

Corporate Governance Report

The Board of Directors (“Board”) and the management of the Company are committed to the establishment of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders’ value. The corporate governance principles of the Company emphasise a quality Board, sound internal controls, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices (“Code on CG Practices”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”) throughout the year ended 31st December, 2005.

Key corporate governance principles and corporate governance practices of the Company are summarised below:

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices																																
A.	DIRECTORS																																		
A.1	The Board																																		
	<i>Corporate Governance Principle</i> <i>The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company’s affairs.</i>																																		
A.1.1	Regular board meetings at least four times a year involving active participation, either in person or through other electronic means of communication, of majority of directors	√	<ul style="list-style-type: none"> The Board meets regularly and held meetings in March, May, August and November 2005. Details of Directors’ attendance records in 2005: <table border="1"> <thead> <tr> <th>Members of the Board</th> <th>Attendance</th> </tr> </thead> <tbody> <tr> <td colspan="2">Executive Directors</td> </tr> <tr> <td>LI Ka-shing (<i>Chairman</i>)</td> <td>4/4</td> </tr> <tr> <td>LI Tzar Kuoi, Victor (<i>Managing Director and Deputy Chairman</i>)</td> <td>4/4</td> </tr> <tr> <td>KAM Hing Lam</td> <td>4/4</td> </tr> <tr> <td>IP Tak Chuen, Edmond</td> <td>4/4</td> </tr> <tr> <td>CHUNG Sun Keung, Davy</td> <td>3/4</td> </tr> <tr> <td>PAU Yee Wan, Ezra</td> <td>4/4</td> </tr> <tr> <td>WOO Chia Ching, Grace</td> <td>4/4</td> </tr> <tr> <td>CHIU Kwok Hung, Justin</td> <td>4/4</td> </tr> <tr> <td colspan="2">Non-executive Directors</td> </tr> <tr> <td>LEUNG Siu Hon</td> <td>4/4</td> </tr> <tr> <td>FOK Kin-ning, Canning</td> <td>4/4</td> </tr> <tr> <td>Frank John SIXT</td> <td>4/4</td> </tr> <tr> <td>CHOW Kun Chee, Roland</td> <td>4/4</td> </tr> <tr> <td>George Colin MAGNUS *</td> <td>4/4</td> </tr> </tbody> </table>	Members of the Board	Attendance	Executive Directors		LI Ka-shing (<i>Chairman</i>)	4/4	LI Tzar Kuoi, Victor (<i>Managing Director and Deputy Chairman</i>)	4/4	KAM Hing Lam	4/4	IP Tak Chuen, Edmond	4/4	CHUNG Sun Keung, Davy	3/4	PAU Yee Wan, Ezra	4/4	WOO Chia Ching, Grace	4/4	CHIU Kwok Hung, Justin	4/4	Non-executive Directors		LEUNG Siu Hon	4/4	FOK Kin-ning, Canning	4/4	Frank John SIXT	4/4	CHOW Kun Chee, Roland	4/4	George Colin MAGNUS *	4/4
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Corporate Governance Report (continued)

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A.1.2	All directors are given an opportunity to include matters in the agenda for regular board meetings.	√	<ul style="list-style-type: none"> All Directors are consulted as to whether they may want to include any matter in the agenda before the agenda for each regular Board meeting is issued. 																				
A.1.3	<ul style="list-style-type: none"> At least 14 days notice for regular board meetings Reasonable notice for other board meetings 	<p>√</p> <p>√</p>	<ul style="list-style-type: none"> Regular Board meetings of a particular year are usually scheduled towards the end of the preceding year to give all Directors adequate time to plan their schedules to attend. At least 14 days formal notice would be given before each regular meeting. 																				
A.1.4	All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.	√	<ul style="list-style-type: none"> Directors have access to the Company Secretary and key officers of the Company Secretarial Department who are responsible to the Board for ensuring that Board procedures are followed. Memos are issued to Directors, from time to time on updating of legal and regulatory changes and matters of relevance to Directors in the discharge of their duties. 																				

