

Corporate Governance Report



Corporate Governance Practices

The Company is committed to sound corporate governance practices. The Company recognises that corporate governance practices are fundamental to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholder value.

The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices ("Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31st December 2006 except as noted hereunder.

Board of Directors

The Board, led by the Chairman, is responsible for the approval and monitoring of Group-wide strategies and policies, approval of annual budgets and business plans, evaluating the performance of the Group, and oversight of management. Management is responsible for the day-to-day operations of the Group under the leadership of the Group Managing Director.

As at 31st December 2006, the Board comprised sixteen Directors as follows:

Executive Directors

Mr. Canning Fok Kin-ning
(Chairman)

Mr. Tso Kai-sum
(Group Managing Director)

Mrs. Susan Chow Woo Mo-fong⁽¹⁾

Mr. Andrew John Hunter⁽²⁾

Mr. Kam Hing-lam⁽³⁾

Mr. Francis Lee Lan-yee
(Director & General Manager (Engineering))



Mr. Victor Li Tzar-kuoi⁽³⁾
Mr. Neil Douglas McGee⁽⁴⁾
(Group Finance Director)
Mr. Frank John Sixt
Mr. Wan Chi-tin
*(Director & General Manager
(Corporate Development))*

Non-executive Directors

Mr. Ronald Joseph Arculli
Mr. George Colin Magnus
Mr. Ewan Yee Lup-yuen

Independent Non-executive Directors

Mr. Holger Kluge
Mr. Ralph Raymond Shea
Mr. Wong Chung-hin

Notes:

- (1) Mrs. Susan Chow Woo Mo-fong is also Alternate Director to Mr. Canning Fok Kin-ning and Mr. Frank John Sixt.*
- (2) Mr. Andrew John Hunter ceased to be Group Finance Director with effect from 1st February 2006.*
- (3) Mr. Kam Hing-lam is an uncle of Mr. Victor Li Tzar-kuoi.*
- (4) Mr. Neil Douglas McGee assumed position of Group Finance Director with effect from 1st February 2006.*

Biographical details of the Directors are set out in “The Board of Directors” section on pages 8 to 9 of the Annual Report.

The Board meets at least four times a year. Throughout the year, Directors also participate in the consideration and approval of routine and operational matters of the Company by way of circular resolutions with supporting explanatory write-up, coupled with briefings from the Group Managing Director, the Group Finance Director and the Company Secretary as required. Directors at all times have full access to information on the Group. They have independent access to senior management for information on the Group and unrestricted access to the services of the Company Secretary. Further, a procedure has been established to enable Directors to seek independent professional advice whenever deemed necessary by them at the Company’s expense.

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The Board held four meetings during the 2006 financial year. The record of attendance of each Director is as follows:

	Name of Director	Attended / Eligible to Attend
Executive Directors	Mr. Canning Fok Kin-ning (<i>Chairman</i>)	4/4*
	Mr. Tso Kai-sum (<i>Group Managing Director</i>)	4/4
	Mrs. Susan Chow Woo Mo-fong	4/4
	Mr. Andrew John Hunter	4/4
	Mr. Kam Hing-lam	4/4
	Mr. Francis Lee Lan-yee	4/4
	Mr. Victor Li Tzar-kuoi	2/4
	Mr. Neil Douglas McGee	4/4
	Mr. Frank John Sixt	3/4*
	Mr. Wan Chi-tin	4/4
Non-executive Directors	Mr. Ronald Joseph Arculli	4/4
	Mr. George Colin Magnus	4/4
	Mr. Ewan Yee Lup-yuen	3/4
Independent Non-executive Directors	Mr. Holger Kluge	3/4
	Mr. Ralph Raymond Shea	4/4
	Mr. Wong Chung-hin	4/4

* One meeting was attended by his Alternate Director.

Directors receive at least 14 days prior written notice of a regular meeting and may propose matters for discussion to be included in the agenda. An agenda with supporting board papers is sent to Directors no less than three days prior to the meeting.

