

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance. The Board of Directors (“the Board”) is devoted to the ongoing enhancement of the corporate governance practices of the Company as the Board believes that good corporate governance practices are fundamental to the effective operation of a company and enhancement of shareholders’ value as a whole.

The corporate governance standard of the Company is formulated in compliance with the provisions of the Code of Corporate Governance Practice (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and the Board will continue to review and update the practices from time to time to ensure compliance with the legal and commercial standards. In the opinion of the Board, the Company has complied with the CG Code during the year ended 31 December 2006.

BOARD OF DIRECTORS

The Board comprises ten directors including two executive directors, five non-executive directors and three independent non-executive directors. The biographical details of the directors of the Company are set out on pages 3 to 7 of this annual report. The names of the directors of the Company are as follows:

Executive directors:

Mr. Lam Ko Yin, Colin (*Chairman*)
Mr. Li Ning

Non-executive directors:

Mr. Au Siu Kee, Alexander
Mr. Lau Yum Chuen, Eddie
Dr. Lee Shau Kee
Mr. Leung Hay Man
Mr. Wong Man Kong, Peter

Independent non-executive directors:

Mr. Ho Hau Chong, Norman
Mr. Kan Yuet Loong, Michael
Mr. Wu King Cheong



Corporate Governance Report (Continued)

The functions reserved to the Board are basically provided by the Articles of Association of the Company and the Board will from time to time delegate the functions to the management whenever required. The Board is primarily responsible for the strategic planning and policy formulation of the Company. Several material matters are reserved for the Board's considerations and/or decisions including, among other things, overall strategy of the Company; business plans; annual financial budgets; annual and interim results and reports; dividend policy and payments; investment plans; disposal proposals; appointment of directors and oversight of management. The management of the Company is responsible for the day-to-day operations of the Company and implementation of strategies adopted by the Board.

The Board meets from time to time according to the business requirement of the Company. During the year, four board meetings were held to review financial results and business development. In order to meet tight time constraint and make timely decision for the Company's policies and businesses, Board approvals have also been sought by circulation of resolutions in writing from time to time in accordance with the Articles of Association of the Company. The Company Secretary and the Qualified Accountant shall attend all regular board meetings to advise on statutory compliance, corporate governance, accounting and financial matters when necessary.

Dr. Lee Shau Kee and Mr. Li Ning are deemed as having substantial interests in the issued share capital of the Company under the Securities and Futures Ordinance. Dr. Lee is the father-in-law of Mr. Li Ning. Dr. Lee Shau Kee, Messrs. Lam Ko Yin, Colin, Li Ning, Leung Hay Man, Lau Yum Chuen, Eddie and Wu King Cheong are directors of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited ("Henderson Investment"). Mr. Wu King Cheong is the independent non-executive director of Henderson Land and Henderson Investment. Mr. Au Siu Kee, Alexander is an executive director of Henderson Land. Both Henderson Land and Henderson Investment have discloseable interests under the provisions of Part XV of the Securities and Futures Ordinance in the Company.

Save aforesaid, there is no financial, business, family or other material or relevant relationship among the directors.

CHAIRMAN AND GROUP GENERAL MANAGER

The roles of the Chairman and the Group General Manager of the Company are taken by two separate individuals who are not related to each other. The separation of the roles of the Chairman and the Group General Manager enables a clear division of responsibilities between the Board Chairman and the Group General Manager and also provide checks and balances effect.

The role of the Chairman of the Board is taken by Mr. Lam Ko Yin, Colin while the role of the Group General Manager (whose status is equivalent to chief executive officer for the purpose of the CG Code but not otherwise) is taken by Dr. Ho Chi Shing, David. The key function of the Chairman is the management of the Board whereas the key function of the Group General Manager is the day-to-day management of the Company's business.

NON-EXECUTIVE DIRECTORS

All non-executive directors (including independent non-executive directors) of the Company have been appointed for a specific term to 31 December 2007. They are eligible for re-appointment and subject to re-election on retirement by rotation in accordance with the Company's Articles of Association.