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.1.5	<ul style="list-style-type: none"> – Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting. – Such minutes should be open for inspection at any reasonable time on reasonable notice by any director. 	<p style="text-align: center;">√</p> <p style="text-align: center;">√</p>	<ul style="list-style-type: none"> • The Company Secretary prepares written resolutions or minutes and keeps records of matters discussed and decisions resolved at all Board and Board Committee meetings. • Board minutes/resolutions are sent to all Directors within a reasonable time (generally within 14 days) after each Board and Board Committee meeting. • Board minutes/resolutions are available for inspection by Directors/Board Committee members.
A.1.6	<ul style="list-style-type: none"> – Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered by the board and decisions reached. – Draft and final versions of board minutes for all directors to comment and to keep records within a reasonable time after the board meeting. 	<p style="text-align: center;">√</p> <p style="text-align: center;">√</p>	<ul style="list-style-type: none"> • Minutes record in sufficient detail the matters considered by the Board/Board Committees and decisions reached. • Directors are given an opportunity to comment on draft Board minutes. • Final version of Board minutes are placed on record within a reasonable time after the Board meeting.

Corporate Governance Report *(continued)*

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.1.7	<ul style="list-style-type: none"> – A procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the company's expense – The board should resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/their duties to the company. 	<p>√</p> <p>√</p>	<ul style="list-style-type: none"> • Directors have been advised that the Company Secretary can arrange independent professional advice at the expense of the Company should such advice be considered necessary by any Director.
A.1.8	<ul style="list-style-type: none"> – If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should not be dealt with by way of circulation or by a committee but a board meeting should be held. – Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting. 	<p>√</p> <p>√</p>	<ul style="list-style-type: none"> • Important matters are usually dealt with by way of written resolutions so that all Directors (including Independent Non-executive Directors) can note and comment, as appropriate, the matters before approval is granted. • Director must declare his/her interest in the matters to be passed in the resolution, if applicable. • If a substantial shareholder or a Director has a conflict of interest in a matter to be considered material by the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board committee will be set up to deal with the matter.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.2	Chairman and Chief Executive Officer <i>Corporate Governance Principle</i> <i>There should be a clear division of responsibilities between the Chairman and the Managing Director of the Company to ensure a balance of power and authority.</i>		
A.2.1	<ul style="list-style-type: none"> – Separate roles of chairman and chief executive officer not to be performed by the same individual – Division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. 	<p style="text-align: center;">√</p> <p style="text-align: center;">√</p>	<ul style="list-style-type: none"> • The positions of the Chairman of the Board and the Managing Director are currently held by separate individuals. • The Chairman determines the broad strategic direction of the Group in consultation with the full Board and is responsible for macro high-level oversight of management. • The Managing Director, with the support of the Executive Directors, is responsible for strategic planning of different business functions and day-to-day management and operation of the Group.
A.2.2	The chairman should ensure that all directors are properly briefed on issues arising at board meetings.	√	<ul style="list-style-type: none"> • With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information on a timely basis. • In addition to regular Board meetings, the Chairman has meetings with the Non-executive Directors (including the Independent Non-executive Directors) without the presence of Executive Directors at least once every year.
A.2.3	The chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.	√	<ul style="list-style-type: none"> • The Board papers including supporting analysis and related background information are normally sent to the Directors at least three days before Board meetings. • Communications between Non-executive Directors (including Independent Non-executive Directors) on the one hand, and the Company Secretary as co-ordinator for the other business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and further supporting information and/or documentation is provided if appropriate.

Corporate Governance Report (continued)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.3	Board composition		
	<i>Corporate Governance Principle</i>		
	<i>The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company and should include a balanced composition of Executive and Non-executive Directors so that independent judgement can effectively be exercised.</i>		
A.3.1	Independent non-executive directors should be expressly identified as such in all corporate communications that disclose the names of directors of the company.	√	<ul style="list-style-type: none"> • The composition of the Board, by category and position of Directors including names of Chairman, Executive Directors, Non-executive Directors and Independent Non-executive Directors, is disclosed in all corporate communications. • The Board consists of a total of twenty-one Directors, comprising eight Executive Directors, five Non-executive Directors and eight Independent Non-executive Directors. More than one-third of the Board are Independent Non-executive Directors of which more than one have appropriate professional qualifications, or accounting or related financial management expertise. • Details of the composition of the Board are set out on page 148. • The Directors' biographical information and the relationships among the Directors are set out on pages 24 to 27. • Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.
A.4	Appointments, re-election and removal		
	<i>Corporate Governance Principle</i>		
	<i>There should be a formal, considered and transparent procedure for the appointment of new Directors and plans in place for orderly succession for appointments to the Board. All Directors should be subject to re-election at regular intervals.</i>		

