

**Corporate Governance Practices**

The board of directors of the Bank (the “Board”) is well aware that maintaining good corporate governance standards is important to the effective and efficient operation of the Bank. The Board has therefore adopted and implemented various measures to ensure that a high standard of corporate governance practices is maintained. The directors confirm that, for the financial year ended 31 December 2005, the Bank has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Corporate Governance Code”) except, under the Bank’s Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest one-third) of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the Board, they shall hold office only until the next following annual general meeting and shall then be eligible for re-election (but not to be taken into account in determining the directors or the number of directors who are to retire by rotation) at that annual general meeting. The directors consider the Bank’s practice to be an appropriate alternative to that recommended under A.4.1 and A.4.2 of the Corporate Governance Code in respect of the appointment of non-executive directors for a specific term and the retirement by rotation of directors.

**Board and Senior Management Oversight and Risk Management**

The Bank, an authorized institution under the Banking Ordinance, is under the supervision of the Hong Kong Monetary Authority. Board and senior management oversight and risk management are key to attaining good standards of corporate governance practices in a banking environment. The Board oversees the Group’s policies, procedures and controls of measuring, monitoring and controlling risks arising from the banking and related financial service businesses. The day-to-day supervision of major functional areas is delegated to various specialised committees comprising directors and senior management members of the Bank. The unaudited supplementary financial information regarding corporate governance, risk management and other financial information disclosed pursuant to the Supervisory Policy Manual FD-1 “Financial Disclosure By Locally Incorporated Authorised Institutions” issued by the Hong Kong Monetary Authority provides a detailed report on the Board and senior management oversight and the risk management process.

**Directors’ Securities Transactions**

The Bank has adopted a code for securities transactions by directors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Model Securities Transactions Code”). After specific enquiry by the Bank, all of the directors confirmed that, for the financial year ended 31 December 2005, they had complied with the required standards as set out in both the Model Securities Transactions Code and the Bank’s own code in question.

# CORPORATE GOVERNANCE REPORT

## Board of Directors

The Board is composed of the following directors. During the year of 2005, six board meetings were held and the attendance of each director is set out as follows:

<b>Name of Director</b>	<b>Number of Board Meetings Attended</b>	<b>Attendance Rate</b>
<b>Executive Directors</b>		
Mr LIU Lit Man, GBS, JP, FIBA <i>(Executive Chairman)</i>	6 / 6	100%
Dr LIU Lit Mo, LLD, MBE, JP <i>(Vice Chairman)</i>	6 / 6	100%
Mr LIU Lit Chi <i>(Managing Director and Chief Executive Officer)</i>	6 / 6	100%
Mr Don Tit Shing LIU <i>(Deputy Chief Executive Officer)</i>	6 / 6	100%
Mr Wilfred Chun Ning LIU	3 / 6	50%
Mr LAU Wai Man	6 / 6	100%
Mr Frank Shui Sang JIN	6 / 6	100%
Mr Andrew Chiu Wing TSANG	2 / 2	100%
Mr George Har Kar WONG	2 / 2	100%
<b>Non-executive Directors</b>		
Mr Timothy George FRESHWATER	4 / 6	66.67%
Mr Toshiaki ARAI	4 / 6	66.67%
Mr Andrew LIU	3 / 6	50%
Mr SUN Jiakang	6 / 6	100%
Mr Christopher Kwun Shing LIU	5 / 6	83.33%
Mr Alfred Cheuk Yu CHOW, JP	6 / 6	