

The Company strives to attain the highest standards of corporate governance, with an emphasis on a strong and diligent board of Directors (the "Board") and increasing transparency to shareholders. The Company has adopted sound governance and disclosure practices, a commitment to continuously improving those practices and an ethical corporate culture.

The principles of corporate governance adopted by the Group emphasise a quality board, sound internal control, and transparency and accountability to all stakeholders.

The Company has complied with the Code of Best Practice of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2004 except that Non-executive Directors had no set term of office but retire on a rotation basis. The Company is now in full compliance with all code provisions of the new Code on Corporate Governance Practices of the Listing Rules.

Below are the corporate governance practices adopted by the Group.

The Board

The Board is responsible for the oversight of the management of the business and affairs of the Company with the objective of enhancing shareholder value.

The Board, led by the Chairman, is responsible for the approval and monitoring of Group wide strategies and policies, approval of annual budgets and business plans, evaluating the performance of the Company, and oversight of management. Management is responsible for the day-to-day operations of the Group under the leadership of the Group Managing Director.

As at 31 December 2004, the Board comprised fifteen Directors, including the Chairman and the Deputy Chairman of the Group, the Group Managing Director, Deputy Group Managing Director, Group Finance Director, three Executive Directors, six Independent Non-executive Directors and one Non-executive Director. Biographical details of the Directors appear under the Directors and Senior Management section on pages 75 to 78.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules⁽¹⁾.

(1) In September 2004, Mr Holger Kluge was appointed an Independent Non-executive Director of the Company. The Board has considered the non-executive directorship of Mr Kluge in TOM Group Limited and is satisfied with his independence as his role in that company is akin to that of an independent non-executive director even though he is designated as a non-executive director. In addition, he was previously a director of (i) certain trustee companies of discretionary trusts ("DTs") (including Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Discretionary Trust) in which the discretionary objects include Mr Li Tzar Kuoi, Victor and his spouse and children; (ii) certain trustee companies of unit trusts ("UTs") (including Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust) in which the DTs hold units; (iii) the holding companies of the above trustee companies (which do not carry on other businesses); and (iv) certain companies wholly owned by the UTs (derived from his directorships in the above trustee companies). The Board has considered Mr Kluge's past directorships referred to in (i) to (iv) above and is satisfied with his independence having regard to all relevant factors including the fact that Mr Kluge has not received any remuneration or derived any other benefit for his roles as such in (i) to (iv), that Mr Kluge did not control any of such boards of directors, and when performing their functions as trustees of the DTs and UTs, they exercised their power to hold interests in the trust assets, including shares in Cheung Kong (Holdings) Limited and the Company, independently without reference to the holding companies of the above trustee companies or any of Messrs Li Ka-shing, Li Tzar Kuoi, Victor and Li Tzar Kai, Richard as a holder of shares of these holding companies.

The roles of the Chairman and the Deputy Chairman are separate from that of the Group Managing Director. Such division of responsibilities helps to reinforce their independence and accountability.

The Chairman, assisted by the Deputy Chairman, is responsible for providing leadership to, and overseeing, the functioning of the Board to ensure that the Board acts in the best interests of the Group so that Board meetings are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. With the support of 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 in a timely manner. The Chairman also actively encourages Directors to be fully engaged in the Board's affairs and make contribution to the Board's functions. To this end, in addition to the regular Board meetings, the Chairman holds meetings with the Non-executive Directors at least annually without the Executive Directors present. The Board, under the Chairman's leadership, have adopted good corporate governance practices and procedures and taken appropriate steps to provide effective communication with shareholders.

The Group Managing Director, assisted by the Deputy Group Managing Director, is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of group policies and assuming full accountability to the Board for all group operations. Acting as the principal manager of the Group's businesses, the Group Managing Director attends to developing strategic operating plans that reflect the longer-term objectives and priorities established by the Board and is directly responsible for maintaining the operational performance of the Group. Working with the Deputy Group Managing Director and Group Finance Director, other Executive Directors and the executive management team of each core business division, he ensures that the Board is fully apprised of the funding requirements of the businesses of the Group and presents annual budgets to the Board for consideration and approval. The Group Managing Director, with the assistance of the Group Finance Director, ensures that the funding requirements of the businesses are met and closely monitors the operating and financial results against plans and budgets, taking remedial actions when necessary and advising the Board of significant developments and issues. He maintains an ongoing dialogue with the Chairman, the Deputy Chairman and all Directors to keep them fully informed of all major business development and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

The Board meets regularly, and at least four times a year. Between scheduled meetings, senior management of the Group provide to the Directors information on a timely basis on the activities and development in the businesses of the Group and when required, additional Board meetings are held. In addition, Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

The Board held four meetings in 2004 and one meeting to date in 2005 with an average attendance rate of approximately 89.3%.

