

# 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 ("Code on CG Practices") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the six months ended 30 June 2005.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. All directors have confirmed, following 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 2005.

## BOARD

The Board of Directors now comprises ten Directors, and among them, three are Independent Non-Executive Directors the independent status of all of whom is strictly in accordance with the Listing Rules. There were two full Board meetings held during the period, and the average attendance rate of the Directors stood at about 73%.

## AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in September 1998. The terms of reference of the Audit Committee adopted by the board of directors of the Company are in line with the Code on CG Practices. The existing Audit Committee comprises Dr. LI Kwok Po, David as the chairman, Mr. CHAN Cho Chak, John, Mr. FUNG Daniel R. and Mr. CHENG Mo Chi, Moses as members. The principal duties of the Audit Committee include the review of the effectiveness of the completeness, accuracy and fairness of the Company's financial reports and internal control systems.

## REVIEW OF INTERIM RESULTS

The Group's interim financial report for the six months ended 30 June 2005 has not been audited, but has been reviewed by the Audit Committee and the Company's auditors Messrs. Ernst & Young.

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## INTERNAL AUDIT

The Company has established an internal audit department responsible for the overall internal monitoring of the Group. The key functions of this department include undertaking comprehensive internal audits, supervision and appraisal of the operational, financial and governance activities of each of the operating companies of the Group; commenting and making recommendation on such matters; and submitting regular reports to both the Chairman of the Board and the Audit Committee.

## REMUNERATION COMMITTEE

The Company has also established a remuneration committee ("Remuneration Committee") in accordance with the Listing Rules. The terms of reference of the Remuneration Committee adopted by the board of directors of the Company are in line with the Code on CG Practices. The existing Remuneration Committee comprises Mr. CHAN Cho Chak, John as the chairman, Dr. LI Kwok Po, David, Mr. FUNG Daniel R. and Mr. CHENG Mo Chi, Moses as members. The principal duties of the Remuneration Committee include the review of the remuneration policy and compensation of the directors and senior management of the Company.

## SUPERVISION OF MANAGEMENT AND OPERATION

The Group has introduced a series of rules and regulations to monitor the management and operation of all the members of the Group. These include:

- (i) total prohibition on the use of off-balance-sheet accounts;
- (ii) strengthening the Board's supervision of management;
- (iii) maximising the control and supervisory functions of the checks and balances and thereby, the mutual monitoring among the board chairman, general manager and the financial controller; and
- (iv) strict regulation of investments in, loans to and guarantees for outside parties.

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## PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2005, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on The Stock Exchange of Hong Kong Limited save and except:

- (i) the Company has issued the following new Ordinary Shares to certain option holders pursuant to the Company's share option scheme during the period:

No. of new Ordinary Shares issued	Exercise price per Ordinary Share HK\$	Cash consideration HK\$
7,250,000	0.814	5,901,500
15,000,000	0.816	12,240,000
15,000,000	0.96	14,400,000
7,470,000	1.22	9,113,400
5,200,000	1.59	8,268,000
2,960,000	1.25	3,700,000
Total	52,880,000	53,622,900

- (ii) under the Earnout Agreement, the Company has agreed to allot and issue to GDH, 66,000,000 Ordinary Shares, for each of the five years commencing from 22 December 2000 (the "Earnout Period") (subject to adjustment, up to a total of 330,000,000 Ordinary Shares) upon the performance of 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) ("WaterCo") meeting the milestones as set out in the Earnout Agreement. As WaterCo had already met the performance milestones under the Earnout Agreement for the first, second, third, fourth and fifth years of the Earnout Period in September 2001, March 2002, September 2002, March 2003 and June 2003 respectively, the Company was obligated to issue a total of 330,000,000 Ordinary Shares to GDH in accordance with the Earnout Agreement. 198,000,000 Ordinary Shares and 66,000,000 Ordinary Shares were issued on 27 February 2004 and 21 December 2004 respectively to GDH and the remaining 66,000,000 Ordinary Shares will be issued on 21 December 2005.

## INTERIM DIVIDEND

The Board of Directors has resolved to declare the payment of an interim dividend of 4.0 HK cents (2004: 2.5 HK cents) per share for the six months ended 30 June 2005. The interim dividend will be paid to the shareholders whose names appear on the Register of Members on 6 October 2005. The interim dividend will be paid on 17 October 2005.

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### CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed on 5 October 2005 and 6 October 2005, 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, Tengis Limited, of G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on 4 October 2005.

By order of the Board

**LI Wenyue**

*Chairman*

Hong Kong, 16 September 2005