

# Corporate Governance Report

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The Board of Directors of the Company (the “Board”) is pleased to present the Corporate Governance Report of the Company for the year ended 30 June 2006.

## A) Commitment to Corporate Governance

The Company acknowledges the importance of good corporate governance practices and procedures and regards a pre-eminent board of directors, sound internal controls and accountability to all shareholders as the core elements of its corporate governance principles. The Company endeavours to ensure that its businesses are conducted in accordance with rules and regulations, and applicable codes and standards.

## B) Corporate Governance Practices

During the financial year ended 30 June 2006, the Company applied all those principles as set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Code”), which became applicable to the Company in respect of the year under review, and complied with the relevant code provisions in the Code, with the exception of one deviation as set out under the paragraphs on “Board of Directors” below. The application of the relevant principles is stated in the following paragraphs.

## C) Board of Directors

### a) Responsibilities

The Board has the responsibility for management of the Company, which includes formulating business strategies, and directing and supervising the Company’s affairs, approving interim reports and annual reports, announcements and press releases of interim and final results, considering dividend policy, and approving the issue, allotment or disposal or grant of options in respect of unissued new shares or debentures of the Company. The Board makes board policy decisions and has delegated the responsibility for detailed considerations to the standing committee of the Board (the “Standing Committee”).

The day-to-day management, administration and operation of the Company are delegated to the management. The Board gives clear directions to the management as to their powers of management, and circumstances in which the management should report back.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Non-executive Directors and Independent Non-executive Directors may take independent professional advice at the Company’s expense in carrying out their functions, after making a request to the Board.

### b) Board Composition

The Board currently comprises twenty members, as detailed below:

Executive Directors	Non-executive Directors	Independent Non-executive Directors
Lee Shau Kee ( <i>Chairman</i> )	Woo Po Shing	Gordon Kwong Che Keung
Lee Ka Kit	Philip Yuen Pak Yiu	Ko Ping Keung
Colin Lam Ko Yin	Leung Hay Man	Wu King Cheong
Lee Ka Shing	Jackson Woo Ka Biu	
Lee Tat Man	( <i>as alternate to Woo Po Shing</i> )	
Suen Kwok Lam		
Lee King Yue		
Eddie Lau Yum Chuen		
Li Ning		
Patrick Kwok Ping Ho		
Lau Chi Keung		
Augustine Wong Ho Ming		
Sit Pak Wing		

The biographical details of the Directors are set out on pages 45 to 48 of this Annual Report. In particular, Dr. Lee Shau Kee is the father of Lee Ka Kit and Lee Ka Shing, father-in-law of Li Ning and the brother of Lee Tat Man. Sir Po-shing Woo is the father of Jackson Woo Ka Biu. Save as aforesaid, none of the members of the Board is related to one another.

The term of office of all Non-executive Directors (including Independent Non-executive Directors) was fixed for a specific term until 31 December 2007. They are subject to retirement by rotation and re-election at the Company's Annual General Meeting ("AGM") in accordance with the Articles of Association of the Company ("Articles").

During the year ended 30 June 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The appointment of Independent Non-executive Directors strictly adheres to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received in writing confirmation of their independence from each of the Independent Non-executive Directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgment. The Board considers that each of the Non-executive Directors and Independent Non-executive Directors brings his/her own relevant expertise to the Board.

The roles of the chairman and the chief executive officer of the Company have not been segregated as required by code provision A.2.1 of the Code. The Company is of the view that it is in the best interest of the Company that Dr. Lee Shau Kee, with his profound expertise in the property business, shall continue in his dual capacity as the Chairman and Managing Director.

### c) Appointment and Re-election of Directors

The Board is empowered under the Articles to appoint any person as a Director to fill a casual vacancy on or as an additional member of the Board. Only the most suitable candidates who are experienced and competent and able to fulfill the fiduciary duties and duties of skill, care and diligence would be recommended to the Board for selection.