	Name of Director	Attended / Eligible to attend
Chairman	Li Ka-shing ⁽¹⁾	5/5
Executive Directors	Li Tzar Kuoi, Victor <i>(Deputy Chairman)</i> ⁽¹⁾	5/5
	Fok Kin-ning, Canning <i>(Group Managing Director)</i>	5/5
	Chow Woo Mo Fong, Susan <i>(Deputy Group Managing Director)</i>	5/5
	Frank John Sixt <i>(Group Finance Director)</i>	5/5
	Lai Kai Ming, Dominic	5/5
	George Colin Magnus	4/5
	Kam Hing Lam ⁽¹⁾	4/5
Non-executive Director	William Shurniak ⁽²⁾	4/5
Independent Non-executive Directors	Michael David Kadoorie	3/5
	Holger Kluge ⁽³⁾	2/2
	Simon Murray ⁽⁴⁾	4/5
	Or Ching Fai, Raymond	5/5
	Peter Alan Lee Vine ⁽⁵⁾	4/4
	Wong Chung Hin	3/5

Notes:

- (1) Mr Li Ka-shing is the father of Mr Li Tzar Kuoi, Victor and the brother-in-law of Mr Kam Hing Lam.
(2) Re-designated from Independent Non-executive Director to Non-executive Director on 1 March 2004.
(3) Appointed as Independent Non-executive Director on 30 September 2004.
(4) Re-designated from Non-executive Director to Independent Non-executive Director on 30 September 2004.
(5) Resigned as Independent Non-executive Director on 7 January 2005.

All Non-executive Directors are engaged on a service contract for a twelve-month period. All Directors are subject to re-election by shareholders at the annual general meeting following their appointment and at least every three years on a rotation basis. None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation). Where vacancies exist at the Board, candidates are proposed and put forward to the Board for consideration and approval, with a view of appointing to the Board individuals with leadership capabilities so as to enable the Company to retain as well as improve its competitive position.

Upon appointment to the Board, Directors receive a package of orientation materials and attend extensive presentations given by senior executives to review the Group's businesses. Training and information are provided to Directors regularly to help ensure that Directors are aware of the latest changes in the commercial and regulatory environment in which the Group conducts its businesses.

In March 2004, the Board adopted the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules (the "Model Code") as the Group's code of conduct regarding Directors' securities transactions. All Directors confirmed that they have complied with the Model Code in their securities transactions throughout the year.

Directors' Responsibility for the Financial Statements

The following statement, which sets out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Auditors' Report on page 115 which acknowledges the reporting responsibilities of the Group's Auditors.

Annual Report and Accounts

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

Accounting Policies

The Directors consider that in preparing the financial statements the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

Accounting Records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance and the applicable accounting standards.

Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Going Concern

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Company Secretary

The Company Secretary is responsible to the Board for ensuring that board procedures are followed and that activities of the Board are efficient and effective by assisting the Chairman to prepare agendas for meetings and by preparing and disseminating Board papers to the Directors and Board Committees in a timely and comprehensive manner.

The Company Secretary is responsible for ensuring that the Board is fully briefed on all legislative, regulatory and corporate governance developments and that it has regard to them when making decisions. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules and Codes on Takeovers and Mergers and Share Repurchases, including publication and dissemination of Report and Accounts and interim reports within the periods laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notification is made of Directors' dealings in securities of the Group.

The Company Secretary also advises the Directors on their obligations for disclosure of interests in securities, connected transactions and price-sensitive information and ensures that the standards and disclosures required by the Listing Rules are observed and, where required, reflected in the annual report of the Directors.

With respect to the Group secretarial function within the Group, the Company Secretary leads a team of qualified secretarial officers that maintains formal minutes for Board and other meetings.

In relation to connected transactions, regular briefings to legal counsels within the Group are made to ensure that such transactions are handled in compliance with the Listing Rules. Detailed analyses are performed on all potential connected transactions for presentation to directors of relevant companies for their consideration in approving transactions.

Audit Committee

The Audit Committee, comprises two Independent Non-executive Directors and one Non-executive Director who possess the appropriate business and financial experience and skills to understand financial statements. The Committee is chaired by Mr Wong Chung Hin and the other members of the Committee are Messrs William Shurniak and Holger Kluge. Mr Peter Alan Lee Vine was a member of the Audit Committee throughout 2004 and resigned as an Independent Non-executive Director and Audit Committee member on 7 January 2005.