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.4.1	Non-executive directors should be appointed for a specific term, subject to re-election.	√	<ul style="list-style-type: none"> All Directors (including Non-executive Directors) are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Company's Articles of Association and the Code on CG Practices.
A.4.2	<ul style="list-style-type: none"> All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. 	<p>√</p> <p>√</p>	<ul style="list-style-type: none"> In accordance with the Company's Articles of Association, newly appointed Directors are required to offer themselves for re-election at the first annual general meeting following their appointment. The Board as a whole is responsible for the appointment of new Directors and Directors' nomination for re-election by shareholders at the annual general meeting of the Company. Under the Company's Articles of Association, the Board may from time to time appoint a Director either to fill a vacancy or as an addition to the Board. Any such new Director shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election at the same annual general meeting. All Directors (including Non-executive Directors) are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Company's Articles of Association and the Code on CG Practices. The structure, size and composition of the Board are reviewed from time to time to ensure the Board has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Company. The independence of the Independent Non-executive Directors is assessed according to the relevant rules and requirements under the Listing Rules. Each of the Independent Non-executive Directors makes an annual confirmation of independence pursuant to the requirements of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in the relevant requirements of the Listing Rules and are independent in accordance with the terms of the guidelines.

Corporate Governance Report (*continued*)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.5	Responsibilities of directors		
	<p><i>Corporate Governance Principle</i> <i>Every Director is required to keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.</i></p>		
A.5.1	<ul style="list-style-type: none"> – Every newly appointed director of the company should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary. – To ensure that he has a proper understanding of the operations and business of the company and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the company. 	<p style="text-align: center;">√</p> <p style="text-align: center;">√</p>	<ul style="list-style-type: none"> • The Company Secretary and key officers of the Company Secretarial Department liaise closely with newly appointed Directors both immediately before and after his/her appointment to acquaint the newly appointed Directors with the duties and responsibilities as a Director of the Company and the business operation of the Company. • A package compiled and reviewed by the Company's legal advisers setting out such duties and responsibilities under the Listing Rules, Companies Ordinance and other related ordinances and relevant regulatory requirements of Hong Kong is also provided to each newly appointed Director. • Regular memos are issued to the Directors on updating of legal and regulatory changes and matters of relevance to the Directors in the discharge of their duties.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.5.2	<p>The functions of non-executive directors include:</p> <ul style="list-style-type: none"> – independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct at board meetings – take the lead on potential conflicts of interests – serve on the audit, remuneration, nomination and other governance committees, if invited – scrutinise the company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance 	<p>√</p> <p>√</p> <p>√</p> <p>√</p>	<ul style="list-style-type: none"> • Non-executive Directors seek guidance and direction from the Chairman, the Managing Director and Executive Directors on the future business direction and strategic plan so as to better understand the business of the Company and to exercise their independent judgement. • Non-executive Directors review the financial information and operational performance of the Company on a regular basis. • Independent Non-executive Directors are invited to serve on the Audit and Remuneration Committees of the Company.

