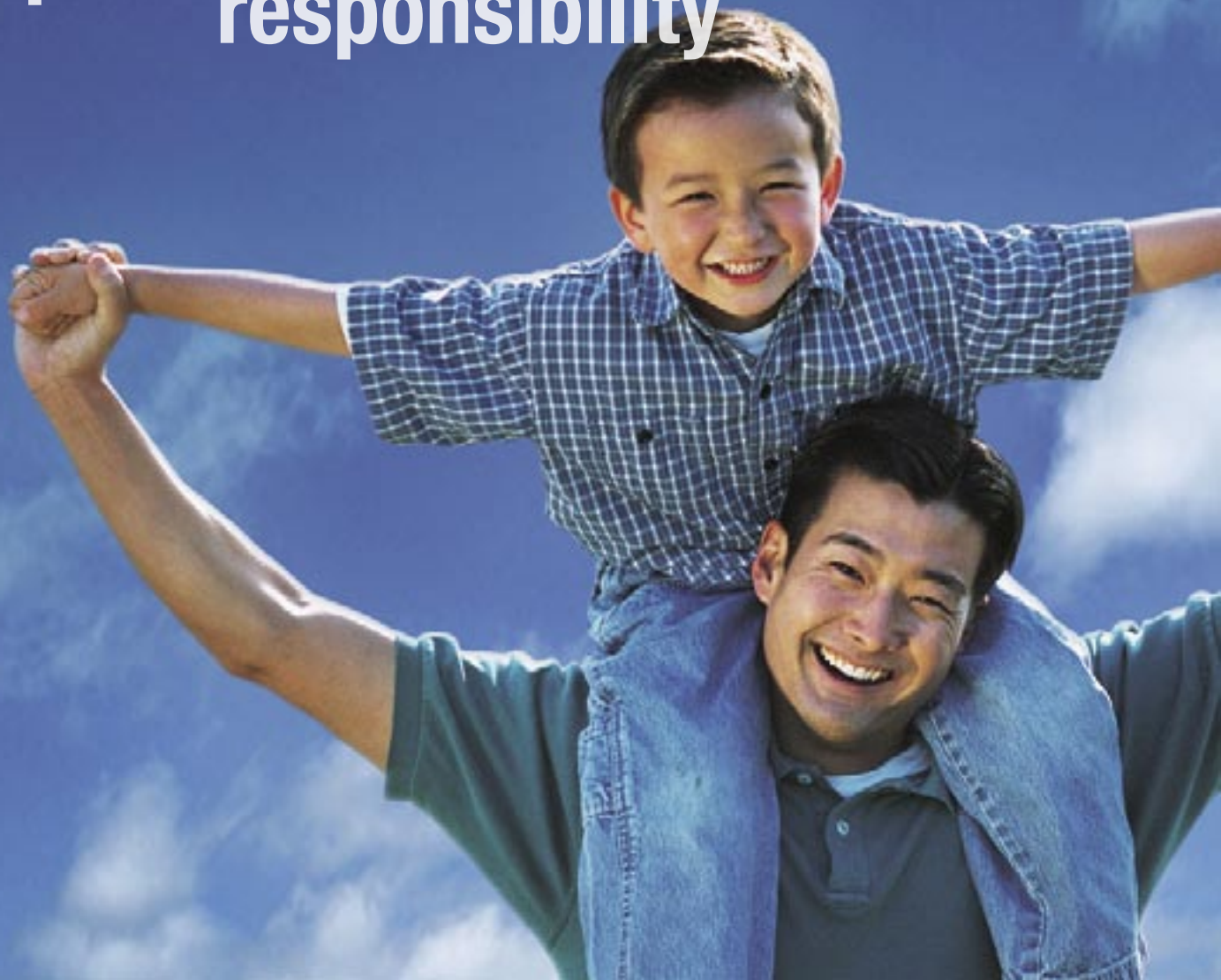




corporate  
responsibility



# corporate governance report

## Corporate Governance Practices

The Company is committed to sound corporate governance practices. The Company recognises that corporate governance practices are fundamental to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholder value.

The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices ("Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31st December 2005 except as mentioned under "Non-executive Directors' Term of Office" below.

## Directors' Securities Transactions

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") set out in Appendix 10 of the Listing Rules as its own code. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the year ended 31st December 2005.