Under its terms of reference the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's preliminary results, interim results and annual financial statements, to monitor compliance with statutory and listing requirements, to review the scope, extent and effectiveness of the activities of the Group's Internal Audit function, to engage independent legal or other advisers as it determines is necessary and to perform investigations.

The terms of reference of the Audit Committee is published on the Group's website.

The Audit Committee held three meetings in 2004 and two meetings to date in 2005.

Name of Member	Eligible Attended / to attend
Wong Chung Hin (<i>Chairman</i>)	5/5
William Shurniak	5/5
Holger Kluge ⁽¹⁾	2/2
Peter Alan Lee Vine ⁽²⁾	3/3

Notes:

(1) Appointed as a member of the Audit Committee on 30 September 2004.

(2) Ceased to be a member of the Audit Committee on 7 January 2005.

Financial Statements

The Audit Committee meets and holds discussions with the Group Finance Director and other senior management of the Group on the interim results, preliminary results announcement and Annual Report. The Committee reviews and discusses the management's reports and representations with a view to ensuring that the Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong. It also considers reports from the Group's principal external auditors, PricewaterhouseCoopers ("PwC"), on the scope and outcome of their independent review of the interim results and on their annual audit of the consolidated financial statements.

External Auditors

The Committee reviews each year a letter from PwC confirming their independence and objectivity and holds meetings with PwC to discuss the scope of their audit, to approve the fees thereon, and to approve the scope and appropriate fees for any non-audit services requested to be provided by them.

The Committee also makes recommendations to the Board on the appointment and retention of the external auditors.

The Group's policy regarding the engagement of PwC for the various services listed below is as follows:

- Audit services – includes audit services provided in connection with the audit of the consolidated financial statements. All such services are to be provided by external auditors.

- Audit related services – includes services that would normally be provided by an external auditor but not generally included in audit fees, for example, audits of the Group's pension plans, due diligence and accounting advice related to mergers and acquisitions, internal control reviews of systems and/or processes, and issuance of special audit reports for tax or other purposes. The external auditors are to be invited to undertake these services that they must or are best placed to undertake in their capacity as auditors.
- Taxation related services – includes all tax compliance and tax planning services, except for those services which are provided in connection with the audit. The Group uses the services of the external auditors where they are best suited. All other significant taxation related work is undertaken by other parties as appropriate.
- Other services – includes, for example, audits or reviews of third parties to assess compliance with contracts, risk management diagnostics and assessments, and non-financial systems consultations. The external auditors are also permitted to assist management and the Group's internal auditors with internal investigations and fact-finding into alleged improprieties. These services are subject to specific approval by the Audit Committee.
- General consulting services – The Group's policy is that the external auditors are not eligible to provide services involving general consulting work.

An analysis of PricewaterhouseCoopers and other external auditor's fees is shown in note 33 to the accounts.

Review of Risk Management and Internal Control

The Committee reviews the process by which the Group evaluates its control environment and its risk assessment process, and the way in which business and control risks are managed. The Committee discusses with the Group's Internal Auditors the work plan for their audits together with their resource requirements and considers the Group Internal Audit General Manager's reports to the Committee on the effectiveness of internal controls in the Group business operations.

These reviews and reports are taken into consideration by the Committee when it makes its recommendation to the Board for approval of the consolidated financial statements for the year.

Remuneration Committee

The Remuneration Committee comprises three members with expertise in human resources and personnel emoluments. The Committee is chaired by the Chairman Mr Li Ka-shing with Messrs Holger Kluge and Wong Chung Hin, both Independent Non-executive Directors as members. The Committee meets towards the end of each year for the determination of the remuneration packages of Directors and senior management of the Group. In addition, the Committee also meets as and when required to consider remuneration related matters.

The responsibilities of the Remuneration Committee are to assist the Board in achieving its objective of attracting, retaining and motivating people of the highest calibre and experience needed to shape and execute strategy across the Group's substantial, diverse and international business operations. The Committee will assist the Group in the administration of a fair and transparent procedure for setting policies on the remuneration of Directors and senior management of the Group and for determining their remuneration packages. Terms of reference of the Committee which have been adopted by the Board are available on the Group's website.

