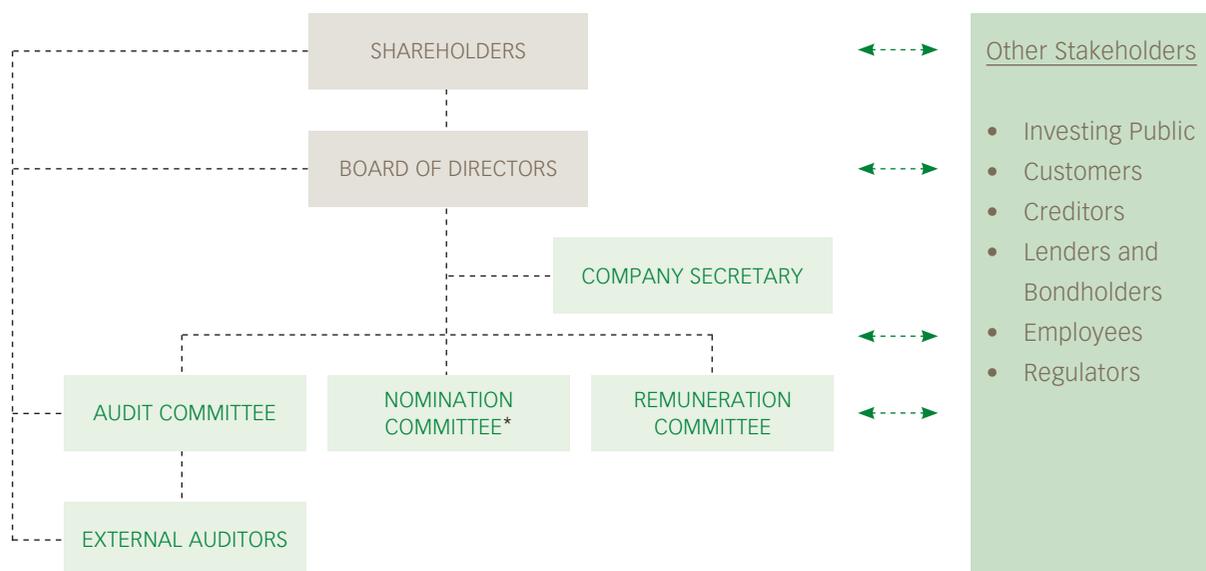


Corporate Governance Report

CORPORATE GOVERNANCE STRUCTURE



* established in February 2012

CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2011, all the code provisions as 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"), which were in force during the financial year, were met by the Company, with the exception of one deviation as set out under section A.2.1 below. The application of the relevant principles, and the reasons for the abovementioned deviation from a Code provision, are stated in the following sections.

Key corporate governance principles and corporate governance practices of the Company during the financial year are summarised below (with the Code Provisions numbers stated below being those in force during the financial year ended 31 December 2011):

I. Code Provisions

Code Ref.	Code Provisions
A.	DIRECTORS
A.1	The Board <i>Corporate Governance Principle</i> <i>The board should assume responsibility for leadership and control of the company and is collectively responsible for directing and supervising the company's affairs. Directors should take decisions objectively in the interests of the company.</i>

