

# Report on Corporate Governance Practices

The Board of Directors of the Company (the “Board”) is committed to the principles of good corporate governance standards and procedures. This report addresses the status of the Company’s compliance with the principles and provisions of the Code on Corporate Governance Practices (the “Code”).

## Statement by the Directors on Corporate Governance Policies and Compliance with the Provisions of the Code

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) require every listed company to report how it applies the principles in the Code and to confirm that it complies with Code provisions or to provide an explanation where it does not. The Company is committed to maintaining high standards of corporate governance. As corporate governance requirements change from time to time, the Board periodically reviews its corporate governance practices to meet the rising expectations of shareholders and to comply with increasingly stringent regulatory requirements. In the opinion of the Directors, the Company applied all the principles and complied with the relevant code provisions in the Code throughout the year ended 31 December 2006.

## Board Composition and Board Practices

The key principles of good governance require the Company to have an effective Board which is collectively responsible for its success. The Board is also responsible for setting the Company’s values and aims to enhance shareholder value. Non-Executive Directors have a particular responsibility in overseeing the development of the Company, scrutinizing management performance, and advising on critical business issues. The Board is satisfied that it has met these requirements.

The Listing Rules require every listed issuer to have a balanced board of executive and non-executive directors such that no individual or small group can dominate the Board’s decision-making process. As at 31 December 2006, the Board of the Company consisted of a total of 14 members, with a Group Executive Chairman (“Chairman”), a Managing Director, a Deputy Managing Director, five Executive Directors, and six Non-Executive Directors, of whom four are Independent Non-Executive Directors. Changes in composition of the Board during the year are detailed in the section headed “Report of the Directors” in this annual report. The Board is well balanced between Executive and Non-Executive Directors

and possesses a diverse range of relevant skills to further the interests of shareholders. Independent Non-Executive Directors possess a range of experience and are of high caliber to ensure the interests of all shareholders of the Company are taken into account and that key issues vital to the success of the Company are subject to independent and objective consideration by the Board. Brief biographies of each board member and the relationship among board members can be found in the section headed “Management Profile” in this annual report.

Pursuant to the Listing Rules, the Company has received confirmation from each Independent Non-Executive Director about his independence. As at 31 December 2006, each Independent Non-Executive Director had re-affirmed his independent status to the Company’s satisfaction.

In accordance with the Articles of Association, all of the Company’s Directors, including Non-Executive Directors who have been appointed for a specific term of three years, are subject to retirement by rotation at least once every three years. Newly appointed Directors are subject to re-election by shareholders at the first annual general meeting after their appointments. The Directors who are subject to retirement and re-election at the forthcoming annual general meeting are set out in the section headed “Report of the Directors” in this annual report.

The Code requires a formal and transparent procedure for the appointment of new Directors to the Board and recommends a nomination committee. The Company does not have a nomination committee, which is the practice followed by some listed companies. However, the Board believes it has adequate measures to ensure new appointments will be made on merit and against objective criteria. The Board is collectively responsible for appointing new Directors either to fill casual vacancies or as additional board members. The structure, size and composition of the Board will be reviewed from time to time to ensure the Board has balanced skills and expertise to provide effective leadership to the Company. Candidates must be experienced and high caliber individuals and meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate for Independent Non-Executive Director must also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

To ensure the Board works effectively and discharges its responsibilities, Board members have full and timely access to relevant information and are properly briefed on issues at board meetings. The role of establishing the meeting agenda has been delegated to the Company Secretary and each Director may request inclusion of items on the agenda. Information packages containing analysis and background material are circulated not less than three days in advance of board meetings to enable the Directors to make informed decisions. Members of the Board also have full access to the Company Secretary who has the responsibility to keep the Directors informed of corporate governance issues and changes in the regulatory environment and ensure board procedures are in compliance with the Code and other statutory requirements. The Board is provided with sufficient resources to discharge its duties and if required, individual Directors may retain outside advisers, at the Company's expense to provide advice on any specific matter. If Directors have a conflict of interest in matters to be considered by the Board, the relevant matter will be dealt with at a board meeting. It is the Company's practice that Directors shall abstain from voting on any board resolution in which they have a material interest and that they shall not be counted in the quorum present at the board meeting.