Executive Directors, assisted by the Group Human Resources Department, are responsible for reviewing all relevant remuneration data and market conditions in addition to considering the performance of individuals and the profitability of the Group, and propose to the Remuneration Committee for consideration and approval, remuneration packages for Directors and senior executives. Executive Directors, however, do not participate in the determination of their own remuneration.

Prior to the establishment of the Committee in 2005, for 2004, consistent with the principles applied in the past, the remuneration of Directors and senior executives was determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other local and international companies and the prevailing market conditions. Directors and employees also participate in bonus arrangements determined in accordance with the performance of the Group and the individual's performance.

Recent developments in corporate governance regulations which have increased the responsibilities of Directors, coupled with the expansion of the businesses of the Group, have increased the time and effort required of Directors to perform their duties. Director's fees have thus been increased from HK\$50,000 in 2003 to HK\$100,000 for 2004.

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The emoluments of each of the Directors of the Company excludes amounts received from the Company's listed subsidiaries and paid to the Company. The amounts paid to each Director of the Company for 2004 are as below:

Name	Fees HK\$ millions	Basic Salaries, Allowances and Benefits-in- kind	Bonuses HK\$ millions	Provident Fund Contributions	Inducement or Compensation Fees	Total Emoluments HK\$ millions
		HK\$ millions		HK\$ millions	HK\$ millions	
Li Ka-shing ⁽¹⁾	0.05	–	–	–	–	0.05
Li Tzar Kuoi, Victor						
Paid by the Company	0.10	4.44	27.50	–	–	32.04
Paid by Cheung Kong Infrastructure Holdings Limited ("Cheung Kong Infrastructure")	0.70	–	6.24	–	–	6.31
Paid to the Company	(0.70)	–	–	–	–	(0.07)
	0.10	4.44	33.74	–	–	38.28
Fok Kin-ning, Canning ⁽²⁾	0.10	9.76	124.85	1.93	–	136.64
Chow Woo Mo Fong, Susan ⁽²⁾	0.10	7.05	28.60	1.40	–	37.15
Frank John Sixt ⁽²⁾	0.10	7.05	27.50	0.61	–	35.26
Lai Kai Ming, Dominic ⁽²⁾	0.10	4.41	10.00	0.77	–	15.28
George Colin Magnus ⁽²⁾	0.10	4.03	3.50	–	–	7.63
Kam Hing Lam ⁽²⁾						
Paid by the Company	0.10	2.25	6.93	–	–	9.28
Paid by Cheung Kong Infrastructure	0.07	4.20	2.64	–	–	6.91
Paid to the Company	(0.07)	(4.20)	–	–	–	(4.27)
	0.10	2.25	9.57	–	–	11.92
William Shurniak ^{(4),(5)}	0.20	–	–	–	–	0.20
Michael David Kadoorie ⁽³⁾	0.10	–	–	–	–	0.10
Holger Kluge ^{(3),(5)}	0.05	–	–	–	–	0.05
Simon Murray ⁽³⁾	0.10	–	–	–	–	0.10
Or Ching Fai, Raymond ⁽³⁾	0.10	–	–	–	–	0.10
Peter Alan Lee Vine ^{(3),(5)}	0.20	–	–	–	–	0.20
Wong Chung Hin ^{(3),(5)}	0.20	–	–	–	–	0.20
Total:	1.70	38.99	237.76	4.71	–	283.16

Notes:

- (1) No management remuneration was paid to Mr Li Ka-shing during the year other than a Director's fee of HK\$50,000 which he paid to Cheung Kong (Holdings) Limited.
- (2) Directors' fees received by these Directors from the Company's listed subsidiaries have been paid to the Company and are not included in the amounts above.
- (3) Independent Non-executive Directors. The total emoluments of the Independent Non-executive Directors of the Company are HK\$750,000.
- (4) Non-executive Director.
- (5) Members of the Audit Committee.

Internal Control and Group Risk Management

Introduction

The Board has overall responsibility for the Group's system of internal control and for the assessment and management of risk.

In meeting its responsibility the Board seeks to increase risk awareness across the Group's business operations and has put in place policies and procedures, including the parameters of delegated authority, which provide a framework for the identification and management of risk. Reporting and review activities include the review by the Executive Directors and the Board and approval of detailed operational and financial reports, budgets and plans provided by the management of the business operations, the review by the Board of actual results against the budgets, the reviews by the Committees of the Board, the ongoing work of the Group's Internal Audit function and Risk Management function, as well as the regular business reviews by Executive Directors and the executive management team of each core business division.

Whilst these procedures are designed to identify and manage risks that could adversely impact the achievement of the Group's business objectives, they do not provide absolute assurance against material mis-statement or loss.

