2006, China Heaven Creation International Performing Arts Co., Ltd. ("China Heaven"), a subsidiary of the Company held as to 70% by Mr. Du Xinjian ("the Nominee") and 30% by Shenzhen The Splendid China Development Co., Ltd. ("Splendid China"), a subsidiary of the Company, proposed to increase its registered capital from RMB10 million (approximately HK\$9.97 million) to RMB40 million (approximately HK\$39.88 million). The additional capital was contributed solely by the Company through the Nominee. As direct foreign investment in formation of art and cultural show performance group in the PRC is currently restricted under PRC law and regulations, the Company directly contributed to the investment in the additional capital by entering into the following contractual arrangements on 8 November 2006 with the Nominee:

- a loan agreement pursuant to which the Company will grant a non-interest bearing loan in an aggregate value of RMB30 million (approximately HK\$29.49 million) to the Nominee solely for financing his contribution to the additional capital;
- a share pledge agreement pursuant to which the Nominee pledges the additional capital as security for the performance of his obligations under the loan agreement and the option agreement; and
- an option agreement pursuant to which the Company has been granted an option, exercisable by the Company at its sole discretion, by the Nominee to acquire the additional capital as and when direct investment in China Heaven by the Company is allowed under PRC law and regulations.

As Shenzhen Overseas Chinese Town Holding Company, which owns 49% interest in Splendid China, also owns 49% interest in Shenzhen The World Miniature Co., Ltd., which is another non-wholly owned subsidiary of the Company, China Heaven is a connected person of the Company. Details of these transactions were set out in the announcement dated 8 November 2006.

In the opinion of the Company's Independent Non-Executive Directors, the above connected transactions were entered into in the ordinary and usual course of business and based on normal commercial terms agreed after arms' length negotiations between the parties and pursuant to the terms of the relevant agreement.

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## Continuing Connected Transactions

- (i) (a) On 15 May 2001, China Travel Service (Hong Kong) Limited (“CTSHK”), a wholly-owned subsidiary of the Company, entered into an agreement (the “Agency Agreement”) with CTS (Holdings), a controlling shareholder of the Company, to document the transactions relating to the general administration services provided in Hong Kong for applications for tourist visas and travel permits for entry into the PRC for a fixed term up to 30 June 2047 (the “Travel Permit Administration”).

At the extraordinary general meeting of the Company held on 13 May 2004, the independent shareholders of the Company approved the Travel Permit Administration under the Agency Agreement as a continuing connected transaction and a maximum aggregate annual value of HK\$410 million for the Travel Permit Administration for each of the three years ended 31 December 2006.

- (b) As the above independent shareholders’ approval expired on 31 December 2006, the Company obtained independent shareholders’ approval for renewal of Travel Permit Administration (including the maximum aggregate annual value) at the extraordinary general meeting held on 22 December 2006. The maximum aggregate annual value for the Travel Permit Administration shall not exceed HK\$400 million for each of the three financial years ending 31 December 2009.

- (ii) On 29 December 2006, the Company and U.S. China Travel Service Inc. (“USCTS”), a subsidiary of the Company, entered into a travel services agreement, pursuant to which the Company and USCTS have agreed to provide travel related services to each other for fees no less favorable than those charged by independent third parties. The maximum aggregate annual value for the service fees payable by the Group to USCTS provided under the travel services agreement for the three years ending 31 December 2009 is HK\$5,303,000, HK\$6,364,000 and HK\$7,636,000 respectively. The maximum aggregate annual value for the service fees payable by USCTS to the Group provided under the travel services agreement for the three years ending 31 December 2009 are HK\$7,470,000, HK\$9,711,000 and HK\$11,653,000 respectively.

On the same date, Pacific Travel and Trade Corporation ("Pacific Travel") and USCTS entered into a ticketing services agreement, pursuant to which Pacific Travel has agreed to provide ticketing related services and technical support services to USCTS for fees no less favorable than those charged by independent third parties. The respective maximum aggregate annual value for fees payable by USCTS to Pacific Travel for such ticketing related services and the technical support services for the three years ending 31 December 2009 are as follows:

	<b>The year ending 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
Ticketing related services	US\$1,712,500 (approximately HK\$13,271,875)	US\$2,467,500 (approximately HK\$19,123,125)	US\$2,961,000 (approximately HK\$22,947,750)
Technical support services	US\$18,000 (approximately HK\$139,500)	US\$18,900 (approximately HK\$146,475)	US\$19,845 (approximately HK\$153,799)
Total	US\$1,730,500 (approximately HK\$13,411,375)	US\$2,486,400 (approximately HK\$19,269,600)	US\$2,980,845 (approximately HK\$23,101,549)

USCTS is owned as to 49% by Pacific Travel and Pacific Travel is wholly owned by a director of USCTS, therefore, both of Pacific Travel and USCTS are connected persons of the Company.

The term of above transactions commenced on 1 January 2007 and will end on 31 December 2009. Details of these transactions were set out in the announcement dated 29 December 2006.