Compliance Status	Corporate Governance Practices																
<p>✓ Comply with Requirement</p>	<p>Five meetings of the board of directors of the Company (the “Board”) were held during the financial year ended 31 December 2011.</p> <p>The records of attendance the directors of the Company (“Directors”) are set out below:</p> <table border="1" data-bbox="467 634 1409 1555"> <thead> <tr> <th data-bbox="467 634 1130 666"><u>Directors</u></th> <th data-bbox="1130 634 1409 666"><u>Attendance/Number of Meeting(s) held</u></th> </tr> </thead> <tbody> <tr> <td data-bbox="467 693 1130 757"><i>Chairman</i> Mr Peter K C Woo</td> <td data-bbox="1130 693 1409 757">4/5</td> </tr> <tr> <td data-bbox="467 789 1130 853"><i>Deputy Chairman & Managing Director</i> Mr Stephen T H Ng</td> <td data-bbox="1130 789 1409 853">5/5</td> </tr> <tr> <td data-bbox="467 885 1130 1012"><i>Vice Chairman</i> Mr Andrew O K Chow <i>(appointed as Vice Chairman & Director effective 1 July 2011)</i></td> <td data-bbox="1130 885 1409 1012">2/2</td> </tr> <tr> <td data-bbox="467 1044 1130 1108"><i>Executive Director</i> Ms Doreen Y F Lee</td> <td data-bbox="1130 1044 1409 1108">5/5</td> </tr> <tr> <td data-bbox="467 1140 1130 1204"><i>Executive Director</i> Mr T Y Ng</td> <td data-bbox="1130 1140 1409 1204">3/5</td> </tr> <tr> <td data-bbox="467 1236 1130 1300"><i>Executive Director & Group Chief Financial Officer</i> Mr Paul Y C Tsui</td> <td data-bbox="1130 1236 1409 1300">5/5</td> </tr> <tr> <td data-bbox="467 1332 1130 1555"><i>Independent Non-executive Directors</i> Hon Paul M P Chan Professor Edward K Y Chen Dr Raymond K F Ch’ien Hon Vincent K Fang Mr Hans Michael Jebsen Mr James E Thompson</td> <td data-bbox="1130 1332 1409 1555">2/5 1/5 1/5 3/5 3/5 5/5</td> </tr> </tbody> </table> <p>The Directors may attend meetings in person, by phone or through other means of electronic communication in accordance with the Company’s Articles of Association.</p> <p>All Directors are consulted as to whether they may want to include any matter in the agenda before the agenda for each regular Board meeting is issued.</p> <p>At least 14 days formal notice would be given before each regular meeting and reasonable notices are given for all other ad hoc meetings.</p>	<u>Directors</u>	<u>Attendance/Number of Meeting(s) held</u>	<i>Chairman</i> Mr Peter K C Woo	4/5	<i>Deputy Chairman & Managing Director</i> Mr Stephen T H Ng	5/5	<i>Vice Chairman</i> Mr Andrew O K Chow <i>(appointed as Vice Chairman & Director effective 1 July 2011)</i>	2/2	<i>Executive Director</i> Ms Doreen Y F Lee	5/5	<i>Executive Director</i> Mr T Y Ng	3/5	<i>Executive Director & Group Chief Financial Officer</i> Mr Paul Y C Tsui	5/5	<i>Independent Non-executive Directors</i> Hon Paul M P Chan Professor Edward K Y Chen Dr Raymond K F Ch’ien Hon Vincent K Fang Mr Hans Michael Jebsen Mr James E Thompson	2/5 1/5 1/5 3/5 3/5 5/5
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All Directors have access to the advice and services of the company secretary of the Company ("Company Secretary") who is responsible to the Board for ensuring that procedures are followed and that all applicable laws and regulations are complied with. The Company Secretary is also a source of advice to the Chairman and to the Board on corporate governance and the implementation of the Code.

The Company Secretary prepares minutes and/or written resolutions and keeps records of matters discussed and decisions resolved at all Board and Board Committee meetings.

Board and Board Committee minutes/resolutions are sent to all Directors/Board Committee members for their comments and record within a reasonable time after each Board and Board Committee meeting.

Board and Board Committee minutes/resolutions are available for inspection by Directors/Board Committee members. Final version of Board minutes is put on record within a reasonable time after the Board meeting.

Minutes record in sufficient detail the matters considered by the Board/Board Committees and decisions reached.

Directors are given an opportunity to comment on draft Board minutes.

The Company Secretary can arrange independent professional advice at the expense of the Company should such advice be considered necessary by any Director.

Important matters are decided by Directors by resolutions passed at Directors' meetings, or, on some occasions, dealt with by way of written resolutions so that all Directors (including Independent Non-executive Directors) can note and comment, as appropriate, the matters before approval is granted.

Under the Company's Articles of Association, a Director shall not vote or be counted in the quorum in respect of any contract or arrangement in which he/she or any of his/her associate is/are materially interested.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board committee will be set up to deal with the matter.

Code Ref.

Code Provisions

A.2

Chairman and Chief Executive Officer

Corporate Governance Principle

There should be a clear division of responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Compliance Status

Corporate Governance Practices

✓
Comply with Requirement

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 Executive Directors 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.

With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information on a timely basis.

The Board meeting agenda documents including supporting analysis and related background information are normally sent to the Directors at least three days before Board meetings.

Communications between Independent Non-executive Directors on the one hand, and the Company Secretary as co-ordinator for the business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and further supporting information and/or documentation is provided if appropriate.

Code Ref.

Code Provisions

A.2.1

The roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Compliance Status

Corporate Governance Practices

✗
Not Comply with Requirement

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, half thereof being Independent Non-executive Directors.

