

## CORPORATE GOVERNANCE

The company is committed to fulfilling its responsibilities to shareholders by ensuring that the proper processes for oversight and management of its businesses are in place, in operation and are regularly reviewed.

During the year, the company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, save that the non-executive directors were not appointed for a specific term but are subject to retirement by rotation. In November 2004, The Stock Exchange of Hong Kong issued a new Code on Corporate Governance Practices (the “New Code”), which comes into effect for the reporting year commencing after 1 January, 2005. The company has considered the provisions of the New Code and has taken steps to comply with the New Code where appropriate.

In March 2005, the company adopted its own Code on Corporate Governance Practices. The Board will continue to review its practices in the light of the New Code and will publish a full report on compliance in the 2005 annual report.

The company is controlled through the Board of Directors, which now comprises three executive directors, seven non-executive directors, and four independent non-executive directors whose biographical details are set out on pages 42 and 43 and are also posted on the company’s website at [www.hshgroup.com](http://www.hshgroup.com).

The Board has delegated certain authorities to the Executive, Audit, Finance and Remuneration Committees. The day-to-day management of the company’s business has been delegated to the Chief Executive Officer who exercises his authority in consultation with the Group Management Committee.

The Board meets regularly, at least five times a year, to review business development and overall strategic policies. Its members have full access to relevant information both at the meetings and at regular intervals as material information becomes necessary to the exercise of their powers. Within the Board’s purview are matters such as financial statements, dividend policy, major financings, material investments in new projects and existing assets, risk management strategy, acquisitions, treasury policy and changes in accounting policy.

Attendance at Board Meetings	No. of Meetings Attended	
	2004 (5 meetings in total)	2003 (6 meetings in total)
<b>Members of the Executive Committee</b>		
Dr The Hon. Michael D Kadoorie (Chairman)	3	3
Mr Ian D Boyce (Deputy Chairman)	5	5
Mr Clement K M Kwok (Chief Executive Officer)	5	6
Mr James S Dickson Leach	3	5
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<b>Non-executive directors</b>		
Sir Sidney Gordon	4	5
Mr Ronald J McAulay	4	1
Mr William E Mocatta	5	5
Mr Pierre R Boppe	3	5

Attendance at Board Meetings	No. of Meetings Attended	
	2004 (5 meetings in total)	2003 (6 meetings in total)
<b>Independent non-executive directors</b>		
Dr The Hon. David K P Li	5	2
Mr Robert C S Ng	4	2
Mr Robert W Miller	4	3
Mr Patrick B Paul (appointed 02/04)	3 (of 4)	-
<b>Executive directors</b>		
Mr O Mark L Rhys (retired 12/03)	-	6
Mr C Mark Broadley (appointed 11/03)	5	1 (of 1)
Mr Peter C Borer (appointed 04/04)	4 (of 4)	-

In accordance with the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules, the positions of chairman and chief executive officer are segregated and the latter's only relationship with the company and its shareholders, is as an employee of the company. It is the responsibility of the chairman to provide leadership for the Board and to ensure that it works effectively and discharges its responsibilities. It is the responsibility of the chief executive officer to effect the policies agreed by the Board, to advise the Board of any material issues which might impact the company, and to conduct the day-to-day running of the company.

Included in the composition of the Board are two family members of the majority shareholder: the chairman, Dr The Hon. Michael D Kadoorie and his brother-in-law, Mr Ronald J McAulay. Several Board members are also directors of other businesses with which the majority shareholder is connected. They are: Mr Ian D Boyce, Sir Sidney Gordon, Mr William E Mocatta and Mr James S Dickson Leach.

Non-executive directors are not appointed for a fixed term, but are subject to retirement by rotation and may offer themselves for re-election. Details of directors who will offer themselves for re-election at the 2005 Annual General Meeting are set out in the Directors' Report on page 76.

As part of good corporate governance practice, a number of committees have been established. These committees include representation from non-executive and independent non-executive directors whose objective views are important in the execution of the controls expected in a publicly listed company. Each committee operates within defined terms of reference; these terms of reference are posted on the company's website at [www.hshgroup.com](http://www.hshgroup.com).

