

Corporate Governance Report

(A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2008, all the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were met by the Company, with the exception of one deviation as set out under section (D) below. The application of the relevant principles, and the reasons for the abovementioned deviation from a Code provision, are stated in the following sections.

(B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company who were in office during the financial year ended 31 December 2008, they have confirmed that they have complied with the Model Code during the financial year.

(C) BOARD OF DIRECTORS

(i) Composition of the Board, number of Board meetings and Directors' attendance

The Company's Board has a balance of skills and experience and a balance composition of executive and non-executive directors. Four Board meetings were held during the financial year ended 31 December 2008. The composition of the Board and attendance of the Directors are set out below:

<u>Directors</u>	<u>Attendance at Meetings</u>
<i>Chairman</i>	
Mr Peter K C Woo, GBS, JP	4
<i>Senior Deputy Chairman</i>	
Mr Gonzaga W J Li	4
<i>Deputy Chairman & Managing Director</i>	
Mr Stephen T H Ng	4
<i>Executive Director</i>	
Ms Doreen Y F Lee	4
<i>Executive Director & Group Chief Financial Officer</i>	
Mr Paul Y C Tsui (appointed on 16 June 2008)	2
<i>Non-executive Director</i>	
Mr T Y Ng	4
<i>Independent Non-executive Directors</i>	
Hon Paul M P Chan, JP	2
Professor Edward K Y Chen, GBS, CBE, JP	3
Dr Raymond K F Ch'ien, GBS, CBE, JP	2
Hon Vincent K Fang, SBS, JP	1
Mr Hans Michael Jebsen, BBS	2
Mr James E Thompson, GBS	3

Each Director of the Company has been appointed on the strength of his/her calibre, experience and stature, and his/her potential to contribute to the proper guidance of the Group and its businesses. Apart from formal meetings, matters requiring board approval were arranged by means of circulation of written resolutions.

(ii) Operation of the Board

The Company is headed by an effective Board which takes decisions objectively in the interests of the Company. The Company's management has closely monitored changes to regulations that affect its corporate affairs and businesses, and changes to accounting standards, and adopted appropriate reporting format in its interim report, annual report and other related documents to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. Where these changes are pertinent to the Company or Directors' disclosure obligations, the Directors are either briefed during Board meetings or issued with regular updates and materials to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group. Newly appointed Directors receive briefings and orientation on their legal and other responsibilities as a Director and the role of the Board. The Company has also provided appropriate information in a timely manner to the Directors to enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

There is a clear division of responsibilities between the Board and the management. Decisions on important matters are specifically reserved to the Board while decisions on the Group's general operations are delegated to the management. Important matters include those affecting the Group's strategic policies, major investment and funding decisions and major commitments relating to the Group's operations.

(D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr Peter K C Woo serves as the Chairman and also as the *de facto* chief executive officer of the Company. This is a deviation from the Code provision with respect to the roles of chairman and chief executive officer to be performed by different individuals. Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be the Chairman of the Company as well as to discharge the executive functions of a chief executive officer. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, a substantial proportion thereof being independent Non-executive Directors.

Furthermore, the Chairman is supported by Senior Deputy Chairman, Mr Gonzaga W J Li and Deputy Chairman & Managing Director, Mr Stephen T H Ng. The Chairman is responsible for the Board, focuses on Group strategies and Board issues, ensures a cohesive working relationship between members of the Board and management, and directly has responsibilities in certain major business units of the Group. The Senior Deputy Chairman and the Deputy Chairman & Managing Director have full executive responsibilities in the business directions and operational efficiency of the business units under their respective responsibilities and are accountable to the Chairman.

(E) NON-EXECUTIVE DIRECTORS

All those existing Directors of the Company who do not hold any executive office of the Company have their respective terms of appointment coming to an end normally three years after their appointment to the Board or (in the case of Directors who were re-elected to the Board at previous Annual General Meetings) their last re-election as Directors.

Corporate Governance Report

(F) REMUNERATION OF DIRECTORS

The Company has set up a Remuneration Committee consisting of the Chairman of the Company and two other independent Non-executive Directors.

Two Remuneration Committee meetings were held during the financial year ended 31 December 2008. Attendance of the Members is set out below:

Members	Attendance at Meetings
Mr Peter K C Woo, <i>GBS, JP, Chairman</i>	2
Mr Hans Michael Jebesen, <i>BBS</i>	1
Mr James E Thompson, <i>GBS</i>	2

- (i) The terms of reference of the Remuneration Committee are aligned with the provisions set out in the Code. Given below are the main duties of the Remuneration Committee:
 - (a) to consider the Company's policy and structure for all remuneration of Directors and senior management;
 - (b) to determine the specific remuneration packages of all executive Directors and senior management;
 - (c) to review performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
 - (d) to review the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment; and
 - (e) to review compensation arrangements relating to dismissal or removal of Directors for misconduct.
- (ii) The work performed by the Remuneration Committee for the financial year ended 31 December 2008 is summarised below:
 - (a) review of the Company's policy and structure for all remuneration of Directors and senior management;
 - (b) consideration of the emoluments for all Directors and senior management; and
 - (c) review of the level of fees for Directors and Audit Committee Members.