The minutes of board meetings are prepared by the Company Secretary with details of the decisions reached, any concerns raised and dissenting views expressed. The draft minutes are sent to all Directors for comment before being formally signed by the chairman of the meeting. Copies of the final version of board minutes are sent to Directors for their information and records.

The Non-executive Directors are not appointed for a specific term as provided for under Code A.4.1 of the Code. According to the Company's Articles of Association, they, similar to all other Directors, are required to retire from office by rotation and be subject to re-election once every three years.

The Chairman and the Group Managing Director may recommend candidates for election to the Board.

The principal consideration is to build an effective and complementary board with the expertise, skills and experience relevant to the Group's businesses. Potential candidates for Independent Non-executive Director will also be reviewed to determine whether they are independent according to the requirements of the Listing Rules, and their ability to devote sufficient time to Board and committee meetings. Credentials of candidates are put forward to the Board for consideration in respect of any proposed appointment of new Director. During 2006, no additional Director was appointed by the Board.

Every newly appointed Director receives briefings and a package of orientation materials on the operations and businesses of the Group. The Company Secretary updates Directors on the latest developments and changes to the Listing Rules and the applicable legal and regulatory requirements

regarding subjects necessary in the discharge of their duties. As part of the continuous professional development exercise, Directors are invited to seminars on Corporate Governance and Duties of Directors of Listed Companies conducted by members of the legal profession.

Directors' Securities Transactions

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") set out in Appendix 10 of the Listing Rules as the Group's code of conduct regarding Directors' securities transactions. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the year ended 31st December 2006.

Senior managers who are likely to be in possession of unpublished price sensitive information regarding the Company and its securities are also required to comply with the Model Code.

Directors' Responsibility for Preparing Accounts

The Directors acknowledge their responsibility to prepare financial statements for each half and full financial year which give a true and fair view of the state of affairs of the Group.

Chairman and Group Managing Director

The position of the Chairman (Mr. Canning Fok Kin-ning) and the Group Managing Director (Mr. Tso Kai-sum) are held by separate individuals.

The Chairman is responsible for providing leadership to, and overseeing the functioning of, the Board to ensure that the Board acts in the best interests of the Group. The Chairman approves Board meeting agendas and ensures that Board meetings are planned and conducted effectively. In addition to

Board meetings, the Chairman holds meetings with Executive Directors and at least one meeting annually with Non-executive Directors without the presence of Executive Directors. The Chairman also acts in an advisory capacity to the Group Managing Director in all matters covering the interests and management of the Group.

The Group Managing Director, working with the executive management team of each operating unit, is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of Group policies and assuming full accountability to the Board for all Group operations. The Group Managing Director attends to developing strategic operating plans and is directly responsible for maintaining the operational performance of the Group. Working with the Group Finance Director, other Executive Directors and the general manager of each operational division, he ensures that the funding requirements of the businesses are met and closely monitors the operating and financial results of the businesses against plans and budgets, taking remedial action when necessary. He maintains an ongoing dialogue with the Chairman and all other Directors to keep them informed of all major business development and issues. He is also responsible for building and maintaining an effective team to support him in his role.

Independent Non-executive Directors

Each of Messrs. Holger Kluge, Ralph Raymond Shea and Wong Chung-hin, Independent Non-executive Directors of the Company, has provided to the Company a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all the Independent Non-executive Directors to be independent.

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Remuneration Committee

The Remuneration Committee is chaired by the Chairman, Mr. Canning Fok Kin-ning with Mr. Ralph Raymond Shea and Mr. Wong Chung-hin, both Independent Non-executive Directors as members.

The principal responsibilities of the Remuneration Committee include reviewing and considering the Company's policy for remuneration of Executive Directors and senior management, and determining their remuneration packages. The terms of reference of the Remuneration Committee are published on the Company's website.

The Group's human resources division assists the Remuneration Committee by providing relevant remuneration data and market conditions for the Committee's consideration. The Committee also has access to professional advice where necessary. The remuneration of Executive Directors and senior management is determined with reference to the Company's performance and profitability, as well as remuneration benchmarks in the industry and the prevailing market conditions. Remuneration is performance-based and coupled with an incentive system is competitive to attract and retain talented employees.

The Remuneration Committee held one meeting in 2006 which was attended by all members. During the meeting, the Committee reviewed the policies on the remuneration of the Executive Directors and senior management of the Group and determined their remuneration for the 2007 financial year. None of the Executive Directors participated in the determination of their own remuneration.

Audit Committee

The Audit Committee comprises four members. It is chaired by Mr. Wong Chung-hin (an Independent Non-executive Director) and the other members are Mr. Ronald Joseph Arculli (a Non-executive Director),

Mr. Holger Kluge (an Independent Non-executive Director) and Mr. Ralph Raymond Shea (an Independent Non-executive Director). None of the Committee members is a partner or former partner of KPMG, the Company's external auditors.

The Audit Committee reports directly to the Board of Directors and its principal responsibilities include the review and supervision of the Group's financial reporting and internal control systems and the review of the Company's financial statements. The Audit Committee also meets regularly with the Company's external auditors to discuss the audit process and accounting issues. The terms of reference of the Audit Committee are published on the Company's website.

The Audit Committee held three meetings in 2006. The record of attendance of its members is as follows:

Name of Member	Attended / Eligible to Attend
Mr. Wong Chung-hin (<i>Chairman</i>)	3/3
Mr. Ronald Joseph Arculli	2/3
Mr. Holger Kluge	3/3
Mr. Ralph Raymond Shea	3/3

During the meetings, the Audit Committee reviewed and considered the Group accounts for the year ended 31st December 2005, the management letter from KPMG and management's action in response thereto, the audit fee for the 2005 Group accounts, the re-appointment of auditors, the internal control assessment declaration for the year 2005 made by the Group Managing Director and Group Finance Director, the Group's risk management report, non-audit services provided by KPMG in the year 2005, internal audit plan for 2006, the accounts for the six months ended 30th June 2006, the external audit plan for 2006 financial statements, and all internal audit reports compiled during the year. Representatives from KPMG, the external auditors, were invited to attend two of the above meetings and they discussed various accounting issues with the Committee.

Internal Control and Risk Management

Introduction

The Board has overall responsibility for the Group's system of internal control and reviews its effectiveness to ensure that policies and procedures in place for the identification and management of risks are adequate.

The Audit Committee assists the Board in meeting its responsibility for maintaining an effective system of internal control. It reviews the process by which the Group evaluates its control environment and its risk assessment process, and the way in which business and control risks are managed. It also reviews the annual work plans of the Group Manager - Internal Audit, and considers the report of the Group Managing Director and Group Finance Director to the Committee on the effectiveness of internal controls in the Group business operations. These reviews and reports are taken into consideration by the Committee when it makes its recommendation to the Board for approval of the annual consolidated financial statements.

Internal Control Environment

The Group's management encourages a risk aware and control conscious environment throughout the Company. Management sets objectives, performance targets and policies for the management of key risks including strategic planning, acquisitions, investments, expenditure control, treasury, environment, health and safety, and customer service.

Full-time Executive Directors review operational and financial reports and key operating statistics of each division and hold regular meetings with the division general managers to review their reports. The Executive Directors also meet regularly to review and discuss management reports on the performance of the Group.

Full-time Executive Directors and senior executives are appointed to the boards and board committees of all material operating subsidiaries and associates for monitoring the operations of those companies. There is a comprehensive system for reporting information by those companies to the Company's management.

Budgets are prepared annually by the management of the operating units and are subject to review and approval firstly by the Group Managing Director and then by the Board. Re-forecasts of operating results for the current year are prepared on a quarterly basis, reviewed for differences to the budget and for approval by the Executive Directors.

The Group Finance Director has established guidelines and procedures for the approval and control of expenditures. Operating expenditures are subject to overall budget control, with approval levels being set by reference to the level of authority of each executive and officer. Capital expenditures are also subject to overall control within the approved budget of individual projects with more specific control and approval being required for overspending, unbudgeted expenditures and material expenditures within the approved budget. Monthly reports of actual versus budgeted and approved expenditures are also reviewed.