**Executive committee**

The Executive Committee meets formally twice per month and twice per month on an informal basis. The committee is responsible for recommending general policy and direction for the company to the Board and as such, it interacts with the Audit, Finance and Remuneration Committees in respect of their policy submissions.

The company does not have a separate nomination committee; the nomination and appointment of new directors is a function of the Executive Committee. The Executive Committee reviews on a regular basis the need to appoint directors with specific business acumen in appropriate sectors that would further enhance the present skill set, or add expertise in a developing business sector. The company already exceeds the minimum required number of independent non-executive directors on the Board, and welcomes the contribution that they make at Board and other committee levels in the exercise of their experience, knowledge and judgement on behalf of the company and the shareholders. Nominations of suitable candidates are invited from all directors, and nominees are considered by the Executive Committee and then by the Board. In February 2004, Mr Patrick B Paul was appointed as an independent non-executive director, and in April 2004, Mr Peter C Borer was appointed as an executive director of the company.

**Audit committee**

The Audit Committee meets at least twice per year to review the accuracy, fairness and completeness of the company's financial statements. The committee's work in examining the scope of internal and external reviews provides a platform for recommending reforms or fine-tuning existing guidelines and for highlighting issues on which the Board may be required to act. In addition, the committee monitors the systems of internal control and assesses their effectiveness in establishing the group's overall financial position and protection of its assets.

During 2004, the Audit Committee reviewed the 2003 annual report and accounts and the 2004 interim report and accounts; had oversight of the financial reporting and audit processes; reviewed the group's financial controls, internal control and risk management systems and agreed the scope of internal audit for 2004; discussed internal audit reports; conducted discussions with the external auditors on financial reporting, compliance, and policies for maintaining independence; and reported all relevant matters to the Board.

The Audit Committee may elect to ask its external auditors to attend its meetings.

During the year, the chairman of the Audit Committee has met with the external auditors with no executive directors present.

Attendance at Audit Committee Meetings	No. of Meetings Attended	
	2004 (4 meetings in total)	2003 (2 meetings in total)
Mr Patrick B Paul (committee chairman)	3 (of 3)	-
Mr Ian D Boyce	4	2
Mr Robert C S Ng	3	1
Mr William E Mocatta	1 (of 1)	1
Mr Clement K M Kwok	1 (of 1)	2
Mr James S Dickson Leach	1 (of 1)	2

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As of 26 February 2004, the composition of the Audit Committee was changed to include only non-executive directors of which the majority are independent; the Audit Committee members are Mr Patrick B Paul, committee chairman, Mr Ian D Boyce, and Mr Robert C S Ng.

#### **Finance committee**

The Finance Committee meets weekly throughout the year to review all aspects of the company's finances, including such items as debt levels, gearing and foreign exchange controls. It exercises the delegated authority granted to it by the Board and reports to the Executive Committee and to the Board as necessary. Members of the Finance Committee are: Mr Ian D Boyce, committee chairman, Mr Clement K M Kwok, Mr James S Dickson Leach and Mr C Mark Broadley.

#### **Remuneration committee**

The Remuneration Committee meets regularly to review human resource issues, including group-wide remuneration policies, and to review the competitive terms and conditions of employment of the chief executive officer and the executive directors.

The committee obtains benchmark reports from internal and external sources for evaluation of market trends and the competitive levels of remuneration being offered to executive directors and staff. The committee weighs compensation, performance-related bonuses and retirement provisions against industry norms and sets parameters on what is fair for the company to support, and competitive within the appropriate markets in which it operates.

During 2004, the Remuneration Committee set the remuneration of Mr Peter C Borer on his appointment as an executive director of the company.

Fees and benefits for non-executive directors are evaluated given the pool of qualified candidates, the demand for their services, their potential contribution to the development and oversight of the company, and market practice.

No director plays a part in any discussions about his own remuneration.