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(iii) The Group in the past entered into certain ongoing connected transactions with CTS (Holdings) and its subsidiaries (“CTS (Holdings) Group”) in the following categories:

- (a) Provision of insurance brokerage services by CTS (Holdings) Group;
- (b) Provision of decoration and maintenance services by CTS (Holdings) Group;
- (c) Provision of sightseeing cruiser services by CTS (Holdings) Group;
- (d) Sale of tourism services/products to CTS (Holdings) Group;
- (e) Provision of stevedoring services by CTS (Holdings) Group;
- (f) Lease arrangements; and
- (g) Provision of Application Service Provider related services to CTS (Holdings) Group.

On 13 July 2004, the Company entered into a master agreement (the “2004 Master Agreement”) with CTS (Holdings) in relation to the above ongoing connected transactions for a term commencing on 1 January 2004 and ending on 31 December 2006, in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) which took effect on 31 March 2004. Details of the respective maximum aggregate annual value for each of these transactions were set out in the announcement dated 13 July 2004. The 2004 Master Agreement did not cover (i) a lease arrangement dated 1 August 2006 in respect of an office premise (the “Additional Premise”) from a member of the CTS (Holdings) Group for a term starting from 1 October 2005 and expiring on 31 December 2006; or (ii) a lease arrangement in respect of certain car parking spaces (the “Car Parking Spaces”) from a member of the CTS (Holdings) Group for the years 2004 to 2006. The amount payable to the CTS (Holdings) Group pursuant to such lease arrangements, when aggregated with the amount of the lease arrangements covered by the 2004 Master Agreement, exceeded the annual cap under the 2004 Master Agreement by HK\$693,000 (approximately 6.1%), HK\$30,600 (approximately 0.3%) and HK\$1,184,000 (approximately 10.4%) for 2004, 2005 and 2006 respectively.

As the 2004 Master Agreement expired on 31 December 2006, the Company following an internal review entered into a master agreement (the “2006 Master Agreement”) with CTS (Holdings) on 29 December 2006 to renew the terms of some of such continuing connected transactions for a term commencing from 1 January 2007 and ending on 31 December 2009, and to enlarge the scope of services of, and to increase the number of participants involved in, certain continuing connected transactions in the 2004 Master Agreement. The lease arrangements in respect of the Additional Premise and the Car Parking Spaces are now covered by the 2006 Master Agreement.

On the same date, the Company also entered into a master agreement with China National Travel Service (HK) Group Corporation (“China CTS (HK)”) to govern the continuing connected transactions between the Group and China CTS(HK) Group (i.e. China CTS (HK) and its associates) for a term commencing from 1 January 2007 and ending on 31 December 2009.

As CTS (Holdings) is a substantial shareholder of the Company, the members in CTS (Holdings) Group (i.e. CTS (Holdings) and its associates) are connected persons of the Company. In addition, as disclosed in the announcement of the Company dated 9 October 2006, after the transfer of the 100% interest in CTS (Holdings) to China CTS (HK) is implemented, China CTS (HK) became the sole shareholder of CTS (Holdings), and accordingly the members in China CTS (HK) Group are also connected persons of the Company.

The maximum aggregate annual consideration for each of the continuing connected transactions contemplated under the 2006 Master Agreement is as follows:

	<b>The year ending 31 December</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	HK\$'000	HK\$'000	HK\$'000
<i>I. Continuing connected transactions with CTS (Holdings) Group</i>			
(a) Provision of insurance brokerage services by CTS (Holdings) Group	7,490	7,870	8,270
(b) Lease arrangements with CTS (Holdings) Group as lessor	16,660	18,260	20,010
(c) Provision of ASP related services to CTS (Holdings) Group	14,230	14,230	14,230
<i>II. Continuing connected transactions with China CTS (HK) Group</i>			
Provision of travel related services to China CTS (HK) Group	11,090	17,500	13,730

Each of these transactions were set out in the announcement dated 29 December 2006.

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- (iv) The Group engaged CT Hotels to manage certain of its hotels, particulars of which are set out in the section headed "Management Contracts" on pages 25 to 26.
- (v) During the year, the following transactions were recorded by Splendid China and Shenzhen The World Miniature Co., Ltd., which are 51% owned PRC subsidiaries of the Group, with their substantial shareholders or the associates of these substantial shareholders:

Name of Company	Nature of transaction	Group	
		2006 HK\$'000	2005 HK\$'000
<i>Paid or payable to:</i>			
(i) 深圳特區華僑城水電有限公司	Water and electricity charges	<b>21,252</b>	20,245
(ii) 華僑城集團公司	Land use rights fees	<b>12,434</b>	12,338

The Company is taking steps to formalise the arrangements with 深圳特區華僑城水電有限公司 and 華僑城集團公司 in respect of the above continuing connected transactions in a form complying with Rule 14A.35 of the Listing Rules.

The above continuing connected transactions have been reviewed by the Independent Non-Executive Directors of the Company who have confirmed that these transactions were entered into by the Group:

- (i) in the ordinary and usual course of business of the Group and on normal commercial terms;
- (ii) are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iii) in accordance with the terms of the agreements governing such transactions (or where there is no such agreement, on terms no less favorable to the Group than terms available to or from independent third parties).