The Group Finance Director is in charge of the treasury function overseeing the Group's investment and lending activities. Treasury regularly reports on the Group's cash and liquid investments, borrowings and movements thereto, outstanding contingent liabilities and financial derivatives commitments. The Board has approved and adopted treasury policies to manage the financial risks of the Group and the operational risks associated with such risk management activities.

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The Group Manager - Internal Audit, reporting to the Group Finance Director, provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations. Using risk assessment methodology and taking into account the dynamics of the Group's activities, Internal Audit prepares its yearly audit plan which is reviewed and approved by the Audit Committee. Internal Audit's reports on the Group's operations are reviewed by the Audit Committee. Internal Audit follows up on its reports to ensure that its recommendations are implemented by the operating units. The scope of work performed by Internal Audit includes financial and operations review, recurring and unscheduled audits, fraud investigation and productivity efficiency reviews. With the assistance of Internal Audit, the Group Managing Director and Group Finance Director assess the Group's internal control system, formulate an opinion on the system, and report their findings to the Audit Committee and the Board.

Reports from the external auditors on internal controls, if any, are presented to the Audit Committee. These reports are considered and reviewed and the appropriate action taken if required.

The Group Managing Director and Group Finance Director have the responsibility of developing and implementing risk mitigation strategies including the deployment of insurance to transfer the financial impact of risk. The Company Secretary, working with the operating units, is responsible for arranging appropriate insurance coverage for the Group.

Code of Conduct

The Group places great emphasis on employees' ethical standards and integrity in all aspects of its operations. Employees are required to adhere to the standards set out in the Group's Code of Conduct.

Auditors' Reporting Responsibilities

The reporting responsibilities of KPMG, the Auditors, are stated in the Independent Auditor's Report on page 48 of the Annual Report.

Auditors' Remuneration

An analysis of the fees of KPMG and other external auditors is shown in note 9 to the financial statements on page 70 of the Annual Report.

Shareholders

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars, the Company's website at www.heh.com and meetings with investors and analysts.

2006 Annual General Meeting

The Annual General Meeting is a main channel of communication between Directors and shareholders. The 2006 Annual General Meeting was held on 11th May 2006. The notice of meeting, the Company's annual report and the circular containing information on the proposed resolutions were sent to shareholders more than 21 days prior to the meeting. The Chairman of the Board was unable to attend the meeting as provided for under Code E.1.2 of the Code as he was out of Hong Kong on business. The shareholders voted for the Group Managing Director to act as chairman of the meeting. The chairman of the Audit Committee and members of the Remuneration Committee were available to answer questions from the shareholders. At the meeting, a separate resolution was proposed by the chairman in respect of each substantially separate issue, and voting on each resolution was conducted by way of a poll. The procedure for demanding a poll by shareholders was set out in the circular despatched together with the Company's annual report, and the poll voting procedure was

explained fully to shareholders during the meeting. The resolutions proposed at the meeting and the percentage of votes cast in favour of them are set out below:

- Statement of accounts and the reports of the directors and auditors for the year ended 31st December 2005 (99.9997%);
- Declaration of a final dividend of HK\$1.01 per share (99.9997%);
- Declaration of a special dividend of HK\$0.73 per share (99.9997%);
- Election of Messrs. Neil Douglas McGee, Wan Chi-tin, Ralph Raymond Shea and Wong Chung-hin as Directors (78.3127% to 99.8138% in respect of each individual resolution);
- Appointment of KPMG as auditors and authorisation of Directors to fix their remuneration (99.9992%);

- General mandates to Directors to issue additional shares of the Company (75.4618%) and to repurchase shares of the Company (99.9512%), and extension of the general mandate to issue shares (99.7840%); and
- Amendments to the Company's articles of association (99.9519%).

The results of the poll were posted on the Company's website on the same day of the meeting and published in the newspapers on the next day.

Company's Website

The Company maintains a website at www.heh.com. For the dissemination of published information, the Company uploads such information including press releases, results announcements and other announcements, onto its website.



Corporate communications with shareholders, staff and other stakeholders is facilitated via the Company's website.