A review of non-executive directors' fees was conducted in February 2004 by KPMG, as the level of fees for non-executive directors had remained constant since 1990. Recommendations were made for a new level of fees to be applied, commensurate with the market and with the duties, responsibilities and accountability required of the directors. The recommendations were tabled and approved by the shareholders at the company's annual general meeting in May 2004.

Attendance at Remuneration Committee Meetings	No. of Meetings Attended	
	2004 (3 meetings in total)	2003 (2 meetings in total)
Mr Ian D Boyce (committee chairman)	3	2
Mr Robert W Miller	3	-
Mr Patrick B Paul	2	-
Mr Clement K M Kwok	-	2
Sir Sidney Gordon	-	2
Mr William E Mocatta	-	2
Mr C Mark Broadley	-	1 (of 1)
Mr O Mark Rhys	-	1

As of 26 February 2004, the composition of the Remuneration Committee was changed to include only non-executive directors of which the majority are independent; the members of the Remuneration Committee are Mr Ian D Boyce, committee chairman, Mr Robert W Miller, and Mr Patrick B Paul.

#### Internal controls

The company has developed and implemented a Company Management Authority Manual that designates the approvals process by which funds and/or expenses are approved; the executives to whom application should be made for approval and sign-off; and the limits of funding which individuals are authorised to approve before countersignature of a supervisor or committee must be sought. This check-and-balance process provides effective expenditure controls.

The Company Management Authority Manual is also subject to amendment as the changing nature of the company's business demands; an evaluation process began in 2004, and recommendations for further enhancement of the guidelines and processes will be introduced in 2005.

#### Internal audit and risk management

The company's internal audit and risk management department was expanded in 2004 from the existing internal audit department and has, during the year, conducted a high-level risk identification and evaluation exercise for the group. An audit cycle was established for each risk area and incorporated into a three-year audit plan approved by the Audit Committee. Among the audits carried out during 2004 were the Head Office payroll system, the Tokyo Development Project processes, an analysis of new competitors in the Hong Kong hotels market, and financial, procurement and control reviews of several operations in Hong Kong and the region. Results were submitted in reports to the Audit Committee. In the opinion of the Audit Committee, nothing arose in the reports of a material nature requiring that it be brought to the attention of shareholders.

#### Dealing in securities

Details of the directors' dealings in securities are included in the Directors' Report on page 80.

#### External auditors

It is important to the group that the independence of its external auditors is not compromised. Contracts for substantial non-audit work to be awarded to the external auditors must, therefore, be pre-approved by the Audit Committee and the scope of work determined to provide only efficiencies of scale and added value, with no adverse effect on actual or perceived independence of the audit work itself. During the year, the company's auditors, KPMG, provided audit services to the value of HK\$5 million. KPMG also provided taxation services and other advisory services to the value of HK\$1 million.

#### Code of conduct

The company has a Code of Conduct, to which employees are signatories, governing the standards of behaviour expected in dealing with colleagues, customers, suppliers, contractors, consultants and professional firms. In addition to the values to which the company expects its staff to adhere in their daily business practices, the Code sets out the process for resolution of internal ethical problems that may arise within the workplace. The Code is reviewed regularly and benchmarked against emerging mores and standards as the work environment becomes more sophisticated, and as technological advances create new behavioural dynamics.

#### Investor relations

The company is keen to promote two-way communications both with its institutional and its private investors. The annual general meeting is the principal occasion at which the chairman and directors may interface directly with the shareholders. All shareholders have at least 21 days' formal notice of the annual general meeting and the key dates in the corporate results and meetings calendar are also posted on the company's website well in advance of each event. All directors are usually present at the annual general meeting to which all shareholders are invited and during which they have the opportunity to raise questions with the Board. During the year, enquiries from shareholders are handled by the executive directors.

At the 2004 Annual General Meeting, shareholders approved the changes to the articles of association of the company. All resolutions tabled at the annual general meeting were voted on by poll; the results of the poll voting were posted on the company website as well as published in the media the following day.

In addition to the shareholders, media are also invited to attend and report on the annual general meeting.

Details of the public float are set out in the Directors' Report on page 80.