



# corporate governance report

## **CORPORATE GOVERNANCE PRACTICES**

The Company has always recognised the importance of the shareholders' transparency and accountability. It is the belief of the Board that the shareholders can maximise their benefits from good corporate governance. Throughout the financial year ended 31 December 2005, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules, except with the following deviations:

### **Code Provision A.2.1**

There is no separation of the role of chairman and chief executive officer as set out in the code provision A.2.1. Mr. Mak Shiu Tong, Clement currently assumes the role of both the Chairman and the CEO of the Company. Mr. Mak has substantial experience and a firmly established reputation in the telecom industry that is essential to fulfilling the role of the Chairman. At the same time, Mr. Mak has the appropriate management skills and business acumen that are the pre-requisites for assuming the role of the CEO in the day-to-day management of the Group. The Board is composed of four executive directors (including the Chairman) and three independent non-executive directors ("INED(s)") with a balance of skills and experience appropriate for the requirements of the Group. Furthermore, the role of the presidents and the general managers of the Company's major operating subsidiaries are performed by other individuals. The Board believes that there is no need to segregate the roles of the Chairman and the CEO as the balance of power and authority is already ensured by the current structure. The Board does not believe that the separation of the role of the Chairman and the CEO will improve the corporate performance.

### **Code Provision A.4.1**

The code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election.

None of the existing INEDs is appointed for a specific term. However, all INEDs are subject to the retirement by rotation and re-election at every annual general meeting of the Company in accordance with the bye-laws of the Company.

### **Code Provision A.4.2**

The code provision A.4.2 provides that all directors appointed to fill a casual vacancy should be subject to the election by the shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to the retirement by rotation at least once every three years.

In accordance with the bye-laws of the Company, any director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting and shall then be eligible for re-election. The Board considers that such a deviation is not material as casual vacancy seldom happens and duration between appointment to fill casual vacancy and the immediate following annual general meeting is short.

Pursuant to the bye-laws of the Company, the Chairman and the managing director of the Company shall not be subject to the retirement by rotation or also not be taken into account in determining the number of directors to retire in each year. The Board considers that the continuity of the Chairman and his leadership will be essential for the stability of the key management of the Board. On the other hand, the Board will ensure that the directors of the Company (the "Director(s)") other than the Chairman will rotate at least once every three years in order to comply with the code provision A.4.2.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted its code of conduct regarding the securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all the Directors, they confirmed that they have complied with the required standard set out in the Model Code adopted by the Company throughout the financial year ended 31 December 2005.

## **THE BOARD**

The Board is charged with the responsibility for the promotion of the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith and in the best interests of the Company.

Matters reserved for the Board decision include those relating to:

- the strategic direction of the Group;
- the objectives of the Group;
- monitoring the performance of management;
- ensuring prudent and effective control measures are in place;
- material bank facilities arrangements;
- material acquisitions and disposals of assets and significant investments;
- material transactions with connected persons;
- material corporate finance transactions including placing or sale of shares or convertible bonds, corporate restructuring, take-over, including approval of the announcements and the circulars;
- reviewing and approving interim and annual accounts, declaration of dividends;
- appointment, re-appointment of auditors and determination of their remuneration; and
- reviewing and determination of the terms and remuneration of the Directors.

## THE BOARD *(Continued)*

The management was delegated the authority and responsibility by the Board for the management of the Group, with division heads responsible for different aspects of the business. The Board meets at least four times each year and meets as and when required. Appropriate and sufficient information was provided to the Board members in a timely manner. During the financial year ended 31 December 2005, the Board held fifty-two meetings. The attendance of the Directors at the Board meetings (either in person or by phone) is set out as follows:

Name of the Director	Number of attendance
Mak Shiu Tong, Clement	52/52
Tam Ngai Hung, Terry	52/52
Cheng Yuk Ching, Flora	50/52
William Donald Putt	37/52
Samuel Olenick	38/52
Tam King Ching, Kenny	44/52
Lau Ho Man, Edward	45/52

The Company Secretary is responsible for taking minutes of the Board and all Board minutes are open for inspection by the Directors upon reasonable notice.

The Directors enable, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

Appropriate insurance cover has been arranged in respect of the legal action against the Directors and the management. The Board considers that the Group has sufficient and appropriate liability insurance to cover its Directors and the management against any legal liability arising from their performance of their duties.

## BOARD COMPOSITION

As at the date of this Annual Report, the Board comprises four executive Directors, namely Mr. Mak Shiu Tong, Clement (also acting as the Chairman and the CEO), Mr. Tam Ngai Hung, Terry (also acting as the Deputy Chairman), Ms. Cheng Yuk Ching, Flora and Dr. William Donald Putt and three INEDs, namely Mr. Samuel Olenick, Mr. Tam King Ching, Kenny and Mr. Lau Ho Man, Edward. The Board has maintained a balance of skills and experience appropriate of the requirements, promotion and development of the business of the Group. Its composition represents a mixture of management, technical, marketing, procurement, accounting and finance with substantial experience in the businesses in which the Group is engaged.

