

CORPORATE GOVERNANCE PRACTICES

The Board of Directors is committed to principles of corporate governance consistent with prudent enhancement and management of shareholder value. These principles emphasize transparency, accountability and independence.

BOARD OF DIRECTORS

The Board of Directors currently consists of the Group non-executive Chairman, the Group Managing Director, two executive directors and eight non-executive directors (of whom four are independent). The Board met four times to date in 2005 (with an average attendance rate of 97.92%).

In order to reinforce independence, accountability and responsibility, the role of the Group Chairman is separate from that of the Group Managing Director with their respective responsibilities endorsed by the Board in writing.

At the Annual General Meeting held on 30 May 2005, a special resolution was passed to amend the existing Bye-laws of the Company so that every director (including the chairman of the Board and the managing director of the Company) is subject to retirement by rotation at least once every three years.

BOARD COMMITTEES

The Board has established the Audit Committee, Compensation Committee and Nomination Committee with defined terms of reference (available to shareholders upon request), which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules.

Audit Committee

The Audit Committee was established on 4 November 2004 to review the Group's financial reporting, internal controls, risk management matters, corporate governance issues and make relevant recommendations to the Board.

The Audit Committee is chaired by an independent non-executive director and the majority of the Committee members are independent non-executive directors. Its current members are as follows:

Mr John Estmond STRICKLAND* — Committee Chairman
Dr FU Yu Ning*
Prof Hau Leung LEE*
Mr Butt Farn LAU

* *independent non-executive directors*

The Audit Committee met three times to date in 2005 (with an average attendance rate of 91.67%) to review with senior management and the Company's internal and external auditors the internal and external audit findings, the accounting principles and practices adopted by the Group, listing rules and statutory compliance, and discussed auditing, internal controls, risk management and financial reporting matters (including the interim financial information for the six months ended 30 June 2005 before recommending them to the Board for approval).

In order to further enhance independent reporting by external auditors, the Audit Committee reviews the independence of external auditors annually. The Audit Committee has also reviewed the nature and volume of non-audit services provided by its external auditors and has satisfied to date that they have no significant impact on the independence and objectivity of the external auditors.

Compensation Committee

The Compensation Committee was established on 4 November 2004 and is chaired by the non-executive Group Chairman. The Committee's responsibility is to make recommendation to the Board on the Company's policy and structure for all remuneration of directors and senior management, including the allocation of share options to employees under the Company's Share Option Scheme. The Compensation Committee met once to date in 2005 (with an attendance rate of 100%) and its current members are as follows:

Dr Victor FUNG Kwok King — Committee Chairman
Mr William Winship FLANZ*
Prof Hau Leung LEE*

* *independent non-executive director*

Nomination Committee

The Nomination Committee was established on 4 November 2004 and is chaired by an independent non-executive director to make recommendations to the Board on the appointment of directors, evaluation of board composition and the management of board succession. The Nomination Committee will meet during the second half year of 2005. Its current members include a majority of independent non-executive directors:

Mr William Winship FLANZ* — Committee Chairman
Dr FU Yu Ning*
Mr Jeremy Paul Egerton HOBBS

* *independent non-executive director*

BUSINESS ETHICS

The Group puts strong emphasis on business ethics in all aspects of its operations. All of our key executives and employees have been given clear message of the Group's ethical guidelines.

INTERNAL CONTROL

The Board recognizes the importance of maintaining a sound system of internal controls to safeguard shareholder's interest and investments and the Company's assets, and manage risks. The Board assumes the overall responsibility for reviewing the adequacy and integrity of the Group's systems of internal controls and risk management system through the Audit Committee.

The Board has delegated to management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. Qualified personnel throughout the Group maintain and monitor these systems of control on an ongoing basis.

The Group's Corporate Governance and Compliance Division, under the supervision of our Group Chief Compliance Officer, independently reviews these controls and evaluates their adequacy, effectiveness and compliance, and reports directly to the Audit Committee on a regular basis.

Based on the assessment made by senior management and the internal audit team of the Group's Corporate Governance and Compliance Division during the six months ended 30 June 2005, the Audit Committee is satisfied that:

- the internal controls and accounting systems of the Group are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorisation and the accounts are reliable for publication; and
- there is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted stringent procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all directors to confirm compliance with the Model Code throughout the six-month period to 30 June 2005.

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

No incident of non-compliance was noted by the Company to date in 2005.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with the provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules during the six-month period to 30 June 2005.

INVESTOR RELATIONS AND COMMUNICATION

The Company continues to pursue a proactive policy of promoting investor relations and communication by holding meetings with institutional investors and analysts. As a channel to further promote effective communication, a corporate website (www.idsgroup.com) is maintained to disseminate company information and other relevant financial and non-financial information and answer enquiries electronically on a timely basis.