Corporate Governance Report (continued)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.5.3	Every director should ensure that he can give sufficient time and attention to the affairs of the company and should not accept the appointment if he cannot do so.	√	<ul style="list-style-type: none"> • There is satisfactory attendance at Board meetings in 2005. • Every Executive Director has hands-on knowledge and expertise in the areas and operation in which he/she is charged with. Appropriate attention to the affairs of the Company is measured in terms of time as well as the quality of such attention and the ability of the Directors to contribute with reference to his/her necessary knowledge and expertise.
A.5.4	<ul style="list-style-type: none"> – Directors must comply with the Model Code. – Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees. 	<ul style="list-style-type: none"> √ √ 	<ul style="list-style-type: none"> • The Company has adopted the model code for securities transactions by directors of listed issuers (“Model Code”) set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions, effective 31st March, 2004. • Confirmation has been sought from all Directors that they have complied with the required standards set out in the Model Code for the year ended 31st December, 2005. • Written guidelines of no less exacting terms than the Model Code relating to securities transactions for employees are set out in the Employee Handbook of the Company.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.6	Supply of and access to information		
	<p><i>Corporate Governance Principle</i> <i>Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.</i></p>		
A.6.1	– Send agenda and full board papers to all directors at least 3 days before regular board or board committee meeting	√	<ul style="list-style-type: none"> Board papers are circulated not less than three days before the regular Board/Board Committee meetings to enable the Directors to make informed decisions on matters to be raised at the Board/Board Committee meetings.
	– So far as practicable for other board or board committee meetings	√	
A.6.2	– Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions.	√	<ul style="list-style-type: none"> The Company Secretary and the Qualified Accountant attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters.
	– The board and each director should have separate and independent access to the company’s senior management for making further enquiries where necessary.	√	<ul style="list-style-type: none"> Communications between Directors on the one hand, and the Company Secretary, who acts as co-ordinator for the other business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and that further supporting information is provided if appropriate.

Corporate Governance Report (continued)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.6.3	<ul style="list-style-type: none"> – All directors are entitled to have access to board papers and related materials. – Steps must be taken to respond as promptly and fully as possible to queries raised by directors. 	<p>√</p> <p>√</p>	<ul style="list-style-type: none"> • Same as A.6.2 above.
B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT			
B.1 The level and make-up of remuneration and disclosure			
<p><i>Corporate Governance Principle</i> <i>There should be a formal and transparent procedure for setting policy on Executive Directors' remuneration and for fixing the remuneration packages for all Directors.</i></p>			
B.1.1	Establish a remuneration committee with specific written terms of reference comprising a majority of independent non-executive directors	√	<ul style="list-style-type: none"> • In accordance with the Code on CG Practices, the Company has set up a remuneration committee (“Remuneration Committee”) with a majority of the members being Independent Non-executive Directors. • The Company established its Remuneration Committee on 1st January, 2005. • The existing Remuneration Committee comprises the Chairman of the Board, Mr. Li Ka-shing (Chairman of the Remuneration Committee), and two Independent Non-executive Directors, namely, Mr. Kwok Tun-li, Stanley and Dr. Wong Yick-ming, Rosanna.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices								
B.1.1 (cont'd)			<ul style="list-style-type: none"> Since the setting up of the Remuneration Committee on 1st January, 2005, an orientation meeting and two meetings of the Remuneration Committee were held in May 2005, November 2005 and January 2006 respectively. Details of the attendance of the members of the Remuneration Committee are as follows: <table border="0" data-bbox="772 717 1350 922"> <thead> <tr> <th data-bbox="772 717 1209 771">Members of the Remuneration Committee</th> <th data-bbox="1209 717 1350 771">Attendance</th> </tr> </thead> <tbody> <tr> <td data-bbox="772 771 1209 847">LI Ka-shing <i>(Chairman of the Remuneration Committee)</i></td> <td data-bbox="1209 771 1350 847">3/3</td> </tr> <tr> <td data-bbox="772 847 1209 879">KWOK Tun-li, Stanley</td> <td data-bbox="1209 847 1350 879">3/3</td> </tr> <tr> <td data-bbox="772 879 1209 922">WONG Yick-ming, Rosanna</td> <td data-bbox="1209 879 1350 922">3/3</td> </tr> </tbody> </table> <p data-bbox="772 965 1350 1084">Note: The members of the Remuneration Committee can attend meetings in person, by phone or through other means of electronic communication or by their alternates in accordance with the Company's Articles of Association.</p> The following is a summary of the work for the Remuneration Committee during the said meetings: <ol style="list-style-type: none"> Review of the remuneration policy for 2005/2006; Review of the remuneration of Non-executive Directors; and Review of the annual performance bonus policy. 	Members of the Remuneration Committee	Attendance	LI Ka-shing <i>(Chairman of the Remuneration Committee)</i>	3/3	KWOK Tun-li, Stanley	3/3	WONG Yick-ming, Rosanna	3/3
Members of the Remuneration Committee	Attendance										
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KWOK Tun-li, Stanley	3/3										
WONG Yick-ming, Rosanna	3/3										
B.1.2	The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.	√	<ul style="list-style-type: none"> The Remuneration Committee has consulted the Chairman and/or the Managing Director about proposals relating to the remuneration packages and other human resources issues of the Directors and senior management. The emoluments of Directors are based on the skill, knowledge, involvement in the Company's affairs and the performance of each Director, together with reference to the profitability of the Company, remuneration benchmarks in the industry, and prevailing market conditions. 								

