

The Group is committed to the highest standards of corporate governance for the enhancement of shareholders' value. The Group believes that good corporate governance not only protects investors' interest but also the Group's interest. It is also of the view that good corporate governance is a reflection of the standard and quality of the management and operations of the Group and will help sustain the long-term support of stakeholders on which the Group's success is dependent upon.

The Group closely monitors corporate governance development in Hong Kong and overseas, and with this objective, it regularly reviews its corporate governance practices in light of experience and evolving regulatory requirements to ensure that the Group keeps abreast of stakeholders' expectations. The principles of corporate governance adopted by the Group emphasise a quality board, sound internal control, and transparency and accountability to stakeholders.

The Company has complied with the Code of Best Practice of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2004 except that the Director holding office as chairman and/or the Director appointed to the position of chief executive officer of the Company are not subject to retirement by rotation and that Non-executive Directors had no set term of office but retire on a rotation basis. The provision relating to the retirement of the chairman and the Director acting as chief executive officer of the Company will be amended at the forthcoming Annual General Meeting and all Non-executive Directors are now subject to service contracts with a set term of office. The Company will be fully compliant with all code provisions of the new Code on Corporate Governance Practices of the Listing Rules upon approval being obtained from the shareholders of the Company on the amendment.

Below are the corporate governance practices adopted by the Group.

### **The Board**

The principal duty of the Board is to ensure that the Group is properly managed in the interest of stakeholders.

The Board, led by the Chairman Mr. Fok Kin-ning, Canning, is responsible for the formulation of Group wide strategies and policies, approval of annual budgets and business plans, and overseeing of management. Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer, Mr. Wong King Fai, Peter.

As at 31 December 2004, the Board comprised 13 Directors, including the Chairman, the Deputy Chairman, the Chief Executive Officer and the Chief Financial Officer who are Executive Directors, 5 additional Executive Directors, 3 Independent Non-executive Directors and 1 Non-executive Director. Biographical details of the Directors appear under the Directors and Senior Management Section on pages 26 to 29.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. The Board follows the requirements set out in the Listing Rules in determining the independence of Directors.

The roles of the Chairman and the Deputy Chairman – who assists the Chairman in the discharge of his responsibilities, are separate from that of the Chief Executive Officer. Such division of responsibilities helps to reinforce their independence and accountability.

The Chairman is responsible for providing leadership to, and overseeing the functioning of, the Board to ensure that the Board acts in the best interest of the Group and that Board meetings are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, any matters proposed by other Directors for inclusion in the agenda. With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. The Chairman also actively encourages Directors to be fully engaged in the Board's affairs and make contribution to the Board's functions. To this end, the Chairman also holds separate meetings with the Non-executive Directors at least annually without the Executive Directors present. With the support of all other members of the Board, the Chairman procures that good corporate governance practices and procedures are established and that appropriate steps are taken to provide effective communication with shareholders.

The Chief Executive Officer accounts to the Board for all Group operations. He is responsible for managing the businesses and maintaining the operational performance of the entire Group. He attends to the formulation and successful implementation of company policies as well as the development of strategic operating plans that reflect the longer-term objectives and priorities established by the Board. The Chief Executive Officer, with the assistance of the Chief Financial Officer, procures that the funding requirements of the businesses of the Group are met and closely monitors the operating and financial results against plans and budgets and takes remedial actions when necessary, and advises the Board of significant development and issues. Moreover, the Chief Executive Officer maintains ongoing dialogue with the Chairman, the Deputy Chairman and all Directors to keep them fully informed of all major business development and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

The Board meets regularly, and at least four times a year. Between scheduled meetings, senior management of the Group provides to Directors information on a timely basis on the activities and development on the businesses of the Group. In addition, Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

The Board held five meetings in 2004 and one meeting to date in 2005 with an average attendance rate of 86%. Individual attendance of each Director, on a named basis, is set out below.

	<b>Total no. of meetings attended</b>
<b>Executive Directors:</b>	
Fok Kin-ning, Canning	6/6
Chow Woo Mo Fong, Susan	6/6
Frank John Sixt <sup>(1)</sup>	2/4
Lai Kai Ming, Dominic	6/6
Dennis Pok Man Lui <sup>(2)</sup>	4/4
Wong King Fai, Peter <sup>(1)</sup>	4/4
Kan Ka Wing, Frankie <sup>(1)</sup>	4/4
Chan Wen Mee, May (Michelle)	6/6
Lam Hon Nam	6/6
Loh Tiak Koon <sup>(3)</sup>	4/4
<b>Non-executive Directors:</b>	
Stephen Ingram <sup>(4)</sup>	0/4
Tuan Lam	4/6
<b>Independent Non-executive Directors:</b>	
Cheng Ming Fun, Paul <sup>(5)</sup>	2/2
Cheong Ying Chew, Henry	6/6
Lam Lee G.	4/6

**Notes:**

- (1) *Appointed as Executive Director on 12 March 2004*
- (2) *Appointed as Executive Director on 29 March 2004*
- (3) *Resigned as Executive Director on 1 October 2004*
- (4) *Resigned as Non-executive Director on 1 October 2004*
- (5) *Appointed as Independent Non-executive Director on 28 September 2004*

Upon appointment, Directors receive a package of orientation materials and an extensive review of the Group and its business prepared by senior executives. Training and information are provided to Directors on a regular basis to ensure that they are updated on the latest changes in the commercial and regulatory environment in which the Group conducts its businesses.