## Board of Directors

As at 31st December 2005, the Board comprised sixteen Directors as follows:

### Executive Directors

Mr. Canning Fok Kin-ning <sup>(1)</sup> (Chairman)  
 Mr. Tso Kai-sum (Group Managing Director)  
 Mr. Andrew John Hunter <sup>(2)</sup>  
 Mr. Kam Hing-lam <sup>(3)</sup>  
 Mr. Francis Lee Lan-yee  
 Mr. Victor Li Tzar-kuoi <sup>(3)</sup>  
 Mr. Neil Douglas McGee <sup>(4)</sup> (Group Finance Director)  
 Mr. Frank John Sixt  
 Mr. Wan Chi-tin <sup>(5)</sup>

### Non-executive Directors

Mr. Ronald Joseph Arculli  
 Mrs. Susan Chow Woo Mo-fong <sup>(6)</sup>  
 Mr. George Colin Magnus <sup>(7)</sup>  
 Mr. Ewan Yee Lup-yuen

### Independent Non-executive Directors

Mr. Holger Kluge  
 Mr. Ralph Raymond Shea  
 Mr. Wong Chung-hin

#### Notes:

- (1) Appointed as Chairman on 1st November 2005.
- (2) Ceased to be Group Finance Director with effect from 1st February 2006.
- (3) Mr. Kam Hing-lam is an uncle of Mr. Victor Li Tzar-kuoi.
- (4) Appointed as an Executive Director on 12th December 2005 and assumed position of Group Finance Director with effect from 1st February 2006.
- (5) Appointed as an Executive Director on 12th December 2005.
- (6) Alternate Director to Mr. Canning Fok Kin-ning.
- (7) Ceased to act as Chairman and re-designated from an Executive Director to a Non-executive Director on 1st November 2005.

# corporate governance report

The Board held four meetings during the 2005 financial year. The record of attendance of each Director is as follows:

	Name of Director	Attended / Eligible to Attend
<b>Executive Directors</b>	Mr. Canning Fok Kin-ning ( <i>Chairman</i> )	4/4
	Mr. Tso Kai-sum ( <i>Group Managing Director</i> )	4/4
	Mr. Andrew John Hunter	4/4
	Mr. Kam Hing-lam	4/4
	Mr. Francis Lee Lan-yee	4/4
	Mr. Victor Li Tzar-kuoi	2/4
	Mr. Neil Douglas McGee	1/1
	Mr. Frank John Sixt	2/4
	Mr. Wan Chi-tin	1/1
<b>Non-executive Directors</b>	Mr. Ronald Joseph Arculli	4/4
	Mrs. Susan Chow Woo Mo-fong	4/4
	Mr. George Colin Magnus	4/4
	Mr. Ewan Yee Lup-yuen	3/4
<b>Independent Non-executive Directors</b>	Mr. Holger Kluge	4/4
	Mr. Ralph Raymond Shea	4/4
	Mr. Wong Chung-hin	4/4

The Board, led by the Chairman, is responsible for the approval and monitoring of Group-wide strategies and policies, approval of annual budgets and business plans, evaluating the performance of the Group, and oversight of management. Management is responsible for the day-to-day operations of the Group under the leadership of the Group Managing Director. The Group Managing Director, working with the executive management team of each operational unit, is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board.

The Executive Committee of the Board, comprising the Chairman, the Group Managing Director and the

Executive Directors, meets formally, once a month, to review and discuss management reports on the performance of the Group, current plans and long term opportunities, and any other issues impacting Group businesses.

## Independent Non-executive Directors

The Company has received confirmation from each of Messrs. Wong Chung-hin and Ralph Raymond Shea, Independent Non-executive Directors of the Company, that they have met all the independence guidelines set out in Rule 3.13 of the Listing Rules and that there are no other factors which may affect their independence.

The Board considers these Independent Non-executive Directors to be independent.

Mr. Holger Kluge, another Independent Non-executive Director of the Company, has made similar confirmation to the Company, save as mentioned below:

- (a) He was previously a Director of Husky Oil Holdings Limited (“HOHL”), a private company in which Hutchison Whampoa Limited (“Hutchison”) has a 49% interest. Hutchison is the holding company of Cheung Kong Infrastructure Holdings Limited, a substantial shareholder of the Company. He resigned from HOHL in June 2004. The Board is satisfied with Mr. Kluge’s independence, as HOHL has been dormant since August 2000.
- (b) In addition, Mr. Kluge was previously a Director of (i) certain trustee companies of discretionary trusts (“DTs”) (including Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Discretionary Trust) in which the discretionary objects include Mr. Victor Li Tzar-kuoi and his spouse and children; (ii) certain trustee companies of unit trusts (“UTs”) (including Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust) in which the DTs hold units; (iii) the holding companies of the above trustee companies (which do not carry on other businesses); and (iv) certain companies wholly owned by the UTs (derived from his directorships in the above trustee companies). Mr. Kluge resigned from his directorships referred to in (i) to (iv) above in September 2004. The Board has considered Mr. Kluge’s past directorships referred to in (i) to (iv) above and is satisfied with his independence having regard to all relevant factors including the fact that

Mr. Kluge has not received any remuneration or derived any other benefit for his roles as such in (i) to (iv); that Mr. Kluge did not control any of such Boards of Directors, and when performing his/their functions as trustees of the DTs and UTs, he/they exercised his/their power to hold interests in the trust assets independently without reference to the holding companies of the above trustee companies or any of Mr. Li Ka-shing, Mr. Victor Li Tzar-kuoi and Mr. Richard Li Tzar-kai as a holder of shares of these holding companies.