Corporate Governance Report (continued)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
B.1.3	<p>Terms of reference of the remuneration committee include:</p> <ul style="list-style-type: none"> – determine specific remuneration packages of all executive directors and senior management – review and approve performance-based remuneration and the compensation payable on loss or termination of office or appointment – ensure that no director or any of his associates is involved in deciding his own remuneration 	√	<ul style="list-style-type: none"> • The terms of reference of the Remuneration Committee, which follow closely the requirements of the Code Provisions and have been adopted by the Board, are posted on the Company's website.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
B.1.4	The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	√	<ul style="list-style-type: none"> The terms of reference of the Remuneration Committee are posted on the Company's website. The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management, and reviewing the specific remuneration packages of all Executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.
B.1.5	The remuneration committee should be provided with sufficient resources to discharge its duties.	√	<ul style="list-style-type: none"> The Human Resources Department provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.
C. ACCOUNTABILITY AND AUDIT			
C.1	<p>Financial reporting</p> <p><i>Corporate Governance Principle</i> <i>The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.</i></p>		
C.1.1	Management should provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.	√	<ul style="list-style-type: none"> Directors are provided with a review of the Group's major business activities and detailed financial information on a quarterly basis.

Corporate Governance Report (continued)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.1.2	<ul style="list-style-type: none"> – The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts. – There should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements. – Unless it is inappropriate to assume that the company will continue in business, the directors should prepare the accounts on a going concern basis, with supporting assumptions or qualifications as necessary. – When the directors are aware of material uncertainties relating to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern, such uncertainties should be clearly and prominently set out and discussed at length in the Corporate Governance Report. 	<p style="text-align: center;">√</p> <p style="text-align: center;">√</p> <p style="text-align: center;">√</p> <p style="text-align: center;">N/A</p>	<ul style="list-style-type: none"> • The Directors annually acknowledge in writing their responsibility for preparing the financial statements of the Group. • Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as referred to in C.1.2 of the Code on CG Practices. • With the assistance of the Accounts Department which is under the supervision of the Qualified Accountant of the Company, the Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. • The Directors also ensure the publication of the financial statements of the Group is in a timely manner. • The statement by the auditors of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 141.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.1.3	The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	√	<ul style="list-style-type: none"> The Board aims to present a clear, balanced and understandable assessment of the Group's performance and position in all shareholder communications. The Board is aware of the requirements under the applicable rules and regulations about timely disclosure of price-sensitive information or matters regarding the Company and will authorise the publication of such announcements as and when the occasion arises. The Company Secretary and key officers of the Company Secretarial Department work closely and in consultation with legal advisers to review the materiality and sensitivity of transactions and proposed transactions and advise the Board accordingly.
C.2	<p>Internal controls</p> <p><i>Corporate Governance Principle</i> <i>The Board should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment and the Company's assets.</i></p>		
C.2.1	<ul style="list-style-type: none"> – Directors to review effectiveness of system of internal control of the company and its subsidiaries at least annually and to report that they have done so in the Corporate Governance Report – The review should cover all material controls, including financial, operational and compliance controls and risk management functions. 	<p>√</p> <p>√</p>	<ul style="list-style-type: none"> The Directors, through the audit committee of the Company ("Audit Committee"), have conducted an annual review of the effectiveness of the system of internal control of the Company and its subsidiaries. The review covers all material controls, including financial, operational and compliance controls and risk management functions.

