

# CORPORATE GOVERNANCE REPORT

The Group understands that its business legitimacy - with shareholders, investors, customers, suppliers, employees, and the community - relies on all these stakeholders having trust and faith in the Group to take care of their needs and to fulfil its social responsibility. The Group's value system defines its approach to corporate governance. The Group is dedicated to maintaining good corporate governance by disclosing accurate accounting and financial information, as well as adhering to sound business and ethical principles. It will also abide by Hong Kong laws, listing rules and regulations, benchmark itself against applicable codes and standards, and set realistic objectives to ensure healthy investment returns.

Below are the corporate governance principles and practices adopted by the Group.

## Board of Directors

### Board Composition

The Board is responsible for the Group's system of corporate governance and is ultimately accountable for the Group's activities, strategy and financial performance. The Board has three Executive Directors and seven Non-executive Directors. Three of the seven Non-executive Directors are independent to ensure that proposed strategies protect all shareholders' interests. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers that all Independent Non-executive Directors are independent in accordance with the guidelines set out in rule 3.13 of the Listing Rules. Biographical details of the Directors and relevant relationships among them are set out on pages 11 to 12.

According to the Articles of Association of the Company, one-third of the Non-executive Directors and one-third of the Executive Directors are subject to retirement by rotation at every annual general meeting. Subject to the provisions contained in the Articles of Association of the Company, the term of office of all Non-executive Directors (including Independent Non-executive Directors) shall expire on 31st December 2008.

The selection and appointment of a Director are determined by the full Board. The Board also reviews its composition to ensure the Board has a balance of knowledge and experience appropriate for the requirements of the business of the Group.

Newly appointed Director will meet with other fellow Directors, and receive a comprehensive, formal and tailored induction, so as to ensure that he has a proper understanding of the operations and businesses of the Group and that he is fully aware of his responsibilities under statute and common law, the Listing Rules and other regulatory requirements. Important updates are provided to Directors when necessary to ensure that they are aware of the business and regulatory environment in which the Group conducts its business.

Appropriate insurance cover on Directors' liabilities has been in force to protect the Directors of the Group from their risk arising from the businesses of the Group.

### Chairman of the Board and Managing Director

The Chairman of the Group is Dr. Lee Shau Kee and the Managing Director of the Group is Mr. Alfred Chan Wing Kin. The roles of Chairman and Managing Director are separate and not performed by the same individual. The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board and, with the support of Executive Directors and the Company Secretary, seeking to ensure that all Directors are properly briefed on issues discussed at board meetings and that they receive adequate and reliable information in a timely manner. The Managing Director is responsible for managing the business of the Group. Their respective responsibilities are clearly established and set out in writing.

**Board of Directors** (continued)**Board Meetings**

The Board meets regularly at least four times a year at approximately quarterly intervals. The Directors can attend meetings in persons or through other electronic means of communication in accordance with the Articles of Association of the Company.

During the year ended 31st December 2005, the Board met four times. Among many other topics, it discussed matters relating to the remuneration and re-appointment of Directors.

Regular Board meetings of the year are scheduled in advance and at least 14 days' notice is given to all Directors so as to give them an opportunity to attend. Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decision on matters to be raised at the Board meetings. All Directors are given an opportunity to include matters in the agenda for Board meetings. The attendance record of each member of the Board during the year ended 31st December 2005 is set out below:

Directors	No. of Meetings Attended / Held	Attendance Rate
<b>Non-executive Directors</b>		
Dr. LEE Shau Kee (Chairman)	4/4	100%
Mr. Colin LAM Ko Yin	4/4	100%
Mr. LEE Ka Kit	1/4	25%
Mr. LEE Ka Shing	4/4	100%
<b>Independent Non-executive Directors</b>		
Mr. LIU Lit Man	2/4	50%
Mr. LEUNG Hay Man	4/4	100%
Dr. The Hon. David LI Kwok Po	4/4	100%
<b>Executive Directors</b>		
Mr. Ronald CHAN Tat Hung	4/4	100%
Mr. Alfred CHAN Wing Kin	4/4	100%
Mr. James KWAN Yuk Choi	4/4	100%

**Directors' Securities Transactions**

The Company has adopted the model code as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Following specific enquiries by the Company, all Directors have confirmed that they fully complied with the required standard set out in the Model Code throughout the year.

**Directors' Responsibility for the Accounts**

The Directors acknowledge their responsibility for preparing the accounts of the Group and ensuring that the preparation of the accounts of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors shall ensure the publication of the Group's accounts in a timely manner.

