

Corporate Governance

Code of Best Practice and Code on Corporate Governance Practices

In November 2004, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") introduced the Code on Corporate Governance Practices (the "Code") to replace the Code of Best Practice in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") and the rules on the Corporate Governance Report are inserted as a new Appendix 23 of the Listing Rules.

The Code, with one exception, has become effective for accounting periods commencing on or after 1 January 2005. The exception is in respect of internal controls and the proposed disclosure requirements in the Corporate Governance Report relating to the listed issuers' internal controls, which will be implemented for accounting periods commencing on or after 1 July 2005.

Articles of Association

The Companies (Amendment) Ordinance 2003 came into operation on 13 February 2004. The Stock Exchange has announced certain amendments to the Listing Rules which came into effect on 31 March 2004. In order to comply with the aforesaid requirements, the shareholders have approved the amendments to the Company's Articles and Association at the annual general meeting held on 7 December 2004.

Board of Directors

The Board of Directors (the "Board") of the Company oversees the management, businesses, strategic directions and financial performance of the Group.

The Board currently comprises a total of fourteen Directors, with five Executive Directors, five Non-executive Directors and four Independent Non-executive Directors. The biographies of the Directors are set out on pages 64 to 68 of this annual report. The Company has received annual confirmation of independence from all the Independent Non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board is of the view that all the Independent Non-executive Directors are independent in accordance with the Listing Rules.

The Board has appointed a Chairman who ensures that the Board works effectively and that all important issues are discussed in a timely manner. The positions of the Chairman and the Management Director are held by separate individuals as to maintain an effective segregation of duties. The full Board meets at least twice a year while additional meetings can be held to discuss important issues. All the Directors are supplied with board papers and relevant materials within a reasonable period of time in advance of the intended meeting date. All Directors have unrestricted access to the management for enquiries and to obtain information when required. The Directors are covered by appropriate insurance on directors' liabilities from their risk exposure arising from the management of the Group.

The Board has set up three committees, namely, the Executive Committee, the Audit Committee and the Remuneration Committee.

The Executive Committee, consists of five Executive Directors of the Board, meets frequently as when necessary and is responsible for the management and day-to-day operations of the Group. Members of the Executive Committee are Dato. Dr. Cheng Yu-Tung, Dr. Cheng Kar-Shun, Henry, Dr. Sin Wai-Kin, David, Mr. Liang Chong-Hou, David and Mr. Leung Chi-Kin, Stewart.

The Audit Committee, established in fiscal year 1999 with specific written terms of reference, consists of three Independent Non-executive Directors of the Board, is responsible for the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee reports its findings and makes recommendations to the Board. The Audit Committee held two meetings in fiscal year 2005. Members of the Audit Committee are Dr. Cha Mou-Sing, Payson (Chairman), Mr. Yeung Ping-Leung, Howard and Mr. Lee Luen-Wai, John.

In accordance with the Code, the Company established the Remuneration Committee on 22 September 2005 with specific written terms of reference, consists of four Directors. 75% of the members of the Remuneration Committee are Independent Non-executive Directors. The Remuneration Committee is responsible for making recommendations with respect to the remuneration of the Executive Directors of the Company and on the establishment of a formal and transparent procedure for developing remuneration policy for approval by the Board. Members of the Remuneration Committee are Mr. Leung Chi-Kin, Stewart (Chairman), Dr. Cha Mou-Sing, Payson, Mr. Yeung Ping-Leung, Howard and Mr. Lee Luen-Wai, John.

The remuneration for the Executive Directors comprises basic salary, pensions and discretionary bonus. In addition to the above, certain directors have been granted options under share option schemes of various listed subsidiaries to enable the directors to subscribe for shares in those subsidiaries. Details of the amount of emoluments of directors paid during the financial year ended 30 June 2005 are set out in note 12 to the accounts.



Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions. All the Directors have complied with the standard set out in the Model Code for the year ended 30 June 2005.

Financial Reporting

The Board, supported by the accounts department, is responsible for the preparation of the financial statements of the Company and the Group. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been used and applied consistently.

The reporting responsibilities of the external auditors are set out in the Auditors' Report on pages 99 and 100 of this annual report.

Internal Control

The Board is responsible for internal control of the Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance of applicable laws, rules and regulations. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud.

An internal audit department has been established to conduct audits of the Company and its subsidiaries, associated companies and jointly controlled entities. The internal audit department performs risk-based audits to review the effectiveness of the Group's material internal controls so as to provide assurance that key business and operational risks are identified and managed. The work carried out by the internal audit department will ensure the internal controls are carried out appropriately and functioning as intended. The internal audit department reports to the Board with its findings and makes recommendations to improve the internal control of the Group. The department also sends their reports to the Audit Committee for review and discussion.



Auditors' Remuneration

The Group was charged HK\$37.4 million for auditing services and HK\$9.5 million for non-auditing services in respect of the year ended 30 June 2005 by the auditors of the Group.

Communication with Shareholders

The Board and senior management maintain a continuing dialogue with the Company's shareholders and investors through various channels including the Company's annual general meeting. The Chairman, Management Director, other members of the Board and external auditors attend the annual general meeting. The Directors will answer questions raised by the shareholders on the performance of the Group. The Company holds press and analysts conferences at least twice a year following the release of interim and full year results announcements at which the Executive Directors and senior management of the Group are available to answer questions regarding the performance of the Group. The Group has participated in a number of roadshows and meetings with investors and organised a number of site visits during the fiscal year 2005. Our corporate website which contains corporate information, interim and annual reports, announcements and circulars issued by the Group as well as the recent developments of the Group enable the Company's shareholders to have a timely and updated information of the Group.