Corporate Governance Report (continued)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.2.1 (cont'd)			<ul style="list-style-type: none"> The Board has overall responsibility for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard 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 with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives. <p><i>Organisational Structure</i> An organisational structure with operating policies and procedures, lines of responsibility and delegated authority has been established.</p> <p><i>Authority and Control</i> The relevant Executive Directors and senior management are delegated with respective levels of authorities with regard to key corporate strategy and policy and contractual commitments.</p> <p><i>Budgetary Control and Financial Reporting</i> Operational budgets are prepared by operational departments and reviewed by the responsible Directors prior to being adopted. There are procedures for the appraisal, review and approval of major capital and recurrent expenditure. Results of operations against budgets are reported regularly to the Executive Directors.</p>

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices								
C.2.1 (cont'd)			<p>Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations.</p> <p><i>Internal Audit</i></p> <p>The Internal Audit Department provides an independent appraisal of the Group's financial and operational activities, and makes constructive recommendations to the relevant management for necessary actions. The results of internal audit reviews and corresponding remedial actions taken are reported to the Executive Directors and Audit Committee periodically. The annual work plan of the Internal Audit Department focuses on those areas of the Group's activities with the greatest perceived risk and the plan is reviewed and endorsed by the Audit Committee.</p>								
C.3	<p>Audit Committee</p> <p><i>Corporate Governance Principle</i></p> <p><i>The Board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.</i></p>										
C.3.1	<ul style="list-style-type: none"> – Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. – Draft and final versions of minutes for all members of the audit committee to comment and to keep records within a reasonable time after the meeting. 	<p>√</p> <p>√</p>	<ul style="list-style-type: none"> • Minutes drafted by the Company Secretary are circulated to members of the Audit Committee within a reasonable time after each meeting. • Audit Committee meetings were held in March and August 2005. Details of the attendance record of the members of the Audit Committee are as follows: <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; color: #008080;">Members of the Audit Committee</th> <th style="text-align: right; color: #008080;">Attendance</th> </tr> </thead> <tbody> <tr> <td style="padding-left: 20px;">KWAN Chiu Yin, Robert <i>(Chairman of the Audit Committee)</i></td> <td style="text-align: right; vertical-align: bottom;">2/2</td> </tr> <tr> <td style="padding-left: 20px;">KWOK Tun-li, Stanley</td> <td style="text-align: right; vertical-align: bottom;">2/2</td> </tr> <tr> <td style="padding-left: 20px;">CHEONG Ying Chew, Henry</td> <td style="text-align: right; vertical-align: bottom;">2/2</td> </tr> </tbody> </table> <p>Note: The members of the Audit Committee can attend meetings in person, by phone or through other means of electronic communication or by their alternates in accordance with the Company's Articles of Association.</p>	Members of the Audit Committee	Attendance	KWAN Chiu Yin, Robert <i>(Chairman of the Audit Committee)</i>	2/2	KWOK Tun-li, Stanley	2/2	CHEONG Ying Chew, Henry	2/2
Members of the Audit Committee	Attendance										
KWAN Chiu Yin, Robert <i>(Chairman of the Audit Committee)</i>	2/2										
KWOK Tun-li, Stanley	2/2										
CHEONG Ying Chew, Henry	2/2										

