

# Corporate Governance Report

Promoting good corporate governance practices is the prioritized task of the Company for the past years. The Company has organized series of management conferences and seminars that focused on achieving high standard of corporate governance and internal control within the Group. Responses have been positive from all the management of the Group.

In view of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules, the Board has adopted various guidelines and procedures, such as the "Corporate Governance Manual" (the "CG Manual") and the "Guidelines on Internal Control System" (the "IC Guidelines"), for ensuring the proper compliance of the CG Code and the enhancement of the corporate governance practices of the Group as a whole.

The Company has applied the principles of and complied with the applicable code provisions of the CG Code during the year ended 30 June 2006, except for certain deviations with considered reasons as explained below.

## SECURITIES TRANSACTIONS OF DIRECTORS AND RELEVANT EMPLOYEES

The Company adopted a code of conduct regarding directors' securities transactions on terms

no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, they have complied with the required standards of the said code during the year.

As required under code provision A.5.4 of the CG Code, the Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealing in the securities of the Company. The Board has established the guidelines for employees in respect of their dealing in the Company's securities as set out in the handbook for "Corporate Policy on Staff Responsibility" but they are not on no less exacting terms than the Model Code. The deviation is mainly due to the fact that the Company currently has over 42,000 employees and operates diversified businesses,

it will cause immense administrative burden for processing written notifications from the relevant employees by the Company.

## BOARD OF DIRECTORS

The Board's primary role is to protect and enhance long-term shareholder value. It sets the overall strategy for the Group and supervises executive management. In the course of discharging its duties, the Board acts in good faith, with due diligence and care, and in the best interests of the Company and its shareholders.

The Board currently comprises 14 members whose biographical details are set out on pages 14 and 15 of this report. The Board meets regularly at least four times a year at quarterly intervals and holds additional meetings as and when they are deemed necessary. Four meetings of the Board were held during the year ended 30 June 2006 and the record of attendance of each director is as follows:

	Name of Director	Attended/ Eligible to Attend
Executive directors	Dr Cheng Kar Shun, Henry ( <i>Chairman</i> )	4/4
	Mr Doo Wai Hoi, William ( <i>Deputy Chairman</i> )	4/4
	Mr Chan Kam Ling ( <i>Chief Executive Officer</i> )	4/4
	Mr Tsang Yam Pui	4/4
	Mr Wong Kwok Kin, Andrew	4/4
	Mr Lam Wai Hon, Patrick	4/4
	Mr Cheung Chin Cheung	4/4
	Mr William Junior Guilherme Doo	2/2
Non-executive directors	Mr Wilfried Ernst Kaffenberger	3/4
	Mr To Hin Tsun, Gerald	4/4
	Mr Dominic Lai	3/4
Independent non-executive directors	Mr Kwong Che Keung, Gordon	4/4
	Mr Cheng Wai Chee, Christopher	4/4
	Mr Shek Lai Him, Abraham	4/4

During the year, the Company has given to the directors of no less than 14 days notices for regular board meetings and the directors are given an opportunity to include matters in the agenda for regular board meetings.

The Company provides extensive background information about its history, mission and businesses to its directors. The directors are also provided the opportunity to visit the Group's operational facilities and meeting with the management to gain a better understanding of its business operations.

The Board has separate and independent access to the senior management and the Company Secretary at all times.

By submitting request to the Company Secretary, the Board can access to independent professional advice any time when it thinks appropriate.

The Company has arranged for appropriate liability insurance for the directors of the Group for indemnifying their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

Pursuant to the requirement of the Listing Rules, the Company has received a written confirmation from each of the independent non-executive directors of his independence to the Company. The Company considers all its independent non-executive directors to be independent.

For ensuring the efficiency of daily operation of the Group and the implementation of policies as laid down by the Board, an Executive Committee was established under the Board since 2003. Its main responsibilities are to develop and recommend to the Board overall strategy for the Group, to consider and approve investment and divestments, as well as to review the Group's performance and manage its assets and liabilities in accordance with the policies and directives of the Board.

Comprising all executive directors of the Company, the current members of the Executive Committee are Dr Cheng Kar Shun, Henry (Committee Chairman), Mr Doo Wai Hoi, William, Mr Chan Kam Ling, Mr Tsang Yam Pui, Mr Wong Kwok Kin, Andrew, Mr Lam Wai Hon, Patrick, Mr Cheung Chin Cheung and Mr William Junior Guilherme Doo. The Executive Committee met regularly during the year, with members' average attendance rate of over 70%.

#### **Non-executive directors**

Non-executive directors of the Company are appointed under a fixed term of three years and are also subject to retirement on a rotational basis in accordance with the bye-laws of the Company.

