

Corporate Governance Report

The Board has adopted the Code of Corporate Governance Practices (the “CGP Code”) which provides guidelines to reinforce our corporate governance principles. Continuous efforts are made to review and enhance the Group’s internal controls and procedures in light of local and international developments to instill best practices. To us, maintaining high standards of corporate governance practices is not just complying with the letter of the provisions but also the intent of the regulations to enhance corporate performance and accountability.

The Company had complied throughout the year with the CGP Code adopted by the Company based on the principles set out in Appendix 14 to the Listing Rules, save the following:

- the non-executive directors were not appointed for a specific term. However, they are subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Bye-Laws of the Company. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CGP Code; and
- pursuant to the Bye-Laws of the Company, the directors of the Company (save those holding the office as Chairman, President or Managing Director) are subject to retirement by rotation. According to the Private Act of the Company enacted in 1990 (the “Act”), directors holding the office of executive chairman or managing director shall not be subject to retirement by rotation. As the Company is bound by the provisions of the Act, the Bye-Laws of the Company cannot be amended to align with the relevant provision of the CGP Code in this respect. However, in order for the Company to comply with the CGP Code, the Executive Chairman and the President of the Company have confirmed that they are willing to be subject to the retirement by rotation provisions as set out in the Bye-Laws of the Company.

Board of Directors

The Board meets regularly and members of the Board receive information between meetings about the developments in the Company’s business. The Board is responsible for devising and implementing the overall group strategy, acquisition and divestment policy, and the approval of major capital expenditure projects and consideration of significant financing matters. It regularly reviews the financial performance and business of the Group.

Day-to-day management and operations functions of the Group are being delegated to the management.

The Board comprises the following members:

Executive Directors

- Quek Leng Chan (*Executive Chairman*)
- Kwek Leng Hai (*President, CEO*)
- Tan Lim Heng
- James Eng, Jr.

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Board of Directors (Cont'd)

Non-executive Directors

- Kwek Leng San
- Sat Pal Khattar*
- Harry Richard Wilkinson*
- Volker Stoeckel*

(* independent)

During the financial year, four board meetings were held. Messrs Quek Leng Chan, Kwek Leng Hai, Sat Pal Khattar, Kwek Leng San, Tan Lim Heng, Harry Richard Wilkinson and James Eng, Jr. attended all the four board meetings while Mr Volker Stoeckel attended three meetings.

The Company received confirmation from each of the independent non-executive directors of independence for the year ended 30 June 2006 pursuant to Rule 3.13 of the Listing Rules. Up to and as at the date of this report, the Company still considers the independent non-executive directors to be independent.

The family relationship among the members of the Board are disclosed under "Biographical Details of Directors and Senior Management" on page 5 of this Annual Report.

Chairman and Chief Executive Officer ("CEO")

The posts of Chairman and CEO are held separately by Mr Quek Leng Chan and Mr Kwek Leng Hai respectively. Their roles are segregated. The primary responsibility of Chairman is to ensure the efficient functioning of the Board which focuses on the Group's broad strategic direction and macro oversight of the management. The CEO is responsible for the management of the Company in accordance with the strategies approved by the Board.

Non-executive Directors

The non-executive directors are not appointed for a specific term but their terms of office are subject to retirement by rotation and re-election at the annual general meetings in accordance with the Bye-Laws of the Company.

Directors' Securities Transactions

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions.

Having made specific enquiry of all directors of the Company, they have complied with the required standard set out in the Model Code for the year.

Board Remuneration Committee (“BRC”)

The BRC was established on 1 July 2005 with written terms of reference made pursuant to the relevant provisions of the CGP Code. The terms of reference which have been adopted by the Board are available on the Company’s website (www.guoco.com).

The BRC comprises Messrs Quek Leng Chan (Chairman), Harry Richard Wilkinson and Volker Stoeckel, the latter two are independent non-executive directors of the Company.

The principal role of the BRC is to make recommendations to the Board on the policy and structure for the remuneration of directors and senior management, and to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payment, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board of the remuneration of non-executive directors. The BRC would also consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

The BRC held one meeting during the financial year which was attended by all members. During the meeting, the BRC adopted the remuneration policy for directors and senior management and reviewed the remuneration package of executive directors of the Company for the financial year.

Nomination of Directors

The Board is responsible for the selection and recommendation of candidates for directorship of the Company. All new nominations received are assessed and approved by the Board in line with its policy of ensuring that nominees are persons of high calibre and ample experience.

Board Audit Committee (“BAC”)

The BAC was established in 1998 with written terms of reference. During the year, the terms of reference have been revised to align with the requirements under the CGP Code. The terms of reference are available on the Company’s website (www.guoco.com).

The BAC comprises Messrs Harry Richard Wilkinson (Chairman), Sat Pal Khattar and Volker Stoeckel, all of whom are independent non-executive directors of the Company.

The BAC oversees the financial process and the adequacy and effectiveness of the Company’s system of internal controls. The BAC meets with the Company’s external auditors and the internal auditors, and reviews the audit plans, the internal audit programmes, the results of their examinations and their evaluations of the system of internal controls. It also reviews interests in contracts and connected transactions. The BAC reviews the financial statements of the Company and the consolidated financial statements of the Group and the Auditors’ Report thereon and submits its views to the Board.

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Board Audit Committee (“BAC”) (Cont’d)

The BAC held four meetings during the financial year. Messrs Harry Richard Wilkinson and Sat Pal Khattar attended four meetings while Mr Volker Stoeckel attended three meetings.

The following is a summary of the work performed by the BAC during the year:

- reviewed and approved the Group’s internal audit policy;
- reviewed audit plans and internal audit programme;
- reviewed the Interim Report and the interim results announcement for the six months ended 31 December 2005;
- reviewed the audited accounts and final results announcement for the year ended 30 June 2006;
- reviewed and recommended to the Board on the approval of the external audit fee proposal;
- reviewed the internal control and risk management framework; and
- considered and recommended to the Board for the adoption of new accounting standards.

A statement by the auditors about their reporting responsibilities is included in the Auditors’ Report on page 54 of this Annual Report.

Directors have acknowledged their responsibility for preparing accounts.

Auditors’ Remuneration

During the year, the fees charged by the Group’s external auditors for annual audit services amounted to HK\$5,987,000 (2005: HK\$2,994,000) and for non-audit related activities amounted to HK\$1,906,000 (2005: HK\$343,000) comprising taxation services fees of HK\$1,220,000 (2005: HK\$224,000), a mandatory general offer exercise on a listed company by the Group of HK\$599,000 and other miscellaneous items of HK\$87,000 (2005: HK\$119,000).

Internal Controls

The Board, recognising its responsibilities in ensuring sound internal controls, has developed a risk management framework for the Group to assist in:

- identifying the significant risks faced by the Group in the operating environment as well as evaluating the impact of such risks identified;
- developing the necessary measures for managing these risks; and
- monitoring and reviewing the effectiveness of such measures.

Internal Controls (Cont'd)

The Board has entrusted the Board Audit Committee ("BAC") with the responsibility to oversee the implementation of the risk management framework of the Group. In discharging this responsibility, the BAC, assisted by the Group Internal Audit Department:

- periodically evaluates identified risks for their continuing relevance in the operating environment and inclusion in the risk management framework;
- assesses adequacy of action plans and control systems developed to manage these risks; and
- monitors the performance of management in executing the action plans and operating the control systems.

These on-going processes have been in place for the year under review, and reviewed periodically by the BAC.

The controls built into the risk management framework are intended to manage and not expected to eliminate all risks of failure to achieve business objectives but to provide reasonable and not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

In the associated and jointly controlled companies, the Board ensures that directors including common directors take a proactive stance in assessing the performance of the entity with the goal of safeguarding the investment of the Group. Where practical, the Group may request functional, financial and operating information as well as assurance that such information have been prepared in accordance with reporting standards and have been derived from control environments acceptable to the Group.

The Board, through the BAC, has conducted an annual review on the Group's system of internal controls and considers that it is adequate and effective. The Board is satisfied that the Group has fully complied with the code provisions on internal controls as set out in the CGP Code.

Investor Relations

The Company encourages two-way communication with both its institutional and private investors. Extensive information about the Company's activities is provided in the Annual Report and the Interim Report which are sent to shareholders. There are regular dialogues with institutional investors. Enquiries from individuals on matters relating to their shareholdings and the business of the Company are welcome and are dealt with in an informative and timely manner.

In order to promote effective communication, the Company maintains its website on which financial including Annual and Interim Reports and other information relating to the Group and its businesses is disclosed.