Corporate Governance Report

Code Ref.	Code Provisions
A.3	<p>Board composition</p> <p><i>Corporate Governance Principle</i></p> <p><i>The board should have a balance of skills and experience appropriate for the requirements of the business of the company and should include a balanced composition of executive and non-executive directors so that independent judgement can effectively be exercised.</i></p>
Compliance Status	<p align="center">Corporate Governance Practices</p>
<p align="center">✓✓ Exceed Requirement</p>	<p>The composition of the Board, by category and position of Directors including the names of the Chairman, the Executive Directors, the Independent Non-executive Directors, is disclosed in all corporate communications.</p> <p>The Board consists of a total of twelve Directors, comprising six Executive Directors, and six Independent Non-executive Directors. Six out of twelve of the Directors (exceeding the one-third requirement under the Code) are Independent Non-executive Directors of which at least one have appropriate professional qualifications, or accounting or related financial management expertise.</p> <p>Details of the composition of the Board are set out on page 89.</p> <p>The Directors' biographical information is set out on pages 110 to 114.</p> <p>The structure, size and composition of the Board are reviewed from time to time to ensure the Board has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Company. The independence of the Independent Non-executive Directors is assessed according to the relevant rules and requirements under the Listing Rules.</p> <p>Each of the Independent Non-executive Directors makes an annual confirmation of independence pursuant to the requirements of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in the relevant requirements of the Listing Rules and are independent in accordance with the terms of the guidelines.</p>
Code Ref.	Code Provisions
A.4	<p>Appointments, re-election and removal</p> <p><i>Corporate Governance Principle</i></p> <p><i>There should be a formal, considered and transparent procedure for the appointment of new directors and plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals.</i></p>

Compliance Status	Corporate Governance Practices
<p style="text-align: center;">✓</p> <p>Comply with Requirement</p>	<p>All Directors are subject to retirement once every three years and are subject to re-election.</p> <p>The Board as a whole is responsible for the appointment of new Directors and Directors' nomination for re-election by shareholders at the general meeting of the Company. Under the Company's Articles of Association, the Board may from time to time appoint a Director either to fill a casual vacancy or as an addition to the Board. Any such new Director shall hold office until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board) and shall then be eligible for re-election at the same general meeting.</p> <p>The Company's Nomination Committee (established in February 2012) has its terms of reference which are aligned with the provisions set out in the Code as recently revised which comes into effect from 1 April 2012 onwards (the "Revised Code"). It comprises 3 members, namely, the Chairman of the Company, namely, Mr Peter K C Woo (as its Chairman), and two Independent Non-executive Directors, namely, Mr Hans Michael Jebson and Mr James E Thompson. Given below are the main duties of the Nomination Committee:</p> <ul style="list-style-type: none"> (a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (c) to assess the independence of Independent Non-executive Directors; and (d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the chief executive. <p>The re-election of each of those Independent Non-executive Directors who has served on the Board for more than nine years is subject to (1) a separate resolution to be approved by Shareholders at the relevant Annual General Meeting; and (2) from 1 April 2012 onwards, further information being given to Shareholders together with the notice of meeting regarding the reasons why the Board believes the relevant Director is still independent and should be re-elected.</p>
Code Ref.	Code Provisions
<p>A.5</p>	<p>Responsibilities of directors</p> <p><i>Corporate Governance Principle</i></p> <p><i>Every director is required to keep abreast of his/her responsibilities as a director of the company and of the conduct, business activities and development of the company.</i></p>

Corporate Governance Report

Compliance Status	Corporate Governance Practices
✓ Comply with Requirement	<p>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.</p> <p>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.</p> <p>The Independent Non-executive Directors exercise their independent judgement and advise on the future business direction and strategic plans of the Company.</p> <p>The Independent Non-executive Directors review the financial information and operational performance of the Company on a regular basis.</p> <p>The Independent Non-executive Directors are invited to serve on the Board Committees of the Company.</p> <p>There is satisfactory attendance at Board meetings during the year. Please refer to A.1 above for details of attendance records.</p> <p>Every Executive Director has hands-on knowledge and expertise in the areas and operation in which he/she is charged with. Appropriate attention to the affairs of the Group is measured in terms of time as well as the quality of such attention and the ability of the Directors to contribute with reference to his/her necessary knowledge and expertise.</p> <p>The Company had adopted the model code for securities transactions by directors of listed issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions effective from 31 March 2004. A revised Model Code has been adopted by the Company to comply with the new requirements set out in Appendix 10 to the Listing Rules effective from 1 April 2009.</p> <p>Confirmation has been received from all Directors that they have complied with the required standards set out in the Model Code for the year ended 31 December 2011.</p>

Code Ref.