Each Non-executive Director is engaged on a service contract for a twelve-month period. All Directors are subject to re-election by shareholders at the Annual General Meeting following their appointment and at least every three years on a rotation basis. None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation). Where vacancies exist at the Board, candidates are proposed and put forward to the Board for consideration and approval, with a view of appointing to the Board individuals with skills and experience appropriate for the Company so as to enable the Company to retain as well as improve its value to shareholders.

In June 2004, the Board of Directors of the Company adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") in the Listing Rules as the Group's code of conduct regarding Directors' securities transactions. All Directors confirmed that they have complied with the Model Code in their securities transactions throughout the year.

## **Directors' Responsibility for the Financial Statements**

The following statement, which sets out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Auditors' report on page 65 which acknowledges the reporting responsibilities of the Group's Auditors.

### **Annual Report and Accounts**

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

### **Accounting Policies**

The Directors consider that the Group uses appropriate accounting policies that are consistently applied in preparing the financial statements, and that all applicable accounting standards are followed.

### **Accounting Records**

The Directors are responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable accounting standards.

### **Safeguarding Assets**

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

### **Going Concern**

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in business for a period of at least twelve months and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

## Company Secretary

The Company Secretary accounts to the Board directly for ensuring that board procedures are followed and that activities of the Board run smoothly by assisting the Chairman to set agenda for meetings, preparing and disseminating Board papers to the Directors and Board Committees in a timely and comprehensive manner and maintaining formal minutes for Board and other meetings.

The Company Secretary advises the Directors on their obligations for disclosure of interests in securities, connected transactions and price-sensitive information and ensures that the standards and disclosures required by Listing Rules are observed and, where required, reflected in the annual report of the Directors.

The Company Secretary also ensures that the Board is fully briefed on all legislative, regulatory and corporate governance developments and that it has regard to them when making decisions. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules and Codes on Takeovers and Mergers and Share Repurchases, including publications and dissemination of annual report and accounts and interim reports within the periods laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notification is made of Directors' dealings in securities of the Group.

In relation to connected transactions, regular briefings to legal counsels within the Group are made to ensure that such transactions are handled in compliance with the Listing Rules. Detailed analyses are performed on all potential connected transactions for presentation to Directors of relevant companies for their consideration in approving transactions.

## Audit Committee

The Audit Committee, which held three meetings in 2004 and one meeting in 2005, comprises financially literate members having the necessary skills and experience to understand financial statements. The Committee is chaired by Dr. Lam Lee G. and the other members of the Committee are Messrs. Cheng Ming Fun, Paul and Cheong Ying Chew, Henry. There have been two meetings of the Committee since Mr. Cheng Ming Fun, Paul joined on 28 September 2004, and he attended both of these. Dr. Lam Lee G. and Mr. Cheong Ying Chew, Henry attended all four meetings respectively.

Under its terms of reference, the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's preliminary results, interim results and annual financial statements, to monitor compliance with statutory and listing requirements, to review the scope, extent and effectiveness of the activity of the Group's internal audit team, to engage independent legal or other advisers as it determines to be necessary and to perform investigations.

The terms of reference of the Audit Committee is published on the Group's website.

During the year ended 31 December 2004, the principal activities of the Audit Committee were as follows:

### **Financial Statements**

The Audit Committee considered reports from the Chief Financial Officer on the interim results, preliminary announcement and annual report. It also considered reports from the external auditors on the scope and outcome of their independent review of the annual audit.

The financial statements were reviewed in the light of these reports and the results of the Audit Committee's review were reported to the Board.

### **Risk Management and Internal Control**

The Audit Committee reviewed the process by which the Group evaluated its control environment and its risk assessment process, and the way in which business risks were managed. It also considered the internal audit reports on the effectiveness of internal control in the Group business operations.

### **External Auditors**

During the year, there were two external auditors, Ernst & Young (resigned with effect from 18 November 2004) and PricewaterhouseCoopers (appointed at the Special General Meeting held on 17 December 2004).

The Audit Committee reviewed confirmation from the external auditors regarding their independence and objectivity.

The Audit Committee pre-approved the scope and reviewed fees for audit services provided by the external auditors and confirmed the recommendations put by the Board to the shareholders on the appointment and retention of the external auditors.