The statement of the Auditors of the Company about their reporting responsibilities on the accounts of the Group is set out in the Auditors' Report on page 61 of this Annual Report.

## Board Committees

The Board has appointed the following Board committees to oversee particular aspects of the Company's affairs:

### Audit Committee

The Audit Committee was formed in May 1996. During the year ended 31st December 2005, the members of the Audit Committee were Dr. The Hon. David Li Kwok Po (Chairman of the Audit Committee), Mr. Liu Lit Man, and Mr. Leung Hay Man (all of whom were Independent Non-executive Directors). At least one of the Audit Committee members has the appropriate professional qualification or accounting or related financial management expertise as required by the Listing Rules.

The principal duties of the Audit Committee include reviewing the Group's current financial standing, considering the nature and scope of audit reports, and ensuring internal control systems operate in accordance with applicable standards and conventions. The Company has adopted written terms of reference for the Audit Committee, which clearly defined the role, authority and function of the Audit Committee.

During the year ended 31st December 2005, the Audit Committee held two meetings to review: (i) unaudited interim accounts and audited annual accounts; (ii) the remuneration of external Auditors, to evaluate the independence and objectivity of external Auditors and to determine the nature and scope of the audit; and (iii) the financial and accounting policies and practices, the internal control, financial control and risk management system of the Company.

The attendance record of each Audit Committee member during the year ended 31st December 2005 is set out below.

Directors	No. of Meetings Attended / Held	Attendance Rate
Dr. The Hon. David LI Kwok Po (Chairman)	2/2	100%
Mr. LIU Lit Man	1/2	50%
Mr. LEUNG Hay Man	2/2	100%

### Remuneration Committee

The Company established a Remuneration Committee on 7th September 2005. The Remuneration Committee comprises Dr. Lee Shau Kee (Chairman of the Remuneration Committee), Mr. Liu Lit Man and Dr. The Hon. David Li Kwok Po. The first Remuneration Committee meeting was held in March 2006 to discuss remuneration related matters.

The principal duties of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management (who are also Executive Directors of the Company) and reviewing the special remuneration packages of all Executive Directors by reference to corporate goals and objectives resolved by the Board from time to time. The Company has adopted written terms of reference for the Remuneration Committee, which clearly defined the role, authority and function of the Remuneration Committee.

The Company does not operate any share option scheme. The emoluments of Directors are based on the duties and responsibilities of each Director. Directors' fees are recommended by the Remuneration Committee and are submitted for endorsement by the Board. Directors' fees endorsed by the Board are subject to the approval of shareholders at the annual general meeting.

### Other Board Committees

Two Board Committees, namely Investment Committee of the Retirement Schemes and Treasury Committee, were set up to deal with specific matters delegated by the Board. The Investment Committee of the Retirement Schemes manages retirement schemes and advises the trustees on investment policy. The Treasury Committee reviews, advises and formulates strategies related to investment activities.

### Auditors' Remuneration

For the financial year ended 31st December 2005, the total remuneration in respect of statutory audit services provided by the external auditors, PricewaterhouseCoopers, amounted to HK\$4.0 million. During the year, payment to PricewaterhouseCoopers in respect of taxation services and interim results review services provided to the Group amounted to HK\$1.2 million.

### Internal Control

The Board is responsible for maintaining sound and effective internal control systems for the Group in order to safeguard the Group's assets and shareholders' interests, as well as for reviewing the effectiveness of such systems. The Board will from time to time conduct a review of the Group's internal control system. During the year ended 31st December 2005, the Board has reviewed the effectiveness of the Group's internal control system covering financial, operational and compliance controls and risk management functions.

During this review, the Board considered factors such as changes since the last review; the scope and quality of the management's monitoring of risks; the incidence of significant control failings and weaknesses identified; and the effectiveness of financial reporting and compliance with the Listing Rules.

### Code on Corporate Governance Practices

During the year ended 31st December 2005, save as disclosed below, the Company complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules.

Under the Code Provision A.4.1 of the Code, non-executive directors should be appointed for a specific term. On 7th September 2005, each of the Non-executive Directors of the Company agreed that, subject to the provisions contained in the Articles of Association of the Company, the term of office of all Non-executive Directors (including Independent Non-executive Directors) shall expire on 31st December 2008 and the Code Provision A.4.1 of the Code has been complied with as from 7th September 2005.

The Code Provisions in B.1 of the Code relate to the establishment of a remuneration committee and its composition, authority and duties. The Company established a remuneration committee on 7th September 2005 and the Code Provisions in B.1 of the Code have been complied with as from 7th September 2005.