Corporate Governance Report (continued)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.1 (cont'd)			<ul style="list-style-type: none"> • The following is a summary of the work of the Audit Committee during 2005: <ol style="list-style-type: none"> 1. Review of the financial reports for 2004 annual results and 2005 interim results; 2. Review of the findings and recommendations of the Internal Audit Department on the work of various departments and related companies; 3. Review of the effectiveness of the internal control system; 4. Review of the external auditors' audit findings; and 5. Review of the auditors' remuneration. • After due and careful consideration of reports from management and the internal and external auditors, the Audit Committee was of the view that no suspected fraud or irregularities, significant internal control deficiencies, or suspected infringement of laws, rules, or regulations had been found, and concluded at the meeting held on 21st March, 2006 that the system of internal controls was adequate and effective. • On 21st March, 2006, the Audit Committee met to review the Group's 2005 consolidated financial statements, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditors. After review and discussions with the management, internal auditor and external auditors, the Audit Committee endorsed the accounting treatment adopted by the Company, and the Audit Committee had to the best of its ability assured itself that the disclosure of the financial information in the 2005 Annual Report complies with the applicable accounting standards and Appendix 16 to the Listing Rules. The Audit Committee therefore recommended the Board's approval of the consolidated financial statements for the year ended 31st December, 2005.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.1 (cont'd)			<ul style="list-style-type: none"> The Audit Committee also recommended to the Board the re-appointment of Messrs. Deloitte Touche Tohmatsu (“Deloitte”) as the Company’s external auditors for 2006 and that the related resolution shall be put forth for shareholders’ consideration and approval at the 2006 annual general meeting. The Group’s Annual Report for the year ended 31st December, 2005 has been reviewed by the Audit Committee.
C.3.2	<p>A former partner of existing auditing firm shall not act as a member of the committee for 1 year after he ceases to be a partner of or to have any financial interest in, the firm, whichever is the later.</p>	√	<ul style="list-style-type: none"> No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he/she ceases to be a partner of the auditing firm. Mr. Kwan Chiu Yin, Robert, who was a partner of Deloitte, the existing auditing firm of the Company, retired on 1st June, 2002 and was appointed as an Independent Non-executive Director and the Chairman of the Audit Committee of the Company on 23rd September, 2004, more than one year after he ceased to be a partner of Deloitte.

Corporate Governance Report *(continued)*

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.3	<p>Terms of reference of the audit committee include:</p> <ul style="list-style-type: none"> – recommendation to the board on the appointment and removal of external auditors and approval of their terms of engagement – review and monitor external auditors' independence and effectiveness of audit process – review of financial information of the company – oversight of the company's financial reporting system and internal control procedures 	√	<ul style="list-style-type: none"> • Terms of reference of the Audit Committee, which follow closely the requirements of the Code Provisions and have been adopted by the Board, are posted on the Company's website.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.4	The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	√	<ul style="list-style-type: none"> • The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company established the Audit Committee in December 1998 with reference to “A Guide for the Formation of an Audit Committee” issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). • In accordance with the requirements of the Code on CG Practices, the terms of reference of the Audit Committee were revised on 1st January, 2005 in terms substantially the same as the provisions set out in the Code on CG Practices. The revised terms of reference of the Audit Committee are available on the Company’s website. • The principal duties of the Audit Committee include the review and supervision of the Group’s financial reporting system and internal control procedures, review of the Group’s financial information and review of the relationship with the external auditors of the Company. Regular meetings have been held by the Audit Committee since its establishment. • The Audit Committee comprises three Independent Non-executive Directors, namely, Mr. Kwan Chiu Yin, Robert (Chairman of the Audit Committee), Mr. Kwok Tun-li, Stanley and Mr. Cheong Ying Chew, Henry. The Audit Committee held two meetings in 2005.

Corporate Governance Report *(continued)*

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.5	Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the company should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the board has taken a different view.	N/A	<ul style="list-style-type: none"> The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Deloitte be re-appointed as the Company's external auditors for 2006. For the year ended 31st December, 2005, the external auditors of the Company received approximately HK\$5 million for audit services and HK\$1 million for tax and other services.
C.3.6	The audit committee should be provided with sufficient resources to discharge its duties.	√	<ul style="list-style-type: none"> The Audit Committee has been advised that the Company Secretary can arrange independent professional advice at the expense of the Company should the seeking of such advice be considered necessary by such Directors.

D. DELEGATION BY THE BOARD

D.1 Management functions

Corporate Governance Principle

The Company should have a formal schedule of matters specifically reserved to the Board and those delegated to management.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
D.1.1	When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the company.	√	<ul style="list-style-type: none"> Executive Directors are in charge of different businesses and functional divisions in accordance with their respective areas of expertise. Please refer to the Management Structure Chart set out on page 85.
D.1.2	Formalise functions reserved to the board and those delegated to management. It should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the company.	√	<ul style="list-style-type: none"> The Board, led by the Chairman, is responsible for the Group's future development directions; overall strategies and policies; evaluation of the performance of the Group and the management; and approval of matters that are of a material or substantial nature. Management is responsible for the day-to-day operations of the Group under the leadership of the Managing Director.
<p>D.2 Board Committees</p> <p><i>Corporate Governance Principle</i> <i>Board Committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.</i></p>			

