

CORPORATE GOVERNANCE REPORT

The Company is committed to good corporate governance to enhance long term shareholder value, with an emphasis on a quality board, transparency, responsibility, independence and accountability.

The Company has applied the principles and complied with all code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2005.

The corporate governance practices adopted by the Group are summarized below.

The Board

The Board of Directors (the "Board"), led by the Chairman, is responsible for the management of the business and affairs of the Group, with the objective of enhancing shareholder value. It is also responsible for the formulation of the Group's overall strategies and policies, setting of corporate values and management targets and operational initiatives, monitoring and evaluating the performance of the Group, and approval of annual budgets, business plans, major capital expenditures, major investments and material acquisitions and disposals of assets.

As at 31 December 2005, the Board was comprised of seven Directors, including three Executive Directors, three Independent Non-executive

Directors and one Non-executive Director. Biographical details of the Directors are set out under the Directors and Senior Management section on pages 36 to 38 of this Annual Report.

All Independent Non-executive Directors are financially independent from the Group and follow the independence requirements set out in the Listing Rules. The Board has received from each Independent Non-executive Director a written confirmation of his/her independence and considers each of the Independent Non-executive Directors to be independent.

All Non-executive Directors are appointed for a period of two years. In addition, all Directors are subject to re-election by shareholders at the annual general meeting at least every three years on a rotation basis. According to the bye-laws of the Company, Directors appointed to fill casual vacancies shall hold office only until the next following annual general meeting and be eligible for re-appointment at that time.

The Company has arranged insurance cover for directors' and officers' liabilities, including cover for directors, officers and senior management of the Company and directors and officers of its subsidiaries.

Chairman and the Chief Executive

The roles of the Chairman and the Chief Executive are separate to reinforce their independence and accountability.

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board to ensure that it acts in the best interests of the Group. 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 in a timely manner. The Chairman also actively encourages Directors to be fully engaged in the Board's affairs and make contributions to the Board in the fulfillment of its responsibilities.

The Chief Executive, supported by the Executive Directors and senior management team, is responsible for day-to-day management and operations of the Group, attending to the formulation and successful implementation of group policies and assuming full accountability to the Board for all group operations and performance. He maintains an ongoing dialogue with the Chairman, and all Directors to keep them fully informed of all major business development and issues and the adoption of the Company's strategies, policies and objectives by the business units of the Group. He is also responsible for building and maintaining an effective executive team to support him in his role.

Board Meetings

The Board meets at least four times a year and has formal procedures to include matters to be referred to it for consideration and decision. Between scheduled meetings, the Company Secretary and senior

management provide to the Directors timely information on the activities and development in the businesses of the Group. As and when deemed necessary, additional Board meetings may be convened. In addition, any Director may request the Company Secretary to arrange for independent professional advice to assist the Directors to effectively discharge their duties.

Notice of at least fourteen days is served for regular Board meetings. During 2005, four regular Board meetings were held with an average attendance rate of 88.9%. The individual attendance record of each Director is listed in table 1.

Nomination of Directors

The Company does not have a nomination committee. The Board regularly reviews its structure, size and composition and when necessary, the Chief Executive, assisted by the Executive Directors, identifies suitable candidates for consideration of the Board. The appointment of a new Director is a collective decision of the Board after taking into consideration the expertise, experience, integrity and commitment of that appointee to the Group.

During 2005, Mr. Ib Fruergaard, President of the Shipping Division of the Company, who possesses extensive experience in shipping and terminal operations, was appointed as an Executive Director following approval by the Board on 18 November 2005.

On 27 February 2006, Mr. John William Crawford, who was a founding partner of Ernst & Young,

Hong Kong and vice chairman of the firm until his retirement in 1997 was appointed as an Independent Non-executive Director and Chairman of the Audit Committee to replace Mr. Liu Hongru, who resigned as an Independent Non-executive Director and Chairman of the Audit Committee due to personal reasons. To further enhance the independence of the Board and cope with the increasing responsibilities of Independent Non-executive Directors as required by corporate governance regulations, Mr. Abraham Shek Lai-Him, who is a member of the Legislative Council, was also appointed as an independent Non-executive Director and a member of the Remuneration Committee on the same date.

Audit Committee

The Audit Committee comprises three Independent Non-executive Directors. During the year 2005, The Committee was chaired by Mr. Liu Hongru who possessed the appropriate financial experience and skills. The other

members of the Committee are Ms. Maria Tam Wai Chu and Mr. Wong Kong Hon.

The Audit Committee has specific written terms of reference. Amongst other things, the primary duties of the Committee include:

- making recommendations to the Board on the appointment and, if necessary, the replacement/ resignation of the external auditors and assess their independence and performance;
- reviewing the completeness, accuracy and fairness of the Company's interim and annual financial statements as well as the interim and annual reports;
- ensuring compliance with the applicable accounting standards and legal and regulatory requirements on financial reporting and disclosure; and
- overseeing the effectiveness of financial reporting systems and internal control procedures.

Table 1

Directors	Number of meetings attended	Attendance rate
<i>Executive Directors</i>		
Mr. Tsoi Tin Chun (<i>Chairman</i>)	4 out of 4	100%
Mr. Barry Cheung Chun Yuen	4 out of 4	100%
Mr. Dave Lee Yeow Long ⁽¹⁾	1 out of 2	50%
Mr. Patrick Wong Siu Hung ⁽²⁾	2 out of 2	100%
Mr. Ib Fruergaard ⁽³⁾	2 out of 2	100%
<i>Non-Executive Director</i>		
Mr. Cheong Soo Kiong	4 out of 4	100%
<i>Independent Non-executive Directors</i>		
Ms. Maria Tam Wai Chu	4 out of 4	100%
Mr. Wong Kong Hon	2 out of 4	50%
Mr. Liu Hongru	4 out of 4	100%

Notes:

(1) Resigned on 31 August 2005.

(2) Resigned on 18 November 2005.

(3) Appointed on 18 November 2005.

During 2005, two Audit Committee meetings were held and the individual attendance records are listed in table 2.

The Audit Committee met and held discussions with the Group Financial Controller and other senior management on the Company's annual and interim financial reports, discussed the audit approach and significant audit and accounting issues with external auditors, including the financial impact of the adoption of applicable new/revised accounting standards, and also identified/dealt with any control weaknesses in the financial reporting process and internal control procedures.

Remuneration Committee

The Remuneration Committee was established during the year in accordance with the Listing Rules. The Committee currently comprises two Independent Non-executive Directors and the Chairman of the Board, namely, Ms. Maria Tam Wai Chu, Mr. Wong Kong Hon and Mr. Tsoi Tin Chun respectively. The Committee is chaired by Ms. Maria Tam Wai Chu.

The Committee has specific written terms of reference and its primary duties include:

- reviewing the Group's overall remuneration policies and structure to ensure it attracts, retains and motivates talent as well as aligns the interests of executives with shareholder value;

- making recommendations to the Board on the administration of fair and transparent procedures for setting policies on the remuneration of Directors and senior management of the Group and for determining their remuneration packages.

During 2005, one meeting was held by the Remuneration Committee and the attendance record is listed in table 3.

During the meeting, the Committee discussed with the Chief Human Resources Officer the Group's remuneration policies, reviewed the Group's overall remuneration structure and compensation philosophy, including the reward schemes and performance-based bonus system. The Committee also discussed and approved the remuneration of Executive Directors and senior management which were determined with reference to the Company business unit and individual performances and the prevailing

market conditions. The Committee also made recommendations to the Board on the remuneration structure for all Non-executive Directors. No Director is involved in determining his own remuneration.

The emoluments of the Directors of the Company for the year ended 31 December 2005 are set out on page 74 to 75 of this Annual Report.

Securities Transactions by Directors

The Company has adopted the Model Code of the Listing Rules as the Company's code of conduct for security transaction by Directors and has set up relevant compliance procedures to apply the principles. All Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed issuers of the Listing Rules (the "Model Code") during the year.

Table 2

Audit Committee Members	Number of meeting attended	Attendance rate
Ms. Maria Tam Wai Chu	2 out of 2	100%
Mr. Wong Kong Hon	1 out of 2	50%
Mr. Liu Hongru	2 out of 2	100%

Table 3

Remuneration Committee Members	Number of meeting attended	Attendance rate
Mr. Tsoi Tin Chun	1 out of 1	100%
Ms. Maria Tam Wai Chu	1 out of 1	100%
Mr. Wong Kong Hon	0 out of 1	0%

Internal Control Environment

The Group's internal control procedures include a comprehensive system for reporting information to the division head of each business unit and the Executive Directors.

Business plans and budgets are prepared annually by the management of each business unit and are subject to review and approval by the Executive Directors. Plans and budgets are reviewed on a quarterly basis to update the actual performance variances against the budget. When setting budgets and reforecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks.

The Executive Directors review monthly management reports on the financial results and key operating statistics of each unit and hold monthly meetings with the senior management of each business unit and the finance team to review these reports, discuss business performance against budgets, forecasts, and market conditions and address accounting and finance related matters.

The Group has established guidelines and procedures for the approval and control of expenditures. Operating expenditures are subject to overall budget control and are controlled within each business unit with approval levels for such expenditures

being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process. More specific controls and approvals, prior to commitment by Executive Directors, are required for material expenditures and acquisitions within approved budgets and also unbudgeted expenditures and acquisitions.

Group Risk Management

The Group is principally exposed to commodity price risks, cash flow interest rate risks, credit risks and liquidity risks, and to a lesser extent, foreign currency risks, and uses financial instruments in connection with its risk management activities.

The Group has a Risk Committee which has set up written risk management policies and guidelines and has established procedures to monitor and control risks on a timely and accurate manner. Such policies and procedures are reviewed annually by Executive Directors and regularly by the Risk Committee to ensure the Group's policies and guidelines are appropriate and adhered to. In addition, the Group's treasury department oversees the Group's investment and lending activities, and closely monitors the Group's liquidity on a regularly basis to ensure the Group's cash flow is always positive.

Investor Relations and Shareholders' Rights

The Group actively promotes investor relations and communications by setting up regular briefing meetings with the investment community and, in particular, when the interim and year end financial results are announced. The Chief Executive, assisted by the Corporate Communications Director and management, responds to requests for information and queries from the investment community.

The Board is committed to providing clear and updated information on the Group to shareholders through the publication of notices, circulars, interim and annual reports to shareholders.

More details on investor and shareholder relations are set out on page 30 to 31 of this Annual Report.