The Company has received annual confirmation of independence from the three INEDs in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all INEDs are independent within the definition of the Listing Rules.

**BOARD COMPOSITION** *(Continued)*

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of a sufficient number of the INEDs and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise throughout the financial year ended 31 December 2005. The Board comprises three INEDs, all of whom have accounting and financial expertise and bring strong independent judgement, knowledge and experience to the Board.

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the Code for the Board to have at least one-third in number of its members comprising the INEDs. The biographies of the Directors are set out in the section headed “Directors and Senior Management” in this Annual Report, which demonstrate a diversity of skills, expertise, experience and qualifications.

**THE CHAIRMAN AND THE CEO**

Mr. Mak Shiu Tong, Clement currently assumes the role of both the Chairman and the CEO of the Company. The considered reasons for such deviation from the code provisions set out in the Code are set out in the section headed “Corporate Governance Practices” above. Mr. Mak is responsible for the corporate planning, overall strategic direction of the Group and takes a leading role in managing the business.

**RE-ELECTION AND RETIREMENT OF THE DIRECTORS**

The bye-laws of the Company provide that (i) each Director (except the Chairman and the managing Director) is required to retire by rotation once every three years and that one-third (or the number nearest to but not less than one-third) of the Directors shall retire from office and be eligible for re-election at each annual general meeting of the Company; and (ii) any Director appointed by the Board, either to fill a casual vacancy or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

**INDEPENDENT NON-EXECUTIVE DIRECTORS**

Each of the INEDs has filed a written confirmation to the Company confirming their independence and has undertaken to inform the Stock Exchange and the Company as soon as practicable if there is any subsequent change in circumstances which may affect their independence. The INEDs are not appointed for any specific terms, but they are subject to the retirement by rotation and re-election at each annual general meeting of the Company in accordance with the bye-laws of the Company.

**BOARD COMMITTEES**

The Board has established two committees, namely the remuneration committee (the “Remuneration Committee”) and the audit committee (the “Audit Committee”), with clearly defined written terms of reference. The main roles and responsibilities of these two committees, including all authorities delegated to them by the Board, as set out in the terms of reference, are published on the Company’s website at [www.cct.com.hk](http://www.cct.com.hk). The different committees’ independent views and recommendations not only ensure proper control of the Group but also the continual achievement of the high corporate governance standards expected of a listed company. The chairman of each committee reports the outcome of the committee’s meetings to the Board for further discussion and approval.

**BOARD COMMITTEES** *(Continued)*

**Remuneration of the Directors**

Pursuant to the requirements of the Listing Rules, the Company has established the Remuneration Committee with specific written terms of reference in line with the code provisions in the Code in 2005. The Remuneration Committee is mainly responsible for (i) making recommendations to the Board on the policy and structure for the remuneration of the Directors and the senior management of the Group; (ii) reviewing the remuneration package including the performance-based bonus and incentive rewards for the executive Directors and the senior management of the Company; and (iii) reviewing and recommending to the Board the fees payable to the INEDs.

The Remuneration Committee consists of five members comprising the three INEDs, namely Mr. Tam King Ching, Kenny, Mr. Lau Ho Man, Edward and Mr. Samuel Olenick, and two executive Directors, namely Mr. Mak Shiu Tong, Clement and Mr. Tam Ngai Hung, Terry. The Remuneration Committee is chaired by one of the members who must be an INED. Mr. Tam King Ching, Kenny acted as the chairman of the Remuneration Committee for the year 2005. The chairman of the Remuneration Committee is subject to the rotation each year, provided that he/she must be an INED.

During the financial year ended 31 December 2005, the Remuneration Committee held one meeting. The attendance of the members of the Remuneration Committee at the Remuneration Committee meeting (either in person or by phone) is set out as follows:

<b>Name of the members of the Remuneration Committee</b>	<b>Number of attendance</b>
Tam King Ching, Kenny	1/1
Samuel Olenick	1/1
Lau Ho Man, Edward	1/1
Mak Shiu Tong, Clement	1/1
Tam Ngai Hung, Terry	1/1

For the financial year ended 31 December 2005, the Remuneration Committee met on one occasion and reviewed the current framework, policies and structure for the remuneration of the Directors and the senior management and reported to the Board of their review with recommendation. The Remuneration Committee also reviewed specific remuneration package including the terms of employment, incentive rewards and performance-based bonus of the executive Directors and senior management and the fees payable to the INEDs.

The primary objective of the Group’s remuneration policy is to retain and motivate executive Directors and senior management by linking their rewards to the corporate and individual performance, job complexity and responsibilities, so that the interests of the executive Directors are aligned with those of the shareholders. No Director can, however, approve his or her own remuneration.