An open atmosphere exists for Directors to contribute alternative views at meetings and major decisions are taken after a full discussion at board meetings. Minutes of board meetings and committee meetings are recorded in detail and draft minutes are circulated to all Directors and committee members for comment before approval. Minutes of the board meetings and committee meetings are kept by the Company Secretary and are open for inspection by Directors. In the course of discharging the Board's duties, each newly appointed Director is offered training on key areas of business operations and practices of the Company. Newly appointed Directors are offered

orientation materials that set out the duties and responsibilities of Directors under the Listing Rules, related ordinances and relevant regulatory requirements of Hong Kong. The Company also encourages its Directors to participate in relevant professional development courses to continually update their relevant skills.

The positions of the Chairman and the Managing Directors are distinct and separate. A clear separation is maintained between the responsibilities of the Chairman and the Managing Directors with the former being mainly responsible for the leadership of the Board while the latter are responsible for the overall performance of the Company.

The Board, headed by Dr. Stanley Ho, is responsible for overseeing the Company's strategic development and setting appropriate policies to manage risks in pursuit of the Company's strategic objectives as well as scrutinizing operating and financial performance.

Management is accountable to the Board of Directors and is principally responsible for day-to-day operations. The Managing Director and the Deputy Managing Director, working with other Executive Directors and the Executive management team, are responsible for (i) managing the business of the Company; (ii) formulating policies for consideration of the Board; (iii) carrying out and implementing the strategies adopted by the Board; (iv) making recommendations on strategic planning, operating plans, major projects and business proposals; and (v) assuming full accountability to the Board for the operations of the Company. The Directors conduct regular meetings with the senior management of the Company and its subsidiaries and associated companies at which operational issues and financial performance are evaluated.

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Six full board meetings were held during the year. Additional meetings may be held when required by circumstances. All Directors have fully and actively participated in the affairs of the Board. Attendance by Directors at board meetings and committee meetings is shown below:

Directors	Full Board (No. of Attendance / No. of Meeting entitled to attend for the year ended 31 December 2006)	Audit Committee (No. of Attendance / No. of Meeting entitled to attend for the year ended 31 December 2006)	Remuneration Committee (No. of Attendance / No. of Meeting entitled to attend for the year ended 31 December 2006)
<b>Group Executive Chairman</b>			
Stanley Ho	5/6		
<b>Non-Executive Directors</b>			
Cheng Yu Tung	4/6		
Louise Mok	6/6	2/2	
<b>Independent Non-Executive Directors</b>			
Roger Lobo	6/6	2/2	2/2
Robert Kwan ( <i>resigned on 1 January 2007</i> )	4/6	2/2	1/2
Norman Ho	6/6	2/2	2/2
Charles Ho ( <i>appointed on 10 November 2006</i> )	1/1		1/1
<b>Managing Director</b>			
Pansy Ho	6/6		1/2
<b>Deputy Managing Director</b>			
Daisy Ho	6/6		2/2
<b>Executive Directors</b>			
Ambrose So	4/6		
Patrick Huen	4/6		
Andrew Tse ( <i>resigned on 21 August 2006</i> )	4/4		
Anthony Chan	5/6		
Maisy Ho	6/6		
David Shum	6/6		

### Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year ended 31 December 2006.

### Board Committee

A number of Board Committees have been established by the Board to help with the discharge of its responsibilities.

