

# Corporate Governance Report

The Board is committed to maintaining good corporate governance. The Board believes that good corporate governance principles and practices should emphasise on accountability and an increase in transparency which will enable the Group's stakeholders, including shareholders, investors, customers, suppliers, employees and the community to have trust and faith in the Group to take care of their needs and to fulfill its social responsibility.

## Code on Corporate Governance Practices

During the year ended 31st December 2008, the Company complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The below sets out the corporate governance principles and practices adopted by the Group which indicates how the Group has applied relevant principles in the Code.

## 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, strategies and financial performance. The day-to-day management and operation of the Group are delegated to the management team. The Board currently has two 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 Listing Rules. The Board 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 of this Annual Report.

According to the Articles of Association of the Company, one-third of its non-executive directors and one-third of its 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 2011.

The nomination and selection of a Director is performed by the full Board. Proposed new Directors are selected based on skills and experience that, in the opinion of the Directors, will enable them to make positive contribution to the performance of the 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 risks arising from the businesses of the Group.

### Chairman of the Board and Managing Director

The Chairman of the Board is Dr. The Hon. Lee Shau Kee and the Managing Director is Mr. Alfred Chan Wing Kin. The roles of Chairman and Managing Director are segregated and are 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 arising at Board meetings and that they receive adequate and reliable information in a timely manner.

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### Board of Directors (Continued)

#### Chairman of the Board and Managing Director (Continued)

The Managing Director is responsible for managing the business of the Group and leading the management team to implement strategies and objectives adopted by the Board. Their respective responsibilities are clearly established and set out in writing.

#### Board Meetings

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

During the year ended 31st December 2008, the Board met four times. Among many other topics, it discussed matters relating to the 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 date of a Board meeting 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. In addition, Directors at all times have full and timely access to all information on the Group and may seek independent professional advice at the Company's expense whenever considered necessary by the Directors.

The attendance record of each member of the Board during the year ended 31st December 2008 is set out below:

| Directors                                  | No. of Meetings<br>Attended / Held | Attendance Rate |
|--|------------------------------------|-----------------|
| <b>Non-executive Directors</b>             |                                    |                 |
| Dr. The Hon. LEE Shau Kee (Chairman)       | 4/4                                | 100%            |
| Mr. Colin LAM Ko Yin                       | 4/4                                | 100%            |
| Mr. LEE Ka Kit                             | 3/4                                | 75%             |
| Mr. LEE Ka Shing                           | 4/4                                | 100%            |
| <b>Independent Non-executive Directors</b> |                                    |                 |
| Mr. LIU Lit Man                            | 2/4                                | 50%             |
| Mr. LEUNG Hay Man                          | 3/4                                | 75%             |
| 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%            |

\* Mr. Ronald Chan Tat Hung retired as an Executive Director on 11th December 2008.

#### 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 ended 31st December 2008.

## Board of Directors (Continued)

### Directors' Responsibility for the Accounts

The Directors acknowledge their responsibilities 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 Auditor of the Company about their reporting responsibilities on the accounts of the Group is set out in the Independent Auditor's 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 2008, 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, but are not limited to, reviewing the Company'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 define the role, authority and function of the Audit Committee.

The Audit Committee held two meetings during the year ended 31st December 2008 and the following sets out a summary of the work of the Audit Committee during such period:

- review of the financial reports for 2007 annual results and 2008 interim results;
- recommendation to the Board, for the approval by shareholders, of the re-appointment of PricewaterhouseCoopers as the external Auditor and approval of their remuneration;
- determination of the nature and scope of the audit;
- review of the financial and accounting policies and practices of the Company; and
- review of the effectiveness of the Company's internal control, financial control and risk management system, including the review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The attendance record of each Audit Committee member during the year ended 31st December 2008 is set out below.

| Directors                                | No. of Meetings<br>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. During the year ended 31st December 2008, the Remuneration Committee was chaired by the Chairman Dr. The Hon. Lee Shau Kee with Mr. Liu Lit Man and Dr. The Hon. David Li Kwok Po (both were Independent Non-executive Directors) as members.

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### Board Committees (Continued)

#### Remuneration Committee (Continued)

The principal duties of the Remuneration Committee include, but are not limited to, 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 define the role, authority and function of the Remuneration Committee.

The Company has not adopted any share option scheme. The emoluments of Directors are determined based on the duties and responsibilities of each Director. The Directors' fees were reviewed by the Remuneration Committee. During the year ended 31st December 2008, every Director received a Director's fee at the rate of HK\$130,000 per annum while the Chairman received an additional fee at the rate of HK\$130,000 per annum and each member of the Audit Committee received an additional fee at the rate of HK\$100,000 per annum. The Remuneration Committee considered the fees reasonable in view of the Directors' responsibilities and, on its recommendation, the Board approved that the fees remain at the same level for the year 2009.

During the year ended 31st December 2008, the Remuneration Committee held its meeting once to review the above matters. The attendance record of each Remuneration Committee member during the year ended 31st December 2008 is set out below.

| Directors                            | No. of Meeting<br>Attended / Held | Attendance Rate |
|--------------------------------------|-----------------------------------|-----------------|
| Dr. The Hon. LEE Shau Kee (Chairman) | 1/1                               | 100%            |
| Mr. LIU Lit Man                      | 1/1                               | 100%            |
| Dr. The Hon. David LI Kwok Po        | 1/1                               | 100%            |

#### Other Board Committees

Two other Board committees, namely the Investment Committee of the Retirement Schemes and the 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 policies. The Treasury Committee reviews, advises and formulates strategies related to treasury and investment activities of the Group.

### Auditor's Remuneration

For the year ended 31st December 2008, the total remuneration in respect of statutory audit services provided by the Company's external auditor, PricewaterhouseCoopers, amounted to HK\$6.0 million. During the year, payment to PricewaterhouseCoopers in respect of non-audit services, including taxation services and interim results review services provided to the Group amounted to HK\$4.6 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 2008, the Board, through the Audit Committee, reviewed the overall effectiveness of the system of internal control of the Group over financial, operational and compliance issues, risk management process, information systems security, scope and quality of the management's monitoring of risks and the effectiveness of financial reporting and compliance with the Listing Rules. The Board considered that the resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget were adequate. The Board concluded that in general, the Group had set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance.