

## **CORPORATE GOVERNANCE REPORT**

Maintaining high standards of business ethics and corporate governance practices has always been one of the Company's core objectives. The Company believes that conducting business in an open, responsible manner serves its long-term interests and those of the shareholders.

The Board monitored the Company's progress on corporate governance practices throughout the year under review. Apart from regular meetings, circulars were issued to Directors and Senior Management to ensure awareness of the best corporate governance practices.

The Company adopted its own Code on Corporate Governance on 31 December 2005 which complied with all the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), save that the Chairman is not subject to retirement by rotation at least once every three years (code provision A.4.2). Pursuant to Article 114(D) of the Company's Articles of Association, the Chairman is exempted from retirement by rotation. The Board considers that this departure is well-founded as the Chairman is the founder of the Company, and his wealth of experience is essential to the Board and contributes to the continued stability of the Company's business.

### **COMPLIANCE WITH MODEL CODE**

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules as the code of conduct for Directors and Senior Management in their dealings in the Company's securities.

The Company made specific enquiries of each Director and member of the Senior Management, and each confirmed that he/she had fully complied with the Model Code during the year ended 31 December 2005.

### **BOARD OF DIRECTORS**

The Board is charged with promoting the success of the Company by directing and supervising its affairs in a responsible manner. The Board is the highest governing body of the Company.

The Board has 11 Directors and one Alternate Director. The list of Directors as at 31 December 2005 was as follows:

Sir Run Run Shaw, G.B.M.	Executive Chairman
Dr. Norman Leung Nai Pang, G.B.S., LL.D., J.P.	Executive Deputy Chairman
Mona Fong	Deputy Chairperson
Louis Page	Managing Director
Dr. Chow Yei Ching, G.B.S.	Non-executive Director
Ho Ting Kwan	Non-executive Director
Chien Lee	Independent Non-executive Director
Christina Lee Look Ngan Kwan	Non-executive Director
Dr. Li Dak Sum, DSSc. (Hon.), J.P.	Independent Non-executive Director
Kevin Lo Chung Ping	Non-executive Director
Robert Sze Tsai To	Independent Non-executive Director
Anthony Hsien Pin Lee	Alternate Director to Christina Lee Look Ngan Kwan

Each Director has a duty to act in good faith and in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to all shareholders for the manner in which the affairs of the Company are managed, controlled and operated.

## **CORPORATE GOVERNANCE REPORT** (Continued)

All Directors give sufficient time and attention to the Company's affairs. Duties of the Board include:

- (a) planning the strategic direction of the Company; and
- (b) monitoring the performance of Management.

The Board exercises a number of reserved powers which include:

- (a) approving significant changes in accounting policies, or capital structure;
- (b) approving public announcements and the financial statements;
- (c) approving major acquisitions, disposals and major capital projects;
- (d) approving material borrowings and any issuing, or buying back, of equity securities;
- (e) setting group remuneration policy;
- (f) approving the annual budget;
- (g) setting the dividend policy; and
- (h) approving treasury policy.

The Company has three Independent Non-executive Directors, at least one of whom has appropriate financial management expertise, which is in compliance with the Listing Rules. Each Independent Non-executive Director gives the Company an annual confirmation of his independence, and the Company considers these Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Directors have no relationship (including financial, business, family or other relationship) among themselves, save for the following:

- (a) the husband-wife relationship between Sir Run Run Shaw and Ms. Mona Fong, as set out on page 15 of the Report of the Directors of this Annual Report;
- (b) the directorship of Dr. Chow Yei Ching in Shaw Brothers (Hong Kong) Limited, as set out on page 16 of the Report of the Directors of this Annual Report;
- (c) the father-son relationship between Mr. Lee Jung Sen (who retired as a Director on 25 May 2005) and Mr. Chien Lee (who was appointed as a Director on 17 March 2005); and
- (d) Mrs. Christina Lee Look Ngan Kwan is the aunt of Mr. Chien Lee and the mother of Mr. Anthony Hsien Pin Lee.

## **CORPORATE GOVERNANCE REPORT** (Continued)

### **BOARD MEETINGS**

The full Board met six times during the year under review. The attendance of Directors at the Board Meetings and the Board Committees (Executive Committee, Audit Committee and Remuneration Committee) Meetings is set out in the table below:

Directors	Meetings Attended/Held			
	Board	Executive Committee	Audit Committee	Remuneration Committee
<b>Executive Directors</b>				
Sir Run Run Shaw	6/6	7/7		
Dr. Norman Leung Nai Pang	6/6	7/7		
Louis Page	6/6	7/7		
<b>Non-executive Directors</b>				
Mona Fong	6/6	7/7		1/1
Dr. Chow Yei Ching	4/6			
Ho Ting Kwan	6/6			
Chien Lee	5/5		1/1	1/1
Christina Lee Look Ngan Kwan *2 meetings were attended by Alternate Director	6/6*			
Lee Jung Sen (retired on 25 May 2005) **3 meetings were attended by Alternate Director	3/3**	0/3	0/1	
Dr. Li Dak Sum	6/6		2/2	
Kevin Lo Chung Ping	6/6	7/7		
Robert Sze Tsai To	5/6		2/2	1/1

At the Board Meetings the Directors discussed and formulated overall strategies for the Company, monitored financial performance and discussed the annual and interim results, as well as other significant matters.

### **CHAIRMAN AND MANAGING DIRECTOR**

Sir Run Run Shaw, the Chairman since 1980, and Mr. Louis Page, Managing Director since 1995, have segregated and clearly defined roles set out in the Company's Code on Corporate Governance.

The Board has formalised the functions delegated by the Board to the Management and reviews such arrangements on a periodic basis. The Management is charged with the following responsibilities:

- (a) implementing and reporting to the Board on the Company's strategies;
- (b) overseeing the realisation by the Company of the objectives set by the Board;
- (c) providing all such information to the Board as is necessary to enable the Board to monitor the performance of the Management; and
- (d) discharging duties and authority as may be delegated by the Board.

## **CORPORATE GOVERNANCE REPORT** (Continued)

### **REMUNERATION OF DIRECTORS**

The Remuneration Committee was established on 16 August 2005. All members are Non-executive Directors and the majority are independent. The Committee is chaired by Independent Non-executive Director Mr. Chien Lee and the other members are Ms. Mona Fong and Mr. Robert Sze Tsai To.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and Senior Management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee's specific terms of reference are posted on the Company's website.

The Remuneration Committee had its first meeting in December 2005 to review the discretionary bonuses paid to the Executive Directors and the Senior Management for the year ended 31 December 2005.

Details of the Directors' and Senior Management's emoluments are set out on pages 82 to 83 of the Notes to the consolidated financial statements.

The main elements of the Company's remuneration policies are:

- no individual should determine his or her own remuneration;
- remuneration should be set which is commensurate with the pay levels in the market;
- remuneration should be able to attract and retain individuals with appropriate background, skills, knowledge and experience, relevant to the business and industry that the Group operates in.

In line with our policy that no individual should determine his or her own remuneration, the proposed fees for Directors were recommended by the Board and approved by our shareholders at the annual general meetings.

In determining the remuneration of Executive Directors and Senior Management, the remuneration of comparable positions in the market, including local and regional companies of comparable size, complexity and business scope, are referenced. This is consistent with our policy to pay remuneration which is commensurate with the pay levels in the market.

No share options of the Company have been granted to Directors during the year.

None of the Directors of the Company has a service contract with the Company which is not determinable within one year, without payment of compensation, other than statutory compensation.

### **NOMINATION OF DIRECTORS**

The appointment of a new Director is a matter for consideration and decision by the full Board. As delegated by the Board, the Executive Committee is responsible for nominating suitably qualified candidates to be Directors.

Sir Run Run Shaw is the Chairman, Dr. Norman Leung Nai Pang, Ms. Mona Fong, Mr. Louis Page and Mr. Kevin Lo Chung Ping are members of the Executive Committee. The Executive Committee's specific terms of reference are posted on the Company's website.

The Board appointed Mr. Chien Lee, the Alternate Director to Mr. Lee Jung Sen since 1995, to be an Independent Non-executive Director of the Company on 17 March 2005, in consideration of Mr. Chien Lee's experience in the Company's affairs and his valuable contributions to the Board during the term of his alternate directorship.

## **CORPORATE GOVERNANCE REPORT** (Continued)

### **DIRECTORS' TERM OF APPOINTMENT AND RE-ELECTION**

Non-executive Directors are appointed for a specific term for around three years. All Directors retire from office by rotation and are subject to re-election at an annual general meeting at least once every three years. Pursuant to Article 114(D) of the Company's Articles of Association, the Chairman is exempted from retirement by rotation.

The Company's Articles of Association provide that Directors appointed to fill a casual vacancy shall hold office only until the first annual general meeting after their appointment, and shall be subject to re-election by the shareholders.

### **AUDITORS' REMUNERATION**

Management performs a review of the remuneration to the Group's auditors on an annual basis. The fees for audit services have been approved by the Audit Committee, whilst the fees for non-audit services are estimates made by Management. A summary of fees for audit and non-audit services is as follows:

	<b>Fees for audit services</b>		<b>Fees for non-audit services</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Company	<b>880</b>	750	<b>353</b>	285
Subsidiaries	<b>2,603</b>	2,346	<b>2,051</b>	560
<b>Total</b>	<b>3,483</b>	3,096	<b>2,404</b>	845
Fees payable to PricewaterhouseCoopers, the principal auditors	<b>3,062</b>	2,689	<b>2,404</b>	845

Non-audit services rendered to the Group included principally professional fee in relation to the tax challenge from the IRD in respect of preceding years' tax assessments.

### **FINANCIAL REPORTING AND AUDIT COMMITTEE**

The Board is responsible for presenting financial information of the Group in a clear, balanced and timely manner in the form of financial statements that give a true and fair view of the Group's state of affairs. The Board also carries the responsibility to select the most appropriate accounting policies for the Group. In this regard, the Board has adopted the Hong Kong Financial Reporting Standards as promulgated by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements of the Group have been prepared on a going concern basis, assuming the continued operation of the business.

The Board is also vested with the responsibility to disseminate to shareholders and the public any price-sensitive information in a form of announcements and circulars, in accordance with the Listing Rules.

The Audit Committee reviews the financial statements prepared by Management before formal approval by the Board and oversees the financial reporting system of the Company.

## **CORPORATE GOVERNANCE REPORT** (Continued)

The Audit Committee was established in 1999. As of 31 December 2005, all members of the Committee were Independent Non-executive Directors, with Mr. Robert Sze Tsai To as the chairman, Dr. Li Dak Sum and Mr. Chien Lee as members of the Audit Committee. On 22 February 2006, Dr. Li Dak Sum tendered his resignation as a member of the Audit Committee and Mr. Ho Ting Kwan, a Non-executive Director, was appointed as a member of the Audit Committee on the same date.

The Audit Committee has the following key responsibilities:

- making recommendations on the appointment, reappointment and removal of external auditors and considering the terms of such appointments
- developing and implementing policies on the engagement of external auditors for non-audit services
- monitoring the integrity of the financial statements, annual and interim reports and the auditors' report to ensure that the information presents a true and balanced assessment of the Company's financial position
- ensuring that the Management has fulfilled its duty to maintain an effective internal control system
- reviewing the external auditors' management letter and any questions raised by the auditors to Management, and Management's response

The Audit Committee's specific terms of reference are posted on the Company's website.

The Audit Committee held two meetings during the year ended 31 December 2005. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

The Audit Committee has reviewed with Management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the interim financial statements and the annual consolidated financial statements for the year ended 31 December 2005 before such statements were presented to the Board of Directors for approval.

The reporting responsibilities of PricewaterhouseCoopers, the Company's auditors, are set out in the Auditors' Report on page 31 of this Annual Report.

### **INTERNAL CONTROLS**

The system of internal controls has been designed to safeguard assets from inappropriate use, maintain proper accounts and ensure effective operation of the Company's business and compliance with regulations. Management is directly responsible for implementing the strategies and policies adopted by the Board, and for managing all of the Company's activities including the operation of the internal control system.

The heads of the Finance team and the operating units perform regular financial and operational reviews of the Company, its subsidiaries and associates, as well as other reviews as required. Summaries of major audit findings and control weaknesses, if any, are reviewed by the Audit Committee. The heads of the Finance team and the operating units monitor the follow-up actions agreed upon in response to its recommendations.

### **SHAREHOLDER RELATIONS**

The Company adopts a policy of disclosing relevant information to shareholders in a timely manner. The Company discloses information in the form of paid announcements in an English and a Chinese newspaper and makes available the information on its corporate website. Printed copies of the Annual and Interim Reports and Circulars are sent to all shareholders. The Company's annual general meeting allows Directors to meet and communicate with shareholders. Separate resolutions were proposed for each issue by the Chairman and were voted on by poll at the annual general meeting.

## **CORPORATE GOVERNANCE REPORT** (Continued)

Annual general meeting proceedings are reviewed periodically to ensure that the Company follows best corporate governance practices. A notice of annual general meeting is sent to all shareholders at least 21 days prior to the annual general meeting, setting out details of each proposed resolution, voting procedures and other relevant information. The procedures for demanding and conducting a poll are explained during the meeting. Voting or poll results are published in the newspapers and posted on the Company's website on the business day following the annual general meeting.

The Company provides corporate information, including published announcements, circulars, annual reports, to shareholders and the public via the Company's website at [www.tvb.com](http://www.tvb.com).

On behalf of the Board

**Run Run Shaw**  
Executive Chairman

Hong Kong, 22 March 2006