In order to attract, retain, and motivate executives and employees serving for the Group, the Company has adopted a share option scheme in 2002. The scheme enables the eligible participants to obtain an ownership interest in the Company by payment of the exercise price with reference to the market price of the share of the Company at the time of grant and thus to reward to the participants who contribute to the success of the Group’s operations.

Details of the amount of the Directors’ emoluments are set out in note 8 to the financial statements in this Annual Report and details of the share option scheme are set out in the section headed “Report of the Directors” in this Annual Report.

**BOARD COMMITTEES** (Continued)**Audit Committee**

The Company has established the Audit Committee in 2000 with specific terms of reference formulated in accordance with the requirements of the Listing Rules. The primary duties of the Audit Committee are to ensure the objectivity and credibility of the Company's financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

The Audit Committee is mainly responsible for (i) reviewing the Company's interim and annual financial statements and making recommendations as to the approval of the Company's interim and annual financial statements by the Board; (ii) reviewing and making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and the terms of engagement including the remuneration of the external auditors; (iii) discussing with the external auditors the nature and scope of the audit; (iv) monitoring and assessing the independence and objectivity of the external auditors and the effectiveness of the audit process in accordance with applicable standard; (v) reviewing and monitoring financial reporting and the reporting judgement contained in them; and (vi) reviewing financial and internal controls, accounting policies and practices with management, internal and external auditors of the Company.

The Audit Committee consists of three members comprising the three INEDs, namely Mr. Tam King Ching, Kenny, Mr. Lau Ho Man, Edward and Mr. Samuel Olenick. The Audit Committee was chaired by an INED, Mr. Tam King Ching, Kenny, for the year 2005, who possesses extensive experience in, and knowledge of, finance and accounting. The chairman of the Audit Committee is subject to the rotation each year. All members of the Audit Committee hold the relevant industry and accounting and financial experience necessary to advise on Board strategies and other related matters. All members of the Audit Committee have complete and unrestricted access to the external auditors and all employees of the Company.

During the financial year ended 31 December 2005, the Audit Committee held three meetings. The attendance of the members of the Audit Committee at the Audit Committee meetings (either in person or by phone) is set out as follows:

<b>Name of the members of the Audit Committee</b>	<b>Number of attendance</b>
Samuel Olenick	3/3
Tam King Ching, Kenny	3/3
Lau Ho Man, Edward	3/3

In 2005, the members of the Audit Committee met with the Group's external auditors to discuss the annual audit plan. The meeting of the Audit Committee was attended by the members of the Audit Committee and the external auditors of the Company. The external auditors also made presentations to the Audit Committee on the implications of the introduction of new accounting standards in Hong Kong.

For the financial year ended 31 December 2005, the Audit Committee reviewed the accounting principles and practices adopted by the Company and discussed with management the financial reporting matters. The Audit Committee also reviewed the internal control and risk management system of the Group with the internal auditors of the Company. The Audit Committee also reviewed both the half year results for the period ended 30 June 2005 and the annual results for the year ended 31 December 2005 of the Company before announcement of both results.

## NOMINATION OF THE DIRECTORS

The Company has not set up the nomination committee, the establishment of which is only a recommended best practice by the Stock Exchange.

The Board is empowered under the Company's bye-laws to appoint any person as a director either to fill a casual vacancy on or as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience relevant to the Company's business. It is believed that the members of the Board would collectively have the required professional knowledge and skills in discharging the Board's responsibility in identifying, recruiting and evaluating new nominees to the Board and the assessment of qualifications of nominated candidates for directorship. During the year under review, no new director was appointed to the Board.

## AUDITORS' REMUNERATION

During the year ended 31 December 2005, the remuneration paid to the external auditors of the Company, Messrs. Ernst & Young, is set out as follows:

Service rendered	Fees paid/payable HK\$'000
Audit services	6,000
Non-audit services:	
Tax compliance services	159
Other services	1,805
Total	7,964

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such financial statements. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

The statement of the external auditors of the Company, Messrs. Ernst & Young, with regard to their reporting responsibilities on the Company's financial statements is set out in the section headed "Report of the Auditors" in this Annual Report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to the events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Board therefore continues to adopt the going concern approach in preparing the accounts.

## **INTERNAL CONTROL AND INTERNAL AUDIT**

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control system and reviewing their effectiveness. Through the Company's internal audit department, the Directors conduct a review of the effectiveness of the system of internal control of the Company which covers all material controls, including financial, operational and compliance controls and risk management functions. The reports and findings prepared by the internal audit team of the Company have been circulated to the Audit Committee for reference. If necessary, the internal audit team of the Company will present their findings and the prospective internal audit plan at the Audit Committee meeting for its approval.

The internal audit team reviews the major operational, financial control and compliance control and risk management functions of the Group on a continuing basis and aims to cover all major operations of the Group on a rotational basis. The internal audit team reports their findings and makes their recommendations directly to the Board. The Audit Committee reports to the Board at each Board meeting the progress of work plan and related findings.