In order to align with the standards as set out in the CG Code, relevant amendments have been made to the Company's Articles of Association with the approval by the shareholders of the Company. At the Annual General Meeting held on 4 May 2006, a special resolution was duly passed that no director shall hold office for a continuous period in excess of 3 years, or past the third Annual General Meeting, following the Directors' appointment or re-election, whichever is longer, without submitting for re-election at an Annual General Meeting of the shareholders.

BOARD COMMITTEES

The Board has established four board committees, namely, Executive Committee, Audit Committee, Remuneration Committee and Investment Committee to oversee particular aspects of the Company's affairs. Each committee has been delegated with certain functions of the Board.

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely, Messrs. Kan Yuet Loong, Michael (Chairman of the Audit Committee), Ho Hau Chong, Norman and Wu King Cheong.

The Audit Committee is primarily responsible for review of the annual and interim accounts and oversight of the Company's financial reporting system and internal control and risk management of the Company.

For the year ended 31 December 2006, two audit committee meetings were held. During the meetings, the Audit Committee members had reviewed the annual results and its corresponding accounts for the year 2005, the Annual Internal Audit Report for 2005, the Auditors' Engagement Letter, Continuing Connected Transactions, the interim results and its corresponding accounts for the period ended 30 June 2006, the Internal Audit Review of Audit Assignment for 2006, the audit fees for 2006 and the work of the Company's internal audit department and assessed the effectiveness of the Company's systems of risk management and internal control. The Audit Committee also oversaw internal control and risk management of the Group and discussed with the external auditors on financial reporting and compliance. The external auditors were invited to attend the meetings of Audit Committee to present their reports and reviews.



Corporate Governance Report (Continued)

Remuneration Committee

The Remuneration Committee consists of two executive directors namely Messrs. Lam Ko Yin, Colin and Li Ning and three independent non-executive directors, namely, Messrs. Kan Yuet Loong, Michael (Chairman of the Remuneration Committee), Ho Hau Chong, Norman and Wu King Cheong.

The Remuneration Committee is responsible for reviewing the policy and structure for the remuneration of all directors and senior management of the Company and establishment of a formal procedure for developing policy on such remuneration. The remuneration of the directors and senior management is determined by reference to the skill, knowledge and the tasks assigned and also to the individual performance and the overall profitability of the Company as a whole. In determining the remuneration package, the Committee will also obtain relevant information from external source and consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, etc.

For the year ended 31 December 2006, one remuneration committee meeting was held. During the meeting, the Remuneration Committee members reviewed and determined the remuneration package of the senior management and made recommendations on the fees of all the directors of the Company for the financial year ended 31 December 2006.

The terms of reference of the Audit Committee and Remuneration Committee are available on the Company's website at www.hkf.com.

AUDITORS' REMUNERATION

Apart from carrying out the annual audit, KPMG, being the auditors of the Company carried out the review on the interim reports of the Company. The fee of the annual audit is HK\$1,055,000 whereas the fee for the interim review is HK\$214,000. Engagement agreement with KPMG had been reviewed by the Audit Committee and approved by the Board. Save the interim review, KPMG did not provide any substantial non-audit services to the Company.

FINANCIAL REPORTING

The Directors are responsible for the causing the preparation of the accounts for the financial period which give a true and fair view of the financial results of the Company in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the accounts of the Company is set out in the Auditors' Report on pages 34 to 35.

Corporate Governance Report (Continued)

INTERNAL CONTROLS

The Company maintains a comprehensive and effective internal control system on income and capital and revenue expenditures. As part of internal audit, the Company has its own internal audit department and maintained a system of internal control, with manuals guiding internal controls on business operation. The Company will review the internal control manuals from time to time to meet with the changing business operation environment.

For the year ended 31 December 2006, the internal audit department has conducted a review of the effectiveness of the system of internal control on the areas of financial, operational and compliance controls and risk management functions.