During the year ended 30 June 2006, the Board considered and approved the resignation of Ho Wing Fun as Executive Director upon retirement with effect from 1 July 2006.

In accordance with the Company's Articles, new appointments to the Board are subject to re-election by shareholders at the upcoming AGM. Furthermore, the nearest one-third of the Directors will retire from office by rotation but are eligible for re-election by shareholders at the AGM and the Board will ensure that every Director is subject to retirement by rotation at least once every three years.

#### *d) Board Meetings*

##### **i) Number of Meetings and Directors' Attendance**

The Board meets from time to time to discuss and exchange ideas on the affairs of the Company. During the year ended 30 June 2006, the Board held six meetings to approve interim/final results announcements and interim/annual reports, to determine the level of dividends, and to discuss significant issues and the general operation of the Company. The attendance of the Directors is set out in the table on page 32.

##### **ii) Practices and Conduct of Meetings**

Notices of regular Board meetings are given to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

The Company Secretary of the Company is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

### **D) Board Committees**

The Board has set up three main Board Committees, namely, the Standing Committee, the Audit Committee and the Remuneration Committee, for overseeing particular aspects of the Company's affairs. The Standing Committee of the Board operates as a general management committee with delegated authority from the Board. The terms of reference of the Audit Committee and the Remuneration Committee are no less exacting than those set out in the Code.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

#### *a) Audit Committee*

The Audit Committee was established in December 1998 and reports to the Board. The members of the Audit Committee are:

<b>Independent Non-executive Directors</b>	<b>Non-executive Director</b>
Gordon Kwong Che Keung ( <i>Chairman</i> )	Leung Hay Man
Ko Ping Keung	
Wu King Cheong	

The Chairman has the appropriate professional qualifications as required under the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditors. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of public companies. The Board expects the Committee members to exercise independent judgment in conducting the business of the Committee.

The written terms of reference include the authority and duties of the Audit Committee and amongst its principal duties are the review and supervision of the Company's financial reporting process and internal control procedures. The terms of reference of the Audit Committee are available on the Company's website.

The Audit Committee held two meetings during the year ended 30 June 2006. The major work performed by the Audit Committee for the year ended 30 June 2006 included reviewing and recommending the re-appointment of external auditors, approving the terms of engagement (including the remuneration) of the external auditors, reviewing the unaudited interim report and interim results announcement, reviewing the audited financial statements and final results announcement for the year ended 30 June 2006, reviewing the work of the Group's internal audit department and assessing the effectiveness of the Group's systems of risk management and internal control.

*b) Remuneration Committee*

The Remuneration Committee which was established in January 2005 comprises:

**Executive Directors**

Lee Shau Kee (*Chairman*)

Colin Lam Ko Yin

**Independent Non-executive Directors**

Gordon Kwong Che Keung

Ko Ping Keung

Wu King Cheong

Each member is sufficiently experienced and is appropriately skilled in the issues of determining executive compensations in public companies. The Board expects the Committee members to exercise independent judgment in conducting the business of the Committee.

The written terms of reference include the specific duties of making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management. The terms of reference of the Remuneration Committee are available on the Company's website.

The Remuneration Committee met once during the year ended 30 June 2006. The major work performed by the Remuneration Committee for the year ended 30 June 2006 included reviewing the salary structure of the employees of the Company as well as the remuneration of senior management staff. The Committee also reviewed the remuneration of the Directors with reference to the remuneration level of directors of comparable companies in the market.

Particulars of the Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 14 to the financial statements on page 77. The Directors' fee shall be subject to shareholders' approval at general meetings. Other emoluments shall from time to time be determined by the Board with reference to the Directors' duties and responsibilities and subject to a review by the Remuneration Committee.

c) *Attendance Record at Board, Audit and Remuneration Committees' Meetings*

The attendance of the individual Director at the meetings of the Board, the Audit Committee and the Remuneration Committee during the year ended 30 June 2006 is set out in the following table:

	No. of meetings attended/No. of meetings held		
	Board	Audit Committee	Remuneration Committee
Executive Directors:			
Lee Shau Kee ( <i>Chairman</i> )	<sup>1</sup> 4/6	N/A	1/1
Lee Ka Kit	<sup>1</sup> 4/6	N/A	N/A
Colin Lam Ko Yin	6/6	N/A	1/1
Lee Ka Shing	<sup>1</sup> 4/6	N/A	N/A
Lee Tat Man	<sup>1</sup> 4/6	N/A	N/A
Ho Wing Fun ( <i>resigned upon retirement on 1 July 2006</i> )	<sup>1</sup> 4/6	N/A	N/A
Suen Kwok Lam	6/6	N/A	N/A
Lee King Yue	<sup>1</sup> 4/6	N/A	N/A
Eddie Lau Yum Chuen	6/6	N/A	N/A
Li Ning	<sup>1</sup> 4/6	N/A	N/A
Patrick Kwok Ping Ho	6/6	N/A	N/A
Lau Chi Keung	6/6	N/A	N/A
Augustine Wong Ho Ming	6/6	N/A	N/A
Sit Pak Wing	6/6	N/A	N/A
Non-executive Directors:			
Woo Po Shing	<sup>2</sup> 4/6	N/A	N/A
Philip Yuen Pak Yiu	4/6	N/A	N/A
Leung Hay Man	6/6	2/2	N/A
Independent Non-executive Directors:			
Gordon Kwong Che Keung	6/6	2/2	1/1
Ko Ping Keung	3/6	2/2	1/1
Wu King Cheong	6/6	2/2	1/1

Remarks: 1. *Out of the six meetings of the Board, one Board meeting was to consider the proposed privatisation of Henderson Cyber Limited by the Company and The Hong Kong and China Gas Company Limited and another Board meeting was to consider the proposed privatisation of the Company by Henderson Land Development Company Limited. Absence of the relevant Director in the relevant meeting(s) of the Board was due to his relevant interest in the respective proposed privatisations.*

2. *Four meetings were attended by his alternate, Mr. Jackson Woo Ka Biu.*

## E) Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the financial year ended 30 June 2006, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Auditors' Report on page 50.

## F) Auditors' Remuneration

For the year ended 30 June 2006, the Auditors of the Company and its subsidiaries would receive approximately HK\$2.9 million for audit services (2005: HK\$3.3 million) and HK\$0.1 million for non-audit services (2005: Nil). The non-audit services rendered were to review the financial information in relation to the privatisation of Henderson Cyber Limited.

## G) Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiries, the Company confirms that all Directors have complied with the required standards as set out in the Model Code.

## H) Internal Controls

The Board is responsible for ensuring sound and effective internal control systems to safeguard the shareholders' investment and the Company's assets. The Company has from time to time reviewed the effectiveness of the internal control systems in order to ensure that they meet with the dynamic and ever changing business environment.

The Internal Audit Department of the Company, which reports directly to the Audit Committee and is independent of the Company's daily operations, is responsible for conducting regular audit on the major activities of the Company. Its objective is to ensure that all material controls, including financial, operational and compliance controls and risk management functions are in place and functioning effectively. During the year, the Board has reviewed the effectiveness of the Group's internal control systems through the Internal Audit Department and the Audit Committee.

## I) Shareholder Rights and Investor Relations

The Articles contain the rights of shareholders to demand and the procedures for a poll voting on resolutions at shareholders' meetings. Details of such rights to demand a poll and the poll procedures are included in all circulars in relation to shareholders' meetings and will be explained during the proceedings of shareholders' meetings. In case poll voting is conducted, the poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Stock Exchange and the Company.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board and the chairmen of all the Board Committees, or in their absence, other members of the respective Committees, are available to answer questions at the shareholders' meetings.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular communication and dialogue with shareholders, investors and analysts. Enquiries from investors are dealt with in an informative and timely manner.

As a channel to further promote effective communication, the Group maintains a website at <http://www.hld.com> where the Company's announcements, business developments and operations, financial information, corporate governance practices and other information are posted.