Private meetings were held with the external auditors to ensure that there were no restrictions on the scope of their audit.

### **Internal Audit**

The Audit Committee engages in discussion and review of the internal audit work plan for the year, together with its resource requirements. The internal audit manager reports directly to the Audit Committee and the Chief Financial Officer.

### **Auditors' Remuneration**

The Board and the external auditors operate certain safeguards to avoid the possibility that the external auditors' objectivity and independence could be compromised. The Group's policy in respect of services provided by the external auditors is as follows:

- Audit and audit-related services – the external auditors are invited to undertake services in their capacity as auditors that they must or are best placed to undertake.
- Taxation-related services – the Group uses the services of the external auditors where they are best suited.
- General consulting – the Group's policy is that the external auditors are not invited to tender for general consulting work.

As a further measure, the Audit Committee will pre-approve all permitted non-audit services by the external auditors. During the year, the Group has not engaged PricewaterhouseCoopers to provide any non-audit services.

### **Remuneration Committee**

The Remuneration Committee comprises three members with expertise in human resources and personnel emoluments. The Committee is chaired by the Chairman Mr. Canning Fok with Dr. Lam Lee G. and Mr. Cheong Ying Chew, Henry, both Independent Non-executive Directors, as members. The Committee meets towards the end of the year for the determination of the remuneration packages of Directors and senior management of the Group. In addition, the Committee also meets as and when required to consider remuneration related matters.

The Remuneration Committee assists the Board in achieving its objective of attracting, retaining and motivating people of the highest calibre and experience required to shape and execute strategies across the Group's substantial, diverse and international business operations. To achieve this, the Committee assists the Board in the development and administration of a fair and transparent procedure for setting policies on the remuneration of Directors and senior management of the Group and for determining their remuneration packages. Terms of reference of the Committee which have been adopted by the Board are available on the website of the Group.

The Executive Directors, assisted by the Group Human Resources Department, are responsible for reviewing all relevant remuneration data and market conditions as well as the performance of individuals and the profitability of the Group, and propose to the Committee for consideration and approval, remuneration packages for Directors and senior executives. Executive Directors, however, do not participate in the determination of their own remuneration.

Prior to the establishment of the Committee in 2005, and consistent with the principles applied in the past, the remuneration of Directors and senior executives for 2004 was determined by the Board with reference to the performance and profitability of the Group as well as remuneration benchmarks from other local and international companies and the prevailing market conditions. Directors and employees also participate in bonus arrangements determined in accordance with the performance of the Group and the individual's performance.

The aggregate amounts of emoluments paid and payable to Directors of the Company during the year are as follows:

<b>Name</b>	<b>Fees HK\$'000</b>	<b>Basic Salaries, Allowances and Benefits- in-kind HK\$'000</b>	<b>Bonus HK\$'000</b>	<b>Provident Fund Contributions HK\$'000</b>	<b>Inducement or Compensation Fees HK\$'000</b>	<b>Total Emoluments HK\$'000</b>
Fok Kin-ning, Canning	70	-	-	-	-	70
Lai Kai Ming, Dominic	70	-	-	-	-	70
Chow Woo Mo Fong, Susan	70	-	-	-	-	70
Frank John Sixt	57	-	-	-	-	57
Dennis Pok Man Lui	53	-	-	-	-	53
Wong King Fai, Peter	56	3,236	3,450	207	-	6,949
Kan Ka Wing, Frankie	56	2,525	1,356	162	-	4,099
Chan Wen Mee, May (Michelle)	70	-	-	-	-	70
Lam Hon Nam	70	3,075	-	144	-	3,289
Tuan Lam	70	-	-	-	-	70
Cheng Ming Fun, Paul	36	-	-	-	-	36
Cheong Ying Chew, Henry	140	-	-	-	-	140
Lam Lee G.	140	-	-	-	-	140
Stephen Ingram *	53	-	-	-	-	53
Loh Tiak Koon *	-	972	200	23	2,249	3,444
	1,011	9,808	5,006	536	2,249	18,610

Note:

\* Resigned on 1 October 2004



## Internal Control and Group Risk Management

The Board has overall responsibility for the Group's system of internal control and for the assessment and management of risk.

In meeting its responsibility, the Board seeks to increase risk awareness across the Group's business operations. Policies and procedures have been put in place, including the parameters of delegated authority, which provide a framework for the identification and management of risk. Whilst these procedures are designed to identify and manage risks that could adversely impact the achievement of the Group's business objectives, they do not provide absolute assurance against material mis-statement or loss.

### Internal Control Environment

The Board assumes overall responsibility for monitoring the operations of the businesses within the Group. It oversees the review and approval of business strategies, budgets, and plans, and the setting of key business performance targets. Business plans and budgets are prepared annually by the management of individual businesses and are subject to review and approval by both the executive management teams and the Executive Directors as part of the Group's five year corporate planning cycle. Quarterly forecasts are prepared and reviewed for differences to the budget. When setting budgets and forecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks.