### Remuneration Committee

The principal role of the Remuneration Committee is to make recommendations to the Board on all aspects of the performance, employment, remuneration and incentives of the Executive Directors and senior management. It sets the remuneration and incentives policy of the Company as a whole and approves the

remuneration of senior staff in consultation with the Chairman and Managing Director. The emoluments of Directors, including basic salary and performance bonus, are based on each Director's skill, knowledge and involvement in the Company's affairs, the Company's performance and profitability, remuneration benchmark in the industry and the prevailing market conditions. The terms of reference of the Remuneration Committee are adopted by the Board. No Director has taken part in setting his or her own remuneration.

As at 31 December 2006, the Remuneration Committee consisted of Sir Roger Lobo, Mr. Robert Kwan (resigned on 1 January 2007), Mr. Charles Ho (appointed on 10 November 2006) and Mr. Norman Ho (Independent Non-Executive Directors), Ms. Pansy Ho (the Managing Director) and Ms. Daisy Ho (the Deputy Managing Director). Ms. Pansy Ho is the Chairman of this committee. Mr. Yeh V-Nee (an Independent Non-Executive Director\*) was appointed as a member of the Remuneration Committee on 1 January 2007. Meetings are held at least once per year and additional meetings may be held as required.

Directors' interests and long and short positions in shares, along with Directors' interests in contracts, are listed in the section headed "Report of the Directors" in this annual report. Directors' emoluments are listed in the "Notes to the Financial Statements" in this annual report.

\* *Mr. Yeh-V-Nee was appointed as an Independent Non-Executive Director on 1 January 2007.*

## Executive Committee

For more efficient operation of the Board, an Executive Committee was established to make recommendations on the strategic aims, objectives and priorities of the Company and to consider and approve matters relating to the day-to-day operations of the Company. The Executive Committee consists of five members being Ms. Pansy Ho (the Managing Director), Ms. Daisy Ho (the Deputy Managing Director) and three Executive Directors (namely Mr. Patrick Huen, Ms. Maisy Ho and Mr. David Shum). Ms. Pansy Ho is the Chairman of this committee. There is no minimum number of meetings required throughout the reporting period.

## Audit Committee

The Audit Committee's primary responsibilities include reviewing the financial reports, the system of internal controls, risk management and the effectiveness and objectivity of the audit process.

As at 31 December 2006, the Audit Committee consisted of Sir Roger Lobo, Mr. Robert Kwan (resigned on 1 January 2007) and Mr. Norman Ho (Independent Non-Executive Directors) and Mrs. Louise Mok (a Non-Executive Director). Mr. Robert Kwan was the Chairman of this committee up to 31 December 2006. Following his resignation, Mr. Norman Ho was appointed as Chairman of the Audit Committee and Mr. Yeh V-Nee (an Independent Non-Executive Director) was appointed as a member of the Audit Committee on 1 January 2007. The Board reviewed the membership of the Audit Committee during the year and was satisfied that its members collectively possessed adequate relevant financial experience to properly discharge its roles and responsibilities.

The Audit Committee meets at least twice a year and did so during the reporting period. During the year, the Audit Committee reviewed interim and year-end financial reports, particularly judgmental areas, before submission to the Board and the internal audit programme, findings and management's response. The Committee also considered and approved the annual audit and non-audit service fees. For the year ended 31 December 2006, the

fees charged to the accounts of the Company and its subsidiaries for statutory audit amounted to approximately HK\$4.1 million and an additional HK\$1.4 million was charged for other services. The non-statutory audit services mainly consist of the interim review and taxation and other services.

## Accountability and Audit

The Board is responsible for overseeing the preparation of financial statements of the Company. The Board is mindful of its responsibility to present a balanced and clear assessment of the Company's financial position and prospects. The Board is satisfied that it has properly discharged this obligation.

In preparing the accounts for the year ended 31 December 2006, the Directors selected suitable accounting policies and applied them consistently. The Directors also made judgments and estimates that are prudent and reasonable and prepared the accounts on a going concern basis. The Company announced its interim and annual results in a timely manner after the end of the relevant periods as laid down in the Listing Rules.

The statement from the Auditors of the Company about their reporting responsibilities on the financial statements of the Company is set out in the "Independent Auditor's Report" in this annual report.