A risk management committee was set up in March 2006 where the senior management and the Internal Audit Manager reviewed the relevant risks of the operational units and the control strategies of the Company. Internal audit reports incorporating significant risk management and control strategies were submitted to the Audit Committee meetings for review.

The Internal Audit Manager, who is independent to the Company's daily operations, reports directly to the Audit Committee and Group General Manager and regularly conducts audits of the practices, procedures, expenditures and internal control for business operations and corporate functions of the Company.

DIRECTORS' ATTENDANCE AT BOARD, AUDIT AND REMUNERATION COMMITTEES' MEETINGS

Details of the individual attendance of each director at meetings of the Board, the Audit Committee and the Remuneration Committee during the year are set out in the following table :

	No. of meetings attended/ No. of meetings held		
	Board	Audit Committee	Remuneration Committee
Executive directors			
Mr. Lam Ko Yin, Colin	4/4	N/A	1/1
Mr. Li Ning	3/4	N/A	1/1
Non-executive directors			
Mr. Au Siu Kee, Alexander	3/4	N/A	N/A
Mr. Lau Yum Chuen, Eddie	4/4	N/A	N/A
Dr. Lee Shau Kee	2/4	N/A	N/A
Mr. Leung Hay Man	4/4	N/A	N/A
Mr. Wong Man Kong, Peter	4/4	N/A	N/A
Independent non-executive directors			
Mr. Ho Hau Chong, Norman	3/4	1/2	1/1
Mr. Kan Yuet Loong, Michael	4/4	2/2	1/1
Mr. Wu King Cheong	4/4	2/2	1/1



Corporate Governance Report (Continued)

NOMINATION OF DIRECTORS

The Company does not have a nomination committee, and the power to nominate or appoint additional directors is vested in the Board in accordance with the Company's Articles of Association, in addition to the power of the shareholders to nominate any person to become a director of the Company in accordance with the Company's Articles of Association and the laws of Hong Kong.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically follows Article 94 of the Articles of Association which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The Board will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The Board shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

During the year, there is no change in the composition of the Board.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has received confirmation of independence from each of Messrs. Kan Yuet Loong, Michael, Ho Hau Chong, Norman and Wu King Cheong pursuant to Rule 3.13 of the Listing Rules.

The Board is of the view that during the year, the Company had maintained a sufficient number of independent non-executive directors and had an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise.

The Board notes that Mr. Ho Hau Chong, Norman is an executive director of Miramar Hotel and Investment Company, Limited ("Miramar") and a director of Wealth Team Development Limited ("Wealth Team"), which is an indirect subsidiary of Henderson Land. Mr. Ho also has an indirect beneficial interests of 9.9% in all issued share capital of Wealth Team, but is not involved in the management and operation of Wealth Team. Miramar, Wealth Team and Henderson Land are connected persons of the Company under the Listing Rules. Save aforesaid, Mr. Ho has complied with other conditions set out in Rule 3.13 of the Listing Rules.

In view of the fact that Mr. Ho does not have any material interests in any principal business activity of and is not involved in any material business dealings with the Company, or any of its subsidiaries or with any connected persons of the Company, and that both the management and the operations of the Miramar group and the Group are totally independent from each other, the Board in good faith considers that the independence of Mr. Ho as an independent non-executive director of the Company is not in any way affected by his directorships in both Miramar and Wealth Team.

Corporate Governance Report (Continued)

In conclusion, the Board considers Messrs. Kan Yuet Loong, Michael, Ho Hau Chong, Norman and Wu King Cheong as independent.

DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry, the Board confirms that all directors of the Company have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2006.

The Company has also adopted the written guidelines on no less exacting terms than the Model Code for those relevant employees, (including employees of the Company or directors or employees of its subsidiaries who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities) in respect of their dealings in the securities of the Company in compliance with the code provision A.5.4 of the CG Code.