

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a high standard of corporate governance practices and procedures. For the year under review, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules, except for the deviations as disclosed in this report.

The board of Directors (the "Board") will review and improve the corporate governance practices from time to time to ensure that the Group is under the leadership of an effective board to optimise return for shareholders.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions. Having made specific enquiry of all Directors, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code during the year ended 30 June 2009.

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 dealings in the securities of the Company. The Board has established guidelines for employees in respect of their dealings in the securities of the Company 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 55,000 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 oversees the management, businesses, strategic directions and financial performance of the Group. The Board currently comprises a total of 14 Directors, with six Executive Directors, four Non-executive Directors and four Independent Non-executive Directors. The biographies of the Directors are set out on pages 63 to 67 of this annual report.

The Company has received annual confirmation of independence from all the Independent Non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board is of the view that all the Independent Non-executive Directors are independent in accordance with the Listing Rules.

The Board has delegated an Executive Committee comprising all Executive Directors of the Board, with authority and responsibility for handling the management functions and day-to-day operations of the Group, while reserving certain key matters such as the declaration of interim dividend, making recommendation of final dividend or other distributions for the approval by the Board. The Executive Committee meets regularly as when necessary.

## CHAIRMAN AND MANAGING DIRECTOR

The Board has appointed a Chairman who provides leadership for the Board and ensures that the Board works effectively and that all important issues are discussed in a timely manner. The Managing Director takes the lead in the Group's operations and business development. The positions of the Chairman and the Managing Director are held by separate individuals so as to maintain an effective segregation of duties.



### NON-EXECUTIVE DIRECTORS

Non-executive Directors (including the Independent Non-executive Directors) serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group. The Non-executive Directors are not appointed for a specific term as is stipulated in Code provision A.4.1, but are subject to retirement by rotation in accordance with the articles of association of the Company. Article 103(A) of the articles of association of the Company provides that at each annual general meeting, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

### REMUNERATION OF DIRECTORS

The Company established the Remuneration Committee on 22 September 2005 with specific written terms of reference. The Remuneration Committee is responsible for making recommendations on the Company's policy and structure for the remuneration of all the Directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing remuneration policy for approval by the Board. The Remuneration Committee met once during the year to review the remuneration policy for Directors and senior management of the Company. Current Members of the Remuneration Committee are Mr. Leung Chi-Kin, Stewart (Chairman), Mr. Yeung Ping-Leung, Howard, Dr. Cha Mou-Sing, Payson, Mr. Ho Hau-Hay, Hamilton and Mr. Lee Luen-Wai, John.

The remuneration for the Executive Directors comprises basic salary, pensions and discretionary bonus. Share options were granted to all Directors to subscribe for shares in the Company under the Company's share options scheme. In addition to the above, certain Directors had been granted options under share option schemes of various listed subsidiaries to enable the Directors to subscribe for shares in those subsidiaries. Details of the amount of emoluments of Directors paid for the financial year ended 30 June 2009 are set out in Note 16 to the financial statements.

### NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a Director on the basis of the candidate's qualification, experience, integrity and potential contribution to the Company, and approving and terminating the appointment of a Director. A candidate to be appointed as Independent Non-executive Director must also meet the independence requirement set out in Rule 3.13 of the Listing Rules. During the year under review, the Company had not established a nomination committee.

### AUDIT COMMITTEE

The Audit Committee, established in fiscal year 1999 with specific written terms of reference, currently consists of four Independent Non-executive Directors of the Board. Due to the amendments to the CG Code effective from 1 January 2009, the terms of reference of the Audit Committee were updated during the year. The Audit Committee is responsible for the review and supervision of the Group's financial reporting process and internal controls. To assist the Audit Committee to carry out its duties, briefing sessions conducted by heads of the Group's key business segments were organised for the Audit Committee during the year to provide its Members a better understanding of the Group.