The basis of determining the emoluments payable to its Directors and senior management by the Company is by reference to the level of emoluments normally granted by a listed company in Hong Kong to directors and senior executives of comparable calibre and job responsibilities so as to ensure a fair and competitive remuneration package as is fit and appropriate. The basis of determining the Directors' fees, currently at the rate of HK\$60,000 per annum per Director, payable to Directors of the Company, and the Audit Committee Members' fees, currently at the rate of HK\$20,000 per annum per Member, payable to those Directors of the Company who are also Members of the Audit Committee of the Company is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

(G) NOMINATION OF DIRECTORS

The Company does not have a nomination committee as the role and function of such committee are performed by the Board.

The Board is responsible for the formulation of the nomination policies, making recommendations to Shareholders on Directors standing for re-election, providing sufficient biographical details of Directors to enable Shareholders to make an informed decision on the re-election, and where necessary, nominate Directors to fill casual vacancies. The Chairman in conjunction with the two Deputy Chairmen from time to time reviews the composition of the Board with particular regard to ensuring that there is an appropriate number of Directors on the Board independent of management. They also identify and nominate qualified individuals for appointment as new Directors of the Company. New Directors of the Company will be appointed by Board. Any and all new Directors are subject to retirement from the Board at the Annual General Meeting of the Company immediately following his or her appointment and may stand for re-election at the Annual General Meeting.

(H) AUDITORS' REMUNERATION

The fees in relation to the audit and other services for the financial year ended 31 December 2008 provided by KPMG, the external auditors of the Company, amounted to HK\$16 million and HK\$3 million respectively.

(I) AUDIT COMMITTEE

All the Members of the Audit Committee of the Company are appointed from the independent Non-executive Directors.

All Members have sufficient experience in reviewing audited financial statements as aided by the auditors of the Group whenever required. In addition, Hon Paul M P Chan has the appropriate professional qualifications and experience in financial matters.

Four Audit Committee meetings were held during the financial year ended 31 December 2008. Attendance of the Members is set out below:

Members	Attendance at Meetings
Hon Vincent K Fang, <i>SBS, JP, Chairman</i>	1
Hon Paul M P Chan, <i>JP</i>	4
Mr Hans Michael Jebsen, <i>BBS</i>	2
Mr James E Thompson, <i>GBS</i>	2

- (i) The terms of reference of the Audit Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of Audit Committee:
- (a) to consider the appointment of the external auditors and any questions of resignation or dismissal;
 - (b) to discuss with the external auditors before the audit commences, the nature and scope of the audit;

Corporate Governance Report

- (c) to review the half-year and annual financial statements before submission to the Board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption;
 - (v) compliance with accounting standards; and
 - (vi) compliance with Stock Exchange and legal requirements.
 - (d) to discuss problems and reservations arising from the audits, and any matters the external auditors may wish to discuss (in the absence of management where necessary); and
 - (e) to review the audit programme of the internal audit function.
- (ii) The work performed by the Audit Committee for the financial year ended 31 December 2008 is summarised below:
- (a) approval of the remuneration and terms of engagement of the external auditors;
 - (b) review of the external auditors' independence and objectivity and the effectiveness of audit process in accordance with applicable standards;
 - (c) review of the half-year and annual financial statements before submission to the Board, with particular consideration of the points mentioned in paragraph (i)(c) above regarding the duties of the Audit Committee;
 - (d) discussion with the external auditors before the audit commences, the nature and scope of the audit;
 - (e) review of the audit programme of the internal audit function;
 - (f) review of the Group's financial controls, internal control and risk management systems; and
 - (g) meeting with the external auditors without executive Board members present.

(J) INTERNAL CONTROL

The Directors are ultimately responsible for the internal control system of the Group and, through the Audit Committee, have reviewed the effectiveness of the system. The internal control system comprises a well-defined organisational structure with specified limits of authority in place. Areas of responsibility of each business and operational units are also clearly defined to ensure effective checks and balances.

Procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of the reliability of financial information for internal use or publication and compliance with relevant legislation and regulations. Such procedures are designed to manage risks of failure in operational systems and can provide reasonable assurance against material errors, losses or fraud.

The internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group. Findings regarding internal control matters are reported to the Audit Committee. The external auditors have access to the full set of internal audit reports.

A review of the effectiveness of the Group's internal control system and procedures covering all controls, including financial, operational and compliance and risk management, was conducted by the Audit Committee and subsequently reported to the Board during the financial year ended 31 December 2008. Based on the result of the review, in respect of the financial year ended 31 December 2008, the Directors considered that the internal control system and procedures of the Group were effective and adequate.

(K) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2008, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flow for the year then ended and in compliance with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended 31 December 2008:

- (i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;
- (ii) prudent and reasonable judgements and estimates are made; and
- (iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

(L) COMMUNICATION WITH SHAREHOLDERS

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports are printed and sent to all Shareholders. Press releases are posted on the Company's corporate website www.wharfholdings.com. The Company's website provides email address, postal address, fax number and telephone number by which enquiries may be put to the Company's Board. Constantly being updated in a timely manner, the website also contains a wide range of additional information on the Group's business activities. As a standard part of the investor relations programme to maintain a constant dialogue on the Group's performance and objectives, senior executives hold regular briefings and attend conferences with institutional investors and financial analysts.

The Company encourages its Shareholders to attend Annual General Meetings to ensure a high level of accountability and to stay informed of the Group's strategy and goals.

The Board and external auditors attend the Annual General Meetings to answer Shareholders' questions.

(M) SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to the Hong Kong Companies Ordinance, on requisition of one or more Shareholders in aggregate holding not less than 5% of the paid-up capital of the Company carrying the right to vote at general meetings, the Directors of the Company must convene an extraordinary general meeting.