Corporate Governance Report *(continued)*

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
D.2.1	Where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.	√	<ul style="list-style-type: none"> Two Board Committees, i.e. Audit Committee and Remuneration Committee have been established with specific terms of reference as mentioned in C.3.3 and B.1.3 above.
D.2.2	The terms of reference of board committees should require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).	√	<ul style="list-style-type: none"> Each Board Committee reports to the Board after each meeting.
E. COMMUNICATION WITH SHAREHOLDERS			
E.1	Effective communication <i>Corporate Governance Principle</i> <i>The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.</i>		
E.1.1	In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.	√	<ul style="list-style-type: none"> Separate resolutions are proposed at the general meeting on each substantially separate issue, including the election of individual directors.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
E.1.2	<ul style="list-style-type: none"> <li data-bbox="325 482 612 1095">– The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the annual general meeting. <li data-bbox="325 1116 612 1513">– The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval. 	<p data-bbox="651 470 692 521">√</p> <p data-bbox="651 1103 692 1155">√</p>	<ul style="list-style-type: none"> <li data-bbox="740 482 1353 620">• In 2005, the Chairman of the Board, Chairman of the Audit Committee and Chairman of the Remuneration Committee attended the annual general meeting and were available to answer questions. <li data-bbox="740 651 1353 1328">• The Company establishes different communication channels with shareholders and investors, including (i) printed copies of corporate communication (including but not limited to annual report, interim report, notice of meeting, circular and proxy form) required under the Listing Rules, and shareholders can select to receive such documents by electronic means, (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) updated and key information on the Group is available on the website of the Company, (iv) the Company's website offers a communication channel between the Company and its shareholders and investors, (v) regular press conferences and briefing meetings with analysts from the investment sectors are set up from time to time on updated performance information of the Group, and (vi) the Company's Registrars deal with shareholders for all share registration and related matters.

E.2 Voting by Poll

Corporate Governance Principle

The Company should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.

Corporate Governance Report (continued)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
E.2.1	<ul style="list-style-type: none"> <li data-bbox="363 487 651 767">– The chairman of a meeting should ensure disclosure in the circulars of the procedures for and the rights of shareholders to demand a poll. <li data-bbox="363 793 651 1397">– The chairman of a meeting and/or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. <li data-bbox="363 1422 651 1957">– If a poll is required under such circumstances, the chairman of the meeting should disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands. 	<p style="text-align: center;">√</p> <p style="text-align: center;">√</p> <p style="text-align: center;">√</p>	<ul style="list-style-type: none"> <li data-bbox="778 487 1385 584">• In 2005, the right to demand a poll was set out in the circular containing the notice of annual general meeting. <li data-bbox="778 616 1385 750">• In 2005, the Chairman of the general meeting exercised his power under the Articles of Association of the Company to put each resolution set out in the notice to be voted by way of a poll.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
E.2.2	<p>– The company should count all proxy votes and, except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands.</p>	√	<ul style="list-style-type: none"> • Representatives of the Share Registrars of the Company were appointed as scrutineers to monitor and count the poll votes cast at the annual general meeting. • Poll results were announced at the adjourned meeting, posted on the websites of the Company and the Stock Exchange, and also published in Hong Kong newspapers on the business day following the annual general meeting of the Company.
	<p>– The company should ensure that votes cast are properly counted and recorded.</p>	√	

Corporate Governance Report (continued)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
E.2.3	<p>The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of:</p> <ul style="list-style-type: none"> – the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and – the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required. 	<p>√</p> <p>√</p>	<ul style="list-style-type: none"> • At the 2005 annual general meeting, the Chairman of the meeting explained the detailed procedures for conducting a poll, which had also been set out in the circular containing the notice of annual general meeting, and then answered any questions from shareholders. • At the 2005 annual general meeting, the Chairman of the meeting exercised his power under the Articles of Association of the Company to put each resolution set out in the notice to be voted by way of a poll.

Management Structure Chart