During the year, the Audit Committee reviewed with the auditors the audited financial statements for the year ended 30 June 2008 and the unaudited interim financial statements for the six months ended 31 December 2008 with recommendations to the Board for approval, reviewed reports on internal control system of the Group, and discussed with the management and the external auditors the accounting policies and practices which may affect the Group and financial reporting matters. The Audit Committee reviewed the system of internal control and the financial statements for the year ended 30 June 2009 with recommendation to the Board for approval. Current Members of the Audit Committee are Dr. Cha Mou-Sing, Payson (Chairman), Mr. Yeung Ping-Leung, Howard, Mr. Ho Hau-Hay, Hamilton and Mr. Lee Luen-Wai, John.



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## ATTENDANCE AT MEETINGS OF THE BOARD, THE AUDIT COMMITTEE AND THE REMUNERATION COMMITTEE

Name of Directors	Number of Meetings Attended/Eligible to attend for the year ended 30 June 2009		
	Board	Audit Committee	Remuneration Committee
<b>Executive Directors</b>			
Dato' Dr. Cheng Yu-Tung ( <i>Chairman</i> )	4/4		
Dr. Cheng Kar-Shun, Henry ( <i>Managing Director</i> )	4/4		
Dr. Sin Wai-Kin, David	4/4		
Mr. Liang Chong-Hou, David	4/4		
Mr. Leung Chi-Kin, Stewart	4/4		1/1
Mr. Cheng Chi-Kong, Adrian	4/4		
<b>Non-executive Directors</b>			
Lord Sandberg, Michael*	0/2		
Mr. Cheng Kar-Shing, Peter	2/4		
Mr. Chow Kwai-Cheung	3/4		
Mr. Liang Cheung-Biu, Thomas	4/4		
Ms. Ki Man-Fung, Leonie JP <sup>^</sup>	1/2		
<b>Independent Non-executive Directors</b>			
Mr. Yeung Ping-Leung, Howard	3/4	3/3	1/1
Dr. Cha Mou-Sing, Payson JP	2/4	1/3	1/1
Mr. Ho Hau-Hay, Hamilton	4/4	3/3	1/1
Mr. Lee Luen-Wai, John JP	3/4	3/3	1/1

\* retired on 2 December 2008

<sup>^</sup> appointed on 5 December 2008

## AUDITORS' REMUNERATION

During the year ended 30 June 2009, the total fee paid/payable in respect of audit and non-audit services provided by the Group's external auditors is set out below:

Type of services	Fee paid/payable for the year ended 30 June	
	2009 HK\$m	2008 HK\$m
Audit services	52.3	52.8
Non-audit services	6.3	6.9
Total	58.6	59.7





### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Board, supported by the accounts department, is responsible for the preparation of the financial statements of the Company and the Group. The Board has prepared the financial statements in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been used and applied consistently. The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditors of the Company and the Group regarding their reporting responsibilities on the financial statements of the Company and the Group is set out in the Independent Auditors' Report on page 103 of this annual report.

### **INTERNAL CONTROL**

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance of applicable laws, rules and regulations. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud.

An internal audit department has been established to conduct audits of the Company and its subsidiaries, jointly controlled entities and associated companies. The internal audit department performs

risk-based audits to review the effectiveness of the Group's material internal controls so as to provide assurance that key businesses and operational risks are identified and managed. The work carried out by the internal audit department will ensure the internal controls are carried out appropriately and functioning as intended. The internal audit department reports to the Board with its findings and makes recommendations to improve the internal control of the Group.

The Audit Committee also receives the report from the internal audit department and takes such report into consideration when it makes its recommendation to the Board for approval of the half-yearly or annual results of the Group.

### **COMMUNICATION WITH SHAREHOLDERS**

The Board and senior management maintain a continuing dialogue with the Company's shareholders and investors through various channels including the Company's annual general meeting. The Chairman, Managing Director, other members of the Board and external auditors attend the annual general meeting. The Directors will answer questions raised by the shareholders on the performance of the Group. The Company holds press and analysts conferences at least twice a year following the release of interim and full year results announcements at which the Executive Directors and senior management of the Group are available to answer questions regarding the performance of the Group. Our corporate website which contains corporate information, interim and annual reports, announcements and circulars issued by the Group as well as the recent developments of the Group enables the Company's shareholders to have a timely and updated information of the Group.