Code Provisions

A.6	Supply of and access to information <i>Corporate Governance Principle</i> <i>Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of the company.</i>
Compliance Status	Corporate Governance Practices
✓ Comply with Requirement	<p>Board papers are circulated not less than three days before regular Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings.</p> <p>The Company Secretary and the Group Financial Controller of the Accounts Department attend all regular Board meetings to advise on corporate governance, statutory compliance, and accounting and financial matters, as appropriate.</p> <p>Communications between Directors on the one hand, and the Company Secretary, who acts as co-ordinator for the business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and that further supporting information is provided if appropriate.</p>

Code Ref.

Code Provisions

B.	REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT
B.1	The level and make-up of remuneration and disclosure <i>Corporate Governance Principle</i> <i>There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors.</i>
Compliance Status	Corporate Governance Practices
✓ Comply with Requirement	<p>In accordance with the Code, the Company has set up a remuneration committee ("Remuneration Committee") on 1 August 2001 with a majority of the members being Independent Non-executive Directors.</p> <p>The Remuneration Committee comprises the Chairman of the Board, Mr Peter K C Woo (formerly the Chairman of the Remuneration Committee during the financial year under review), and two Independent Non-executive Directors, namely, Mr Hans Michael Jebesen and Mr James E Thompson (appointed as the new Chairman of the Remuneration Committee on 1 February 2012).</p> <p>The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management, and reviewing the specific remuneration packages of all Executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.</p>

The terms of reference (as revised in February 2012) of the Remuneration Committee are aligned with the provisions set out in the Revised Code. Given below are the main duties of the Remuneration Committee:

- (a) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (b) to review and approve the management's remuneration proposals by reference to the Board's corporate goals and objectives;
- (c) either:
 - (1) to determine, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management; or
 - (2) to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management.

This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- (d) to make recommendations to the Board on the remuneration of Non-executive Directors;
- (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- (f) to review and approve compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- (g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- (h) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and
- (i) to advise Shareholders on how to vote with respect to any service contracts of Directors that require Shareholders' approval under the Listing Rules.

One Remuneration Committee meeting was held during the financial year ended 31 December 2011. Attendance of the Members is set out below:

<u>Members</u>	<u>Attendance/Number of Meeting(s) held</u>
Mr Peter K C Woo	1/1
Mr James E Thompson	1/1
Mr Hans Michael Jebesen	1/1

The work performed by the Remuneration Committee for the financial year ended 31 December 2011 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 Remuneration Committee has consulted the Chairman about proposals relating to the remuneration packages and other human resources issues of the Directors and senior management, including, without limitation, succession plan and key personnel movements as well as policies for recruiting and retaining qualified personnel.

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 paid 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 fee payable to the Chairman of the Company, currently at the rate of HK\$100,000 per annum, the fee payable to each of the other Directors of the Company, currently at the rate of HK\$60,000 per annum (proposed to be increased to HK\$70,000 per annum with retroactive effect from 1 January 2012), and the fee payable to each of those Directors who are also Members of the Audit Committee of the Company, currently at the rate of HK\$20,000 per annum (proposed to be increased to HK\$30,000 per annum with retroactive effect from 1 January 2012), is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

To enable it to better advise on the Group's future remuneration policy and related strategies, the Remuneration Committee has been advised of the Group's existing remuneration policy and succession plan, such as guidelines on designing employees' remuneration packages and related market trends and information.

The Personnel Department provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

Code Ref.

Code Provisions

C.

ACCOUNTABILITY AND AUDIT

C.1

Financial reporting

Corporate Governance Principle

The Board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Compliance Status

Corporate Governance Practices

✓
Comply with Requirement

Directors are provided with a review of the Group's major business activities and key financial information on a quarterly basis.

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2011, 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 2011:

- (i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;

	<p>(ii) prudent and reasonable judgements and estimates are made; and</p> <p>(iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.</p> <p>The Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as referred to in C.1.2 of the Code.</p> <p>With the assistance of the Company's Accounts Department which is under the supervision of the Group Financial Controller who is a professional accountant, the Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards.</p> <p>The Directors also ensure the publication of the financial statements of the Group is in a timely manner.</p> <p>The statement by the external auditors of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 125.</p> <p>The Board aims to present a clear, balanced and understandable assessment of the Group's performance and position in all shareholder communications.</p> <p>The Board is aware of the requirements under the applicable rules and regulations about timely disclosure of price-sensitive information or matters regarding the Company and will authorise the publication of such announcements as and when the occasion arises. The Company Secretary works closely and in consultation with legal advisers to review the materiality and sensitivity of transactions and proposed transactions and advise the Board accordingly.</p>
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Code Ref.