#### **Remuneration of directors**

The Remuneration Committee was established under the Board in July 2005 and is composed of two executive directors and three independent non-executive

directors. Current members of the Remuneration Committee are Mr Chan Kam Ling (Committee Chairman), Mr Lam Wai Hon, Patrick, Mr Kwong Che Keung, Gordon, Mr Cheng Wai Chee, Christopher and Mr Shek Lai Him, Abraham. Major functions of the Remuneration Committee include the following:

- (a) to make 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;
- (b) to determine the remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments and make recommendations to the Board of the remuneration of non-executive directors;
- (c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (d) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that

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such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and

- (e) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

Detailed terms of reference of the Remuneration Committee, which contains the full description of its duties, is available on the website of the Company.

Two meetings of the Remuneration Committee were held during the year and the attendance record of its members at the said Remuneration Committee meetings is as follows:

Name of Remuneration Committee member	Attended/ Eligible to Attend
Mr Chan Kam Ling	2/2
Mr Lam Wai Hon, Patrick	2/2
Mr Kwong Che Keung, Gordon	2/2
Mr Cheng Wai Chee, Christopher	2/2
Mr Shek Lai Him, Abraham	2/2

Works performed by the Remuneration Committee for the year ended 30 June 2006 are summarized below:

- (i) reviewing the remuneration policy, structure and packages for directors and senior management;
- (ii) making recommendations to the Board of the directors' fee for the year ended 30 June 2006;
- (iii) making recommendations to the Board for remuneration packages of the executive directors; and
- (iv) reviewing the performance-based remuneration.

Each director will be entitled to a director's fee which is determined by the Board with authorization granted by the shareholders at the Company's annual general meetings. In order to motivate and retain valuable employees, the remuneration packages of executive directors and senior

management are determined by considering their duties and responsibilities with the Company, their performance against corporate goals and objectives and by comparing with the remuneration standard in the market.

The amount of remuneration paid to each director for the year ended 30 June 2006 is set out on note 13 to the financial statements.

### Nomination, appointment and re-election of directors

The Company has not established a Nomination Committee during the year under review and the role and function of such committee was performed by the Board.

Every Board member is welcome to nominate suitable person for appointing as director of the Company. Such nomination will then be discussed and determined by the Board for his suitability on the basis of qualifications, experience and background.

Pursuant to code provision A.4.2 of the CG Code, 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. Amendments on the relevant bye-laws of the Company were approved by its shareholders at the annual general meeting held on 29 November 2005 in

order to comply with this code provision.

Pursuant to the existing bye-laws of the Company, all directors appointed to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting. In addition, one-third of the directors that have served longest on the Board, must retire, thus becoming eligible for re-election at each annual general meeting. Each director is subject to retirement by rotation at least once every three years. For enhancing the accountability, any further re-appointment of an independent non-executive director, who has served the Board for more than nine years, will be subject to separate resolution to be approved by the shareholders.

#### **Directors' responsibilities for preparing accounts**

The Company's directors acknowledge their responsibilities to prepare accounts for each half and full financial year which give a true and fair view of the state of affairs of the Group.

#### **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

For ensuring clear distinction of the independence, accountability and area of responsibility of the Chairman and the Chief Executive Officer (the "CEO") of the Company, the two roles are separated and the areas of their

respective responsibility are being stated in the CG Manual of the Company.

Chairman is the leader of the Board and his responsibilities generally include:

- (a) to ensure all directors are properly briefed on matters to be discussed at board meetings;
- (b) to ensure all directors receive adequate, complete and reliable information in a timely manner;
- (c) to ensure the Board works effectively, discharges its responsibilities and discusses all key issues in a timely manner;
- (d) to approve the agenda for board meetings and take into account any matters proposed by other directors for inclusion in the agenda;
- (e) to give each director an opportunity to express his views at the board meetings and encourage them to contribute to the Board's affairs; and
- (f) to ensure that the Board acts in the best interests of the Company.

The key responsibilities of the CEO includes:

- (a) to provide the leadership for the management of the Company;
- (b) to implement and report to the Board on the Company's strategy;

- (c) to oversee the realization of the Company of the objectives set by the Board; and
- (d) to provide all such information to the Board as is necessary to enable the Board to monitor the performance of management.

#### **AUDIT COMMITTEE**

The Audit Committee is appointed by the Board from amongst the non-executive directors of the Company with the majority of the members being independent non-executive directors. Current members of the Audit Committee are Mr Kwong Che Keung, Gordon (Committee Chairman), Mr Cheng Wai Chee, Christopher, Mr Shek Lai Him, Abraham and Mr Dominic Lai. The major duties of the Audit Committee include the following:

- (a) to make recommendation to the Board on the appointment, re-appointment and removal of external auditors and to approve its remuneration and terms of engagement;
- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with the applicable standard;
- (c) to monitor integrity of financial statements of the Company and its annual reports and accounts, half-year reports and to review significant financial reporting judgements contained in them;

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(d) to review the Company's financial control, internal control and risk management systems;

(e) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function; and

(f) to review the Group's financial and accounting policies and practices.

Detailed terms of reference of the Audit Committee, which contains the full description of its duties, is available on the website of the Company.