Internal Control Environment

The Board is overall responsible for monitoring the operations of the businesses within the Group. Executive Directors are appointed to the boards of all significant material operating subsidiaries and associates to attend their board meetings and to oversee the operations of those companies. Monitoring activities include the review and approval of business strategies, budgets, and plans, and the setting of key business performance targets. The executive management team of each core business division is accountable for the conduct and performance of each business in the division within the agreed strategies and similarly the management of each business is accountable for its conduct and performance.

The Group's internal control procedures include a comprehensive system for reporting information to the executive management teams of each core business and the Executive Directors.

Business plans and budgets are prepared annually by the management of individual businesses and subject to review and approval by both the executive management teams and the Executive Directors as part of the Group's five-year corporate planning cycle. Reforecasts for the current year are prepared on a quarterly basis, reviewed for differences to the budget and for approval. When setting budgets and reforecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks.

The Executive Directors review monthly management reports on the financial results and key operating statistics of each business and hold monthly meetings with the executive management team and senior management of business operations to review these reports, business performance against budgets, forecasts, significant business risk sensitivities and strategies. In addition, each month the executive management teams' finance directors and financial controllers of each of the major businesses attend meetings with the Group Finance Director and members of his finance team to review monthly performance against budget and forecast, and to address accounting and finance related matters.

The Group maintains a centralised cash management system for its unlisted subsidiary operations and the Group's Treasury function oversees the Group's investment and lending activities. Treasury reports on the Group's cash and liquid investments, borrowings and movements thereof are distributed weekly.

The Group Financial Director has established guidelines and procedures for the approval and control of expenditures. Operating expenditures are subject to overall budget control and are controlled within each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment by the Group Finance Director or other Executive Directors are required for material expenditures within the approved budget and also unbudgeted expenditures. Quarterly reports of actual versus budgeted and approved expenditures are also reviewed.

The General Manager of the Group's internal audit function, reporting to the Group Finance Director on a day to day basis and also directly to the Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations worldwide. Using risk assessment methodology and taking into account the dynamics of the Group's activities, internal audit derives its yearly audit plan. The plan is reviewed by the Audit Committee, and reassessed during the year as needed to ensure that adequate resources are deployed and the plan's objectives are met. Internal audit is responsible for assessing the Group's internal control system, formulating an impartial opinion on the system, and to report its findings to the Audit Committee, the Group Finance Director and the senior management concerned and also to follow up on all reports to ensure that all issues have been satisfactorily resolved. In addition, a regular dialogue is maintained with the Group's external auditors so that both are aware of the significant factors which may affect their respective scope of work.

Depending on the nature of business and risk exposure of individual business units, the scope of work performed by the internal audit function includes financial and operations reviews, recurring and surprise audits, fraud investigations and productivity efficiency reviews.

Reports from the external auditors on internal controls and relevant financial reporting matters are presented to the General Manager of the internal audit function and, as appropriate, to the Group Finance Director and the relevant executive management team's finance director or financial controller. These reports are reviewed and the appropriate actions taken.

Group Risk Management

The Group Managing Director and the Group Risk Management Department have the responsibility to develop and implement risk mitigation strategies including the use of insurance to transfer the financial impact of risk. The Group Risk Management Department, working with the business operations worldwide, is responsible for arranging appropriate insurance coverage and organising Group-wide risk reporting.

Investor Relations and Shareholders' Rights

The Group actively promotes investor relations and communications by setting up regular briefing meetings with the investment community when the interim and year end financial results are announced. The Group, through the Investor Relations Manager, responds to request for information and queries from the investment community.

The Board is committed to providing clear and full performance information of the Group to shareholders through the publication of interim and annual reports. In addition to dispatching circular, notices, financial reports to shareholders, additional information is also available to shareholders through Investor Information on the Group's website.

Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. The Chairman and Directors are available to answer questions on the Group's businesses at the meeting. All shareholders have statutory rights to call for extraordinary general meetings and put forward agenda items for consideration by shareholders. All substantive resolutions at the annual general meeting are decided on a poll. The poll is conducted by the Group's Registrars and the results of the poll are published on the Group's website. Financial and other information is made available on the Group's website, which is regularly updated.

The Group values feedback from shareholders on its effort to promote transparencies and foster investor relationships. Comments and suggestions are welcome and can be addressed to the Investor Relations Manager by mail or by e-mail to the Group's website.

By order of the board

Edith Shih

Company Secretary

Hong Kong, 31 March 2005