## Internal Control

The Board is responsible for ensuring a sound and effective system of internal control which is designed for (i) safeguarding the interests of shareholders; (ii) safeguarding assets of the Company and its subsidiaries against misappropriation; (iii) ensuring proper maintenance of accounting records for the provision of reliable financial information; and (iv) ensuring compliance with the relevant legislations and regulations. Such system of internal control aims at limiting the risks of the Company to an acceptable level but not at eliminating all the risks. Hence, such system can only provide reasonable but not absolute assurance that there will not be any material misstatement in financial information and there will not be any financial loss or fraud.

The key procedures established by the Board to provide effective internal control include (i) a defined management structure with clear lines of responsibility and limits of authority; (ii) an appropriate organizational structure which adequately provides the necessary information flow for management decisions; (iii) proper budgetary and management accounting control to ensure

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efficient allocation of resources and to provide timely financial and operational performance indicators for managing business activities; (iv) effective financial reporting control to ensure the recording of complete, accurate and timely accounting and management information; and (v) assurance through the Audit Committee to review appropriate policies on internal control are in place and are functioning effectively.

The Board continued to review, through the Audit Committee, the effectiveness of the system of internal control which includes, financial, operational, compliance and risk management controls. The review process consists of (i) assessment of internal control by internal audit department; (ii) operational management's assurance of the maintenance of control; and (iii) control issues identified by external auditors during statutory audit.

The internal audit department reports functionally to the Audit Committee and has unrestricted access to all records and personnel of the Company and its subsidiaries. To ensure a systematic coverage of all auditable areas and effective deployment of resources, a four-year strategic audit plan has been formulated by adopting a risk ranking methodology. This strategic audit plan is revised annually to reflect organizational changes and new business developments and is submitted for the Audit Committee's consideration. Ad hoc reviews will also be made of areas of concern identified by the Audit Committee and management.

The internal audit department reviews internal control by evaluating the control environment, performing risk assessments of key processes, assessing the adequacy and sample testing the functioning of key controls. In addition, operational management of key processes is required to review its control framework with reference to the integrated framework of internal control recommended by the Committee of Sponsoring Organisations of the Treadway Commission and confirm that the internal control is working as intended. An audit report addressing the identified control deficiencies is issued for each audit.

The internal audit department reports to the Audit Committee every quarter on the results of the assessment of internal control and the follow up of implementation of actions on control deficiencies. In addition, the head of internal audit department attends the Audit Committee meeting twice a year to report on the progress of achievement of the strategic audit plan for the year and gives a summary of significant control deficiencies identified.

For the year under review, the Board considers that the system of internal control for the Company and its subsidiaries is adequate and effective and the Company has complied with the code provisions on internal control.

### Proactive Investor Relations

The Code requires the Company to have communication with shareholders. It is the responsibility of the Board as a whole to ensure that satisfactory dialogue takes place. The primary communication channel between the Company and its shareholders is through the publication of interim and annual reports. The Company's Registrars serve the shareholders with respect to all share registration matters. The Company's annual general meeting provides a further opportunity for investors to exchange views with the Board.

The Company continues to pursue a proactive policy of promoting investor relations by regular meetings with institutional shareholders and research analysts. Our Investor Relations Department maintains open and two-way communication with the investment community. In order to ensure our investors have an understanding of the Company's strategy, operations and management, our management engages in proactive investor relations' activities. In particular, the Company participated in regular one-on-one investor meetings, a number of major roadshows, investor conferences and international non-deal roadshows organized by various investment banks.

To enhance corporate communication, separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors. Details of the poll voting procedures and rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. The circular also includes relevant details of proposed resolutions, including biographies of each candidate standing for re-election and whether such candidates are considered to be independent.

### Looking Forward

The Company will continue to review its corporate governance practices on a timely basis and to take necessary and appropriate actions to ensure compliance with the required practices and standards including the provisions of the Code.