### Chairman and Group Managing Director

The position of the Chairman (Mr. Canning Fok Kin-ning) and the Group Managing Director (Mr. Tso Kai-sum) are held by separate individuals.

### Non-executive Directors’ Term of Office

The Non-executive Directors are not appointed for a specific term as provided for under Code A.4.1 of the Code. According to the Company’s Articles of Association, they are required to retire from office by rotation and be subject to re-election once every three years.

### Remuneration Committee

The Remuneration Committee was established on 1st January 2005. It is chaired by the Chairman, Mr. Canning Fok Kin-ning with Mr. Ralph Raymond Shea and Mr. Wong Chung-hin, both Independent Non-executive Directors as members.

The principal responsibilities of the Remuneration Committee include reviewing and considering the Company’s policy for remuneration of Executive



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Directors and senior management, and determining their remuneration packages. Terms of reference of the Remuneration Committee which have been adopted by the Board are available on the Company's website.

The Chairman and the Group Managing Director are assisted by the Group's Human Resources Division in reviewing all relevant remuneration data and market conditions before proposing to the Remuneration Committee for consideration and approval of the remuneration of Executive Directors and senior management. The remuneration of Executive Directors and senior management is determined with reference to the Company's performance and profitability, as well as remuneration benchmarks in the industry and the prevailing market conditions.

The Remuneration Committee held one meeting in 2005 which was attended by all members. During the meeting, the Committee reviewed the policies on the remuneration of the Executive Directors and senior management of the Group and determined their remuneration for the 2006 financial year.

## Nomination of Directors

On 1st November 2005, Mr. George Colin Magnus retired from the office of Chairman and Mr. Canning Fok Kin-ning was appointed Chairman by the Board in his place.

On 12th December 2005, Mr. Neil Douglas McGee and Mr. Wan Chi-tin were appointed as Executive Directors of the Company by the Board. They were nominated by the Group Managing Director, and details of their qualifications and experience had been submitted to the Directors for consideration.

## Auditors' Remuneration

An analysis of KPMG and other external auditor's fees is shown in note 9 to the financial statements.

## Audit Committee

The Audit Committee comprises four members. It is chaired by Mr. Wong Chung-hin (an Independent Non-executive Director) and the other members of the Committee are Mr. Ronald Joseph Arculli (a Non-executive Director), Mr. Holger Kluge (an Independent Non-executive Director) and Mr. Ralph Raymond Shea (an Independent Non-executive Director).

The Audit Committee reports directly to the Board of Directors and its principal responsibilities include the review and supervision of the Group's financial reporting and internal control systems and the review of the Company's financial statements. The Audit Committee also meets regularly with the Company's external auditors to discuss the audit process and accounting issues. Terms of reference of the Audit Committee which have been adopted by the Board are available on the Company's website.

The Audit Committee held three meetings in 2005. The record of attendance of its members is as follows:

Name of Member	Attended / Eligible to Attend
Mr. Wong Chung-hin ( <i>Chairman</i> )	3/3
Mr. Ronald Joseph Arculli	2/3
Mr. Holger Kluge	3/3
Mr. Ralph Raymond Shea	2/3

During the meetings, the Audit Committee reviewed and considered the Group accounts for the year ended 31st December 2004, the audit fee for the 2004 Group accounts, the re-appointment of auditors, the policy on engagement of external auditors to supply non-audit services, internal audit plans for 2005, the accounts for the six months ended 30th June 2005, the external audit plan for 2005 financial statements, the external auditors' independence and objectivity, the Group's risk management framework and report, and all internal audit reports compiled during the year. Representatives from KPMG, the external auditors, were invited to attend two of the above meetings and they discussed various accounting issues with the Committee.

### **Review of Risk Management and Internal Control**

The Audit Committee reviews the process by which the Group evaluates its control environment and its risk assessment process, and the way in which business and control risks are managed. The Audit Committee discusses with the Group's Internal Auditors the work plan for their audits together with their resource requirements and considers the Group Internal Audit Manager's reports to the Committee on the effectiveness of internal controls in the Group business operations.

These reviews and reports are taken into consideration by the Committee when it makes its recommendation to the Board for approval of the consolidated financial statements for the year.

### **Directors' Responsibility for Preparing Accounts**

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

### **Auditors' Reporting Responsibilities**

The reporting responsibilities of KPMG, the Auditors, are stated in the Auditors' Report on page 46 of the Annual Report.

### **Investor Relations and Communication with Shareholders**

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars, the Company's website at [www.heh.com](http://www.heh.com) and meetings with investors and analysts.