During the year, the Audit Committee met twice and the following works have been performed:

- (i) review of the audited financial statements and the interim results of the Company for the years ended 30 June 2005 and 2006 respectively;
- (ii) approval of internal audit plans for the year ended 30 June 2006 and for the year ending 30 June 2007;
- (iii) review of the internal audit reports prepared by Group

Audit & Management Services Department;

(iv) review of the system of internal control of the Company;

(v) review of the audit plan from external auditors; and

(vi) review of the remuneration of external auditors.

Attendance record of members of the Audit Committee for the meetings held during the year is as follows:

Name of Audit Committee member	Attended/ Eligible to Attend
Mr Kwong Che Keung, Gordon	2/2
Mr Cheng Wai Chee, Christopher	2/2
Mr Shek Lai Him, Abraham	1/2
Mr Dominic Lai	2/2

The Audit Committee reviewed the audited financial statements of the Group for the year ended 30 June 2006 and the accounting principles and practices adopted by the Group.

## EXTERNAL AUDITORS

The Audit Committee is responsible for considering the appointment, re-appointment and removal of external auditors subject to endorsement by the Board and final approval and authorization by the shareholders of the Company in general meetings. The existing auditors of the Company, who is also the

Group's principal auditors, is PricewaterhouseCoopers who was first appointed in 2000.

Total auditor's remuneration in relation to statutory audit work of the Group for the year ended 30 June 2006 amounted to HK\$18.1 million (2005: HK\$14.5 million), of which a sum of HK\$17.4 million was paid to PricewaterhouseCoopers. The remuneration paid to PricewaterhouseCoopers and its affiliated firms for services rendered is broken down as follows:

	2006 HK\$m	2005 HK\$m
Statutory audit	17.4	14.5
Non-audit services	3.0	2.8
	20.4	17.3

The reporting responsibilities of PricewaterhouseCoopers are set out in the Auditors' Report on page 67 of this report.

## INTERNAL CONTROL

The Board has adopted the IC Guidelines for the purpose of enhancing the internal control and risk management within the Group. Under the IC Guidelines, the key aspects of internal control were identified and guidelines and procedures are provided for helping the subsidiary companies to conduct the control works. Management of all subsidiary companies will submit to the Company a written report on their review of the respective internal control system half yearly. In this respect, seminars were held to ensure that management of all subsidiary companies understand the nature and spirits of the IC Guidelines. As well, the Group Audit & Management Services Department was assigned to strengthen and consolidate the internal control concepts for the management team.

The Group Audit & Management Services Department performs internal audit of the Group's subsidiary companies regularly while the Risk Management Department will assist subsidiary companies in identifying, assessing and controlling the risk exposures.

Besides, the CEO and the Qualified Accountant will submit a written report half yearly on the effectiveness of the Group's

internal control system to the Audit Committee for review.

The Board has conducted a review of the effectiveness of the system of internal control of the Group for the year ended 30 June 2006. This review covered the areas of operational, financial and compliance controls and risk management functions of the Group.

## INVESTOR RELATIONS

The Company understands that effective, two-way dialogue with investors is not only vital for inspiring confidence, but also an essential element in good corporate governance. For this reason, we have established an Investor Relations team made up of directors and senior management to oversee all activities in this area. In addition to conducting one-on-one meetings locally, the team regularly travels overseas to explain the Group's investment and corporate development strategies to institutional investors. During the year, the team undertook 262 meetings with analysts and fund managers in Hong Kong and overseas as well as conducted 15 road-shows in Shanghai, Tokyo, Singapore, New York, San Francisco, London, Edinburgh, Paris, Milan and Zurich.

Attributed to the Group's commitment to maintain regular dialogue with the investment community, the Company has extended its research coverage significantly. Leading institutions such as Nomura International,

CLSA, Merrill Lynch, DBS Vickers and CIMB-GK Securities issued research reports on NWS Holdings, in addition to BNP Paribas Peregrine having covered the Group for years.

The Company remains a firm believer in transparency and disseminates important information including press releases, announcements and other updates in a timely manner via the [www.nwsh.com.hk](http://www.nwsh.com.hk) website. Each update is accompanied by an alert to all e-news subscribers.

The Group will continue to maintain its high standards of investor relations by continuing to interact with investors and analysts in a timely and effective manner in the coming years.

## CORPORATE SOCIAL RESPONSIBILITIES

For enhancing the social responsibilities of the Group, a Corporate and Social Responsibility Committee (the "CSR Committee") was set up by the Board in 2004. Current members consist of Mr Tsang Yam Pui (Committee Chairman), Mr Lam Wai Hon, Patrick and Mr Dominic Lai. The CSR Committee is responsible for formulating the social responsibilities strategies and policies of the Group, overseeing the development and implementation of the Group's social responsibilities strategies, policies and practices as well as the Group's corporate volunteer team, NWS Volunteer Alliance, and other charitable activities.