The remaining material transactions as set out in note 42 to the financial statements under the heading of "Related Party Transactions" were also connected transactions.

Save as disclosed above, the Company confirms that the disclosure requirements for connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules have been complied with.

## DIRECTORS' INTERESTS IN THE SHARES AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the Directors or chief executive in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:-

### (i) Long position in the shares of the Company

*ordinary shares of HK\$0.10 each of the Company*

<b>Name of Directors</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>% of the issued share capital</b>
Yeh Meou Tsen, Geoffrey	Beneficial owner	5,686,000	0.100%
Fong Yun Wah	Interest of controlled corporations <i>(Note)</i>	50,000	0.001%

*Note:* These shares are beneficially owned by certain corporations in which Dr. Fong Yun Wah is taken to be interested.

Save as disclosed above, as at 31 December 2006, none of the directors and chief executive and/or any of their respective associates had any interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO).

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' Interests in the Shares and Short Positions in Shares, Underlying Shares and Debentures" above and in the share option scheme disclosures in note 36 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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## SHARE OPTION SCHEME

Particulars of the share option scheme of the Company are set out in note 36 to the financial statements.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the following shareholders (other than the Directors or chief executive of the Company whose interests and short positions in the shares and underlying shares of the Company as disclosed above) had interests, directly or indirectly, and short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO:

### (i) Long position in the shares of the Company

*ordinary shares of HK\$0.10 each of the Company*

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>% of the issued share capital</b>
China Travel Service Head Office of the PRC ("CTS-PRC")	Interest of controlled corporation ( <i>Note 1, 4</i> )	2,993,632,728	52.56%
CTS (Holdings)	Interest of controlled corporation and beneficial owner ( <i>Note 1, 3</i> )	2,993,632,728	52.56%
Foden International Limited ("FIL")	Beneficial owner ( <i>Note 2</i> )	20,700,000	0.36%

*Notes:* 1 The entire issued share capital of CTS (Holdings) is beneficially owned by CTS-PRC. CTS (Holdings) is the direct holding company of the Company. Accordingly, the interests of CTS-PRC in the Company duplicate the interests of CTS (Holdings).

2 These shares are held by FIL which is a wholly-owned subsidiary of CTS (Holdings).

3 2,972,932,728 shares were held by CTS (Holdings) directly.

4 Pursuant to the restructuring approved by the State-owned Assets Supervision Commission of the State Council of the PRC on 10 August 2006, CTS-PRC agreed to transfer its 100% interest in CTS (Holdings), the immediate controlling shareholder of the Company, to China CTS(HK) Group at nil consideration. The restructuring was completed on 14 February 2007 and China CTS(HK) replaced CTS-PRC as the sole shareholder of CTS (Holdings) on that date.

Save as aforesaid and disclosed under the heading “Directors’ Interests in the Shares and Short Positions in Shares, Underlying Shares and Debentures” above, as at 31 December 2006, the Directors are not aware of any other person who had an interest, directly or indirectly, or short position in the shares, underlying shares or debentures of the Company recorded in the register required to be kept by the Company under section 336 of the SFO.

## **DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES**

As at 31 December 2006, the Company had loan facilities, which were subject to, inter alia, a specific performance obligation on the controlling shareholder of the Company, CTS (Holdings), during the tenure of such loan facilities. The specific performance obligation is that CTS (Holdings) shall maintain a holding of no less than 40% of the total issued share capital of the Company throughout the tenure of the loan facilities granted to the Company. A breach of the obligation will constitute an event of default. As a result of such breach, the loan facilities may become due and repayable on demand by the relevant lenders according to the respective terms and conditions thereof. The details of the loan facilities outstanding as at 31 December 2006 are as follows:

<b>Amount outstanding as at 31 December 2006</b>	<b>Final maturity date of the loan facilities</b>
HK\$500 million	2 January 2009

## **SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained with the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report.

## **CORPORATE GOVERNANCE**

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 37 to 50.

## **AUDIT COMMITTEE**

The Company’s Audit Committee was established in 1999 for the purposes of assisting the Board in monitoring the financial reporting matters, internal controls, internal audit and external audit of the Group.

The Audit Committee comprises three Independent Non-Executive Directors, namely, Mr. Wong Man Kong, Peter, Dr. Yeh Meou Tsen, Geoffrey (his alternate, Mr. Yeh V Nee) and Mr. Sze, Robert Tsai To.

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## REMUNERATION COMMITTEE

The Company's Remuneration Committee was established in April 2005 to formulate and implement the remuneration policy relating to directors and employees of the Group.

The Remuneration Committee comprises three Independent Non-Executive Directors, namely, Mr. Wong Man Kong, Peter, Dr. Yeh Meou Tsen, Geoffrey (his alternate, Mr. Yeh V Nee) and Mr. Sze, Robert Tsai To.

## POST BALANCE SHEET EVENT

Details of the significant event subsequent to the balance sheet date are set out in note 44 to the financial statements.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

**Zhang Xuewu**

*Chairman*

Hong Kong, 12 April 2007