Code Provisions

C.2

Internal controls

Corporate Governance Principle

The Board should ensure that the company maintains sound and effective internal controls to safeguard the shareholders' investment and the company's assets.

Compliance Status

Corporate Governance Practices

✓
Comply with Requirement

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 including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting functions, and their training programmes and budget. 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, and the adequacy of, *inter alia*, resources, qualifications, experience and training of staff of the Company's accounting and financial reporting function was conducted by the Audit Committee and subsequently reported to the Board during the financial year ended 31 December 2011. Based on the result of the review, in respect of the financial year ended 31 December 2011, the Directors considered that the internal control system and procedures of the Group were effective and adequate.

Code Ref.

Code Provisions

C.3

Audit Committee

Corporate Governance Principle

The Board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

Compliance Status

Corporate Governance Practices

✓
Comply with Requirement

Minutes drafted by the Company Secretary are circulated to members of the Audit Committee within a reasonable time after each meeting.

All Members have sufficient experience in reviewing audited financial statements and are aided by the auditors of the Group as and when 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 2011. Attendance of the Members is set out below:

Members

Attendance/Number of Meeting(s) held

Hon Vincent K Fang, <i>Chairman</i>	4/4
Hon Paul M P Chan	2/4
Mr Hans Michael Jebesen	3/4
Mr James E Thompson	4/4

No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he/she ceases to be a partner of the auditing firm.

The terms of reference (as revised in February 2012) of the Audit Committee are aligned with provisions set out in the Revised Code and 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) Relationship with the Company's auditors

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of their resignation or dismissal;
- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; and
- (c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

(B) Review of financial information of the Company

- (a) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:–
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (b) regarding (B) (a) above:–
 - (i) members of the Audit Committee should liaise with the Company's Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
 - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors.

- (C) *Oversight of the Company's financial reporting system and internal control procedures*
- (a) to review the Company's financial controls, internal control and risk management systems;
 - (b) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
 - (c) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
 - (d) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
 - (e) to review the Group's financial and accounting policies and practices;
 - (f) to review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
 - (g) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
 - (h) to report to the Board on the matters in the Code Provisions in the Listing Rules;
 - (i) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
 - (j) to act as the key representative body for overseeing the Company's relations with the external auditors; and
 - (k) to consider other topics, as defined by the Board.

(D) Oversight of the Company's Corporate Governance Matters

- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (e) to consider other topics, as defined by the Board.

The work performed by the Audit Committee for the financial year ended 31 December 2011 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 C.3(B)(a) 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.

The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, KPMG be re-appointed as the Company's external auditor for 2012.

For the financial year ended 31 December 2011, the external auditor of the Company received approximately HK\$18 million for audit services and HK\$3 million for tax and other services.

The Company Secretary can arrange independent professional advice at the expense of the Company should the seeking of such advice be considered necessary by the Audit Committee.

Code Ref.

Code Provisions

D.	DELEGATION BY THE BOARD
D.1	Management functions <i>Corporate Governance Principle</i> <i>The Company should have a formal schedule of matters specifically reserved to the Board and those delegated to management.</i>
Compliance Status	Corporate Governance Practices
✓ Comply with Requirement	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.

Code Ref.

Code Provisions

D.2	Board Committees <i>Corporate Governance Principle</i> <i>Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.</i>
Compliance Status	Corporate Governance Practices
✓ Comply with Requirement	Three Board Committees, namely, Audit Committee, Remuneration Committee and Nomination Committee (established in February 2012) have been established with specific terms of reference as mentioned in C.3, B.1 and A.4 of above. Board Committees report to the Board of their decisions and recommendations at the Board meetings.

Corporate Governance Report

Code Ref.	Code Provisions
E. E.1	COMMUNICATION WITH SHAREHOLDERS Effective communication <i>Corporate Governance Principle</i> <i>The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.</i>
Compliance Status	Corporate Governance Practices
<p style="text-align: center;">✓</p> <p>Comply with Requirement</p>	<p>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.</p> <p>The Company's notice to Shareholders for the 2011 Annual General Meeting of the Company was sent at least 20 clear business days before the meeting.</p> <p>Separate resolutions are proposed at the general meetings of the Company on each substantially separate issue, including the election of individual Directors.</p> <p>The Board and external auditors attend the Annual General Meetings to answer Shareholders' questions.</p> <p>The Company recognises the fundamental importance of transparency and accountability. Management believes that Shareholders' value can best be enhanced by articulating the corporate strategies, business strengths and weaknesses, growth opportunities and threats, and future prospects through a continuous and active dialogue with the investment community, the media and the public. To achieve this, the Company is committed to providing Shareholders and the general public access to key information that is reasonably required to make an investment decision on a fair and timely basis.</p> <p>The Company is aware of its obligations under the Listing Rules in relation to the disclosure of price-sensitive information and has established procedures to ensure that all communications with the public, including the investment community and the media, are fair; and that material non-public information is not disseminated on a selective basis.</p> <p>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 published/printed and printed copies of such reports or notifications of publication thereof on the Company's website are sent to all Shareholders. Press releases are posted and available for download at the Company's corporate website www.wharfholdings.com. In addition, the Company makes full use of the Internet to make information widely available to Shareholders. 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 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.</p>

Code Ref.

Code Provisions

E.2

Voting by poll

Corporate Governance Principle

The company should ensure that shareholders are familiar with the detailed procedures for conducting a poll.

Compliance Status

Corporate Governance Practices

✓
Comply with Requirement

Shareholders have the opportunity to participate effectively and vote in general meetings and are informed of the rules, including voting procedures, that govern general meetings:

- (a) Shareholders are furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meetings;
- (b) Shareholders have the opportunity to ask questions to the Board, including questions relating to the annual external audit, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations;
- (c) Effective shareholder participation in key corporate governance decisions;
- (d) Shareholders can make their view known on the remuneration policy for Board members and key executives; and
- (e) Shareholders can vote in person or by proxy, and equal effect is given to votes whether cast in person or by proxy.

The Company has the following procedures to Shareholders to vote by poll:

- (a) All resolutions put to shareholders in a general meetings are voted by a poll demanded by the Chairman at the beginning of the meetings. The circulars and notices of the general meetings express the Chairman's intention to call for voting by poll.
- (b) The Chairman or the Company Secretary explains the procedures for voting by poll to Shareholders and answer any questions from Shareholders before a poll is required to be conducted at the meetings.
- (c) The Company ensures votes cast are properly counted and recorded. Independent scrutineers are appointed to count the number of votes cast at general meetings.
- (d) Poll results are announced on the same day and also published on the Company's and the Stock Exchange's websites not later than the business day following the general meetings.

SHAREHOLDERS' RIGHTS

I. Convene an Extraordinary General Meeting

Pursuant to Section 113 of the Hong Kong Companies Ordinance, on requisition by 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.

II. Send Enquiries to the Board

The Company's corporate website provides email address, postal address, fax number and telephone number by which Shareholders may at any time address their concerns or enquiries to the Company's Board.

III. Make Proposals at General Meetings

- (i) The procedures for proposing candidate(s) for election as Director(s) at a Shareholders' meeting are set out in the Corporate Governance section of the Company's corporate website.
- (ii) The procedures for proposing resolution(s) to be moved at a Shareholders' meeting are as follows:

Shareholder(s) can submit a written requisition to move a resolution at a Shareholders' meeting pursuant to Section 115A of the Hong Kong Companies Ordinance if they –

- (a) represent not less than 2.5% of the total voting rights of all Shareholders having at the date of the requisition a right to vote at the Shareholders' meeting; or
- (b) are no less than 50 shareholders holding the Company's shares on which there has been paid up an average sum, per shareholder, of not less than HK\$2,000.

The written requisition must –

- (a) state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the Shareholders' meeting;
- (b) contain the signatures of all the requisitionists (which may be contained in one document or in several documents in like form);
- (c) be deposited at the Company's registered office (16th Floor, Ocean Centre, Harbour City, Canton Road, Kowloon, Hong Kong) for the attention of the Company Secretary, to be so deposited not less than 6 weeks (as required in most circumstances under the applicable laws) before the Shareholders' meeting in the case of a requisition requiring notice of a resolution and not less than 1 week before the Shareholders' meeting in the case of any other requisition; and
- (d) be accompanied by a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionists to all Shareholders in accordance with the requirements under the applicable laws and rules.