The Group's internal control procedures include a comprehensive system for reporting information to the executive management teams of each core business and the Executive Directors.

The Executive Directors review monthly management reports on the financial results and key operating statistics of each business and hold regular meetings with the executive management team and senior management of business operations to review these reports, business performance against budgets, forecasts, significant business risk sensitivities and strategies.

The Group maintains a centralised cash management system for its subsidiary operations and the Group's treasury function oversees the Group's investment and lending activities. Treasury reports are distributed weekly to report on the Group's cash and liquid investments, borrowings and movements thereof.

The Chief Financial Officer has established guidelines and procedures for the approval and control of expenditures. Operating expenditures are subject to overall budget control and are controlled within each business unit with approved limits of authority being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process. In addition, material or unbudgeted expenditures are subject to the approval of the Chief Financial Officer and/or other Executive Directors on a case-by-case basis. Quarterly reports are reviewed in respect of actual versus budgeted and approved expenditures.

The Group's risk management team has the responsibility to develop and implement risk mitigation strategies including the use of insurance to transfer the financial impact of risk. It is responsible for arranging appropriate insurance coverage and organising Group wide risk reporting.

### **Review of Internal Controls**

The Group has established processes for reviewing and monitoring the system of internal control and reporting any significant control failings or weaknesses together with details of corrective actions.

The Group's internal audit team plays an independent role in assuring the existence and effectiveness of the risk management activities and controls in the Group's business operations. Using risk assessment methodology, the internal audit team works out an annual plan which is reviewed by the Audit Committee. The work performed by the internal audit team includes financial and operation reviews, recurring and surprise audits, fraud investigation and productivity efficiency reviews. The internal audit team also conducts review on areas of concern raised by the Audit Committee and is responsible for assessing and formulating an impartial opinion on the Group's internal control system. Findings are reported to the Audit Committee, the Chief Financial Officer and the senior management concerned. The team will follow up on all reports to ensure that all issues have been satisfactorily resolved. In addition, a regular dialogue is maintained with the Group's external auditors so that both are aware of the significant factors which may affect their respective scope of work.

### **Confirmation of Internal Controls**

The Directors confirm that they have reviewed the effectiveness of the system of internal control of the Company and its subsidiaries and that they consider that such system is reasonably effective and adequate although they cannot provide absolute assurance that all material risks are appropriately identified, evaluated and managed. The review covered all material controls including financial, operational and compliance controls and the risk management function.

### **Compliance with US Sarbanes – Oxley Act of 2002**

As the Company is a subsidiary of Hutchison Telecommunications International Limited ("HTIL") which is listed on the New York Stock Exchange, Inc., the provisions of the U.S. Sarbanes-Oxley Act of 2002 (the "Act") are applicable to the Group. Under the Act, the HTIL Group, including the Company and its subsidiaries, will need to have in place by 31 December 2006 internal controls over financial reporting to a standard that satisfies the requirements under the Act. This requires that the Group has a process that provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. In order to be compliant with the internal control requirements under the Act, the Group has commenced a thorough and extensive review of its system of internal controls in January 2005. Such review covers all material controls of the Group, including financial, operational and compliance controls and risk management functions.

The Group also maintains a system of disclosure controls and procedures to ensure that information required to be disclosed by the Group is recorded, processed, summarised and reported within the required time periods and accumulated and communicated to the Group's management and the management of the HTIL Group to allow timely decisions regarding disclosure.

## **Investor Relations and Shareholders' Rights**

The Group promotes investor relations and communications to institutional shareholders and analysts via meetings from time to time. Announcements and press releases are posted on the company website as soon as the financial results are announced.

The Board is committed to providing clear and full performance information of the Group to shareholders through the publication of interim and annual reports. In addition to dispatching circular, notices, financial reports to shareholders, addition information provision services are also available to shareholders through the Investor Relations section on the website of the Group.

Shareholders are encouraged to attend annual general meetings for which at least 21 days' notice is given. Directors and external auditors are available to answer questions on the Group's businesses at the meeting.

All shareholders have statutory rights to call for extraordinary general meetings and put forward agenda items for consideration by shareholders. Voting at all shareholders meetings is conducted by poll.

Certain amendments to the Articles of Association were adopted in the 2004 Annual General Meeting to reflect the changes introduced by The Stock Exchange of Hong Kong Limited in January 2004.

The Group values feedback from shareholders on its effort to promote transparencies and foster investor relationships. Comments and suggestions are welcome and can be addressed to our Company Secretary or by e-mail to the Group's website.

By order of the Board

**Edith SHIH**

*Company Secretary*

Hong Kong, 7 March 2005