

## Corporate Governance Report

The Company is committed to achieving and maintaining the highest standards of corporate governance. The Board considers effective corporate governance as essential to protect shareholders' interests and enhance stakeholder value. Accordingly, the Board attributes a high priority to identifying and implementing appropriate corporate governance practices to ensure transparency, accountability and effective internal controls.

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") from the date of listing of its shares on 15 October 2004 to 31 December 2004 except that the Director holding office as Chairman of the Board of Directors and/or the Director appointed to the position of Managing Director of the Company are not, whilst holding such office, subject to retirement by rotation. The provision of the Company's Articles of Association relating to retirement of the Chairman and the Director appointed to the position of Managing Director of the Company will be amended at the forthcoming Annual General Meeting of the Company. Upon approval being obtained from the shareholders of the Company to the amendment of the Articles of Association, the Company will be fully compliant with all code provisions of the new Code on Corporate Governance Practices of the Listing Rules.

### Board of Directors

The Board is charged with the responsibility for the leadership and control of the Company and for promoting the success of the Company. The Board's role is clearly defined as directing and supervising the affairs of the Company, establishing its strategic direction and setting objectives and business development plans. The management of the Company is responsible for the implementation of the strategies, objectives and plans determined by the Board.

The Chairman of the Company is Mr Canning Fok. The Chief Executive Officer of the Company is Mr Dennis Lui. The role of the Chairman is clearly segregated from that of the Chief Executive Officer.

The Chairman is responsible for managing and providing leadership to the Board. He ensures that the Company establishes sound corporate governance practices and procedures and encourages the Directors to make a full and active contribution to the affairs of the Board. The Chairman is also responsible for approving the agenda for each Board meeting taking into account, where appropriate, any matters proposed by the other Directors for inclusion in the agenda. With support of the Executive Directors and Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive complete and reliable information in a timely manner.

As Chief Executive Officer, Mr Lui is directly responsible for the day-to-day management of the business of the Company and maintaining the operational performance of the Company. With the assistance of the Chief Financial Officer, he ensures that the funding requirements of the business are met and closely monitors the operating and financial results against plans and budgets, taking remedial action when necessary and advising the Board of any significant developments and issues. The Chief Executive Officer also reviews and presents to the Board the annual business plans and budgets of the operations for consideration and approval by the Board.

As at 31 December 2004, the Board comprised nine Directors: the Non-executive Chairman, the Chief Executive Officer, the Chief Financial Officer, one other Executive Director, two other Non-executive Directors and three Independent Non-executive Directors. Each of the Non-executive Directors is appointed for an initial term ending on 31 December 2005, subject to possible re-election.

The Board meets regularly and no less than four times a year. Between meetings, the senior management of the Company provides the Directors with information on a timely basis regarding the activities and developments in the businesses of the Group. In addition, the Non-executive Directors (including the Independent Non-executive Directors) meet with the Chairman at least once a year without the Executive Directors present.

The Board held four meetings in 2004 and has held one meeting in 2005 to date. The Board has an average attendance rate of 97.78%.

Individual attendance of each Director, on a named basis is set out below.

	<b>Director</b>	<b>Total number of meetings attended</b>
<i>Chairman</i>	Fok Kin-ning, Canning <sup>(1)</sup>	5/5
<i>Chief Executive Officer and Executive Director</i>	Dennis Pok Man Lui <sup>(1)</sup>	5/5
<i>Chief Financial Officer and Executive Director</i>	Tim Lincoln Pennington <sup>(1)</sup>	5/5
<i>Executive Director</i>	Chan Ting Yu <sup>(1)</sup>	5/5
<i>Non-executive Director</i>	Chow Woo Mo Fong, Susan <sup>(1)</sup>	5/5
<i>Non-executive Director</i>	Frank John Sixt <sup>(1)</sup>	4/5
<i>Independent Non-executive Director</i>	Kwan Kai Cheong <sup>(2)</sup>	5/5
<i>Independent Non-executive Director</i>	John W Stanton <sup>(2)</sup>	5/5
<i>Independent Non-executive Director</i>	Kevin Westley <sup>(2)</sup>	5/5

Notes: (1) appointed on 25 March 2004  
(2) appointed on 23 August 2004

## **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 80 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 in preparing the financial statements the Group uses appropriate accounting policies that are consistently applied, 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 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.

## Directors' Securities Transactions

In September 2004, the Board adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules as the Company's code of conduct regarding Directors' securities transactions. This was further supplemented by the adoption, in December 2004, of the Securities Trading Policy, which applies to all personnel of the Company and the Company's subsidiaries. This policy applies to all transactions in the Company's securities, including options for any securities the Company may issue from time to time, such as common or preferred shares, warrants and convertible debentures, as well as derivative securities relating to the Company's shares, whether or not issued by the Company, such as exchange-traded options.

All Directors confirmed that they have complied with the Model Code and the Securities Trading Policy in their securities transactions throughout the year.

## Nomination

The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Company's business. It applied these criteria to identify the three Independent Non-executive Directors resulting in their appointments in August 2004, prior to the Company's initial public offering in October 2004. Together, Messrs Kwan Kai Cheong, John W Stanton and Kevin Westley contribute accounting and related financial management expertise, in-depth knowledge of the telecommunications industry and extensive public company board experience.

## Remuneration Committee

The Company has a Remuneration Committee which comprises three members with experience in human resources and personnel emoluments. The Committee is chaired by the Chairman, Mr Canning Fok. The other two members are Messrs Kwan Kai Cheong and Kevin Westley, both Independent Non-executive Directors.

The Remuneration Committee is charged with the responsibility of assisting the Board in achieving its objective of attracting, retaining and motivating people of the highest calibre and experience needed to develop and implement the Group's strategy taking into consideration its substantial international operations. The Committee is also responsible for the development and administration of a fair and transparent procedure for setting policies on the remuneration of Directors and senior management of the Company and for determining their remuneration packages. The terms of reference of the Remuneration Committee are available on the Company's website.

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

The Remuneration Committee meets towards the end of the year to review and consider the remuneration packages of Directors and senior management of the Company and at other times as and when required to consider remuneration-related matters.

Prior to the establishment of the Remuneration Committee in 2005, for 2004 the remuneration of Directors and senior management was determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other companies in the telecommunications industry and the prevailing market conditions. Directors and employees also participate in bonus arrangements determined in accordance with the performance of the Group and the performance of the individual.

The Directors' fees for year 2004 were HK\$2,044,998. The emoluments of the Directors of the Company paid in connection with the management of the affairs of the Group, excluding amounts received from the Company's listed subsidiary companies and paid to the Company, are as follows:

Name	Fees	Basic Salaries, Allowances and Benefits-in-kind	Bonus	Provident Fund Contributions	Inducement or Compensation Fees	Total Emoluments
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
Fok Kin-ning, Canning	0.28	–	–	–	–	0.28
Chow Woo Mo Fong, Susan	0.28	–	–	–	–	0.28
Frank John Sixt	0.27	–	–	–	–	0.27
	0.83	–	–	–	–	0.83
Dennis Pok Man Lui <sup>(1) (2)</sup>	0.21	3.63	8.60	0.26	–	12.70
Tim Lincoln Pennington	0.21	2.52	1.38	0.40	–	4.51
Chan Ting Yu <sup>(2)</sup>	0.21	2.95	2.04	0.19	–	5.39
	0.63	9.10	12.02	0.85	–	22.60
Kwan Kai Cheong	0.19	–	–	–	–	0.19
John W Stanton	0.19	–	–	–	–	0.19
Kevin Westley	0.19	–	–	–	–	0.19
	0.57	–	–	–	–	0.57

Notes: (1) Directors' fee received by this Director from the Company's listed subsidiary company has been paid to the Company and is not included in the amount above.

(2) For these Directors, the emoluments paid were in connection with the management of the affairs of the Group since 1 January 2004.

## Company Secretary

The Company Secretary is responsible for ensuring that Board procedures are correctly followed and that the Board functions smoothly by assisting the Chairman in setting meeting agendas and preparing and disseminating Board papers and minutes to the Directors and Board Committee members in a timely and comprehensive manner.

The Company Secretary also monitors all legislative, regulatory and corporate governance developments that may affect the Company and ensures that the Board is fully briefed on such developments. Further, the Company Secretary is directly responsible for timely compliance by the Company with all continuing obligations applicable to a Company whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited and whose ADSs are quoted on New York Stock Exchange, Inc.

## **Audit Committee**

The Company's Audit Committee comprises the three Independent Non-executive Directors, and is chaired by Mr Kevin Westley. All committee members possess appropriate business and financial experience. However, the Audit Committee is authorised to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary.

The Audit Committee was established on 15 October 2004 and subsequently held one meeting before the year end and has held two meetings in 2005 to date. All Audit Committee members attended all of the meetings.

The Board is responsible for having the accounts of the Company prepared. The Audit Committee is responsible for monitoring the integrity of financial statements of the Company. In addition to the review of financial information of the Company, the terms of reference of the Audit Committee provide that the Committee's other primary duties are monitoring the relationship with the Company's external auditors and oversight of the Company's financial reporting system, internal control and risk management procedures. A copy of the Audit Committee's terms of reference can be found on the Company's website.

In 2004, the Audit Committee considered reports from the Chief Financial Officer and external auditors in respect of a number of matters including the Company's reporting, budgeting and forecasting procedures, audit strategy, quarterly key performance indicators and scope and progress of the Sarbanes-Oxley Act compliance project. With respect to the results of the Company for the year ended 31 December 2004, the Audit Committee reviewed with senior management and the auditors of the Company their respective audit findings, the accounting principles and practices adopted by the Group and internal control, risk management and financial reporting matters. This review by the Committee included an appraisal of the integrity of financial statements of the Company and the annual report and accounts of the Company.

Further, the Audit Committee has been apprised of and reviewed the work plan and results of the internal audit team's assessment and monitoring of the Group's internal control systems.

## **Auditors' Remuneration**

The amount of fees charged by the Company's auditors in respect of their audit and non-audit services are disclosed in Note 9 to the accounts of the Company. The Audit Committee is responsible for approving the remuneration and terms of engagement of the external auditors and for making recommendations to the Board regarding any non-audit services to be provided to the Company by the external auditors.

In the year ended 31 December 2004, the fees paid to the Company's auditors were primarily for audit services as there were no significant non-audit service assignments undertaken by them.

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

### **Introduction**

The Board has overall responsibility for establishing and maintaining the Group's internal control systems. The Board has ensured that the Group has in place appropriate internal control and approval procedures. Together with the internal audit team, external auditors and senior management of the Group, the Audit committee reviews and monitors such internal control and approval procedures with a view to ensuring their effectiveness. The Company also maintains a system of disclosure controls and procedures to ensure that information required to be disclosed by the Company is recorded, processed, summarised and reported within the required time periods and accumulated and communicated to the Company's management to allow timely decisions regarding disclosure.

The various controls and procedures in place are described below.

### Internal Control Environment

The Board has overall responsibility for monitoring the Group's operations. Executive Directors are appointed to the boards of all material operating subsidiaries and associates and executive management works closely with the senior management of the Group's operations, monitoring their performance to ensure that strategic objectives and business performance targets are being met.

As part of the Group's five year corporate planning cycle, senior management of each of the operations within the Group prepares a business plan and budget annually which is subject to review and approval by the Executive Directors. When setting budgets and forecasts, senior management identifies, evaluates and reports on the likelihood and potential financial impact of any significant business risks. Budgets are prepared on an annual basis and forecasts are prepared on a quarterly basis and reviewed for differences to the budget.

Financial management accounts are submitted to executive management by each operation on a monthly basis and a finance and operations review conducted with each of the operations. Such review includes business performance against budgets, forecasts, significant business risk sensitivities and strategies and any material accounting and finance related matters.

The Chief Financial Officer has established guidelines and procedures for the approval and control of expenditures. Both operating and capital expenditures are subject to overall budget control. Operating expenditure is further controlled by approval levels for such expenditures being set by reference to the level of responsibility of the relevant executives and officers. Capital expenditures are also subject to specific approval prior to commitment for material expenditures within the approved budget, and also unbudgeted expenditures. Quarterly reports are reviewed of actual versus budgeted and approved expenditures.

The Group's internal audit function provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations. Using risk assessment methodology and taking into account the dynamics of the Group's activities, internal audit derives its yearly audit plan. The plan is reassessed during the year as needed to ensure that adequate resources are deployed and the plan's objectives are met and internal audit also follows up on all findings to ensure that identified issues are satisfactorily resolved. Internal audit is responsible for assessing the Group's internal control system, formulating an impartial opinion on the system, and to report its findings to the Audit Committee, the Chief Executive Officer, the Chief Financial Officer and relevant senior management. 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 scopes of work.

### Review 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.

Whilst the various procedures described above are designed to identify and manage risks that could potentially adversely affect the Group's ability to meet its business objectives and to properly record and report financial information, they do not provide absolute assurance against material misstatement or loss.

## **U.S. Sarbanes-Oxley Act of 2002**

In addition, as the Company is listed on the New York Stock Exchange, Inc., it is subject to the provisions of the U.S. Sarbanes-Oxley Act of 2002 (the "Act"). Under the Act, the Company will be required to report by 31 December 2006 on our internal controls over financial reporting to a standard that satisfies the requirements under Section 404 of the Act. This requires that the Company has a process that provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable generally accepted accounting principles ("GAAP") and have policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Group, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable GAAP, and that receipts and expenditures of the Group are being made only in accordance with authorisations of management and Directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the Group's assets that could have a material effect on the Company's financial statements. In order to be compliant with the internal control requirements under the Act, the Board has directed that a thorough and extensive review of the Group's system of internal controls be undertaken to identify and resolve what the Act refers to as "significant deficiencies" and "material weaknesses" in the design or operation of the Company's internal controls over financial reporting that could reasonably be likely to adversely affect the Company's ability to record, process, summarise and report financial information. Such a review commenced in October 2004 and covers all material controls, including financial, operational and compliance controls and risk management functions.

## **Investor Relations**

The Company is committed to fostering and maintaining good investor relations and communications through the participation of senior management in regular meetings with and presentations to institutional shareholders and analysts, investor conference calls and roadshows. Presentations and media briefings are also made when the financial results are announced.

The Board provides full, transparent and timely information to shareholders and investors regarding important events and developments of the business in its announcements and media releases and briefings and through the publication of quarterly key performance indicators, interim and annual reports providing detailed information on the financial performance of the Group. Shareholders and investors can also subscribe to receive information through email alerts and to post specific questions to our investor relations contacts via the Company's website.

By order of the Board

**Edith SHIH**

*Company Secretary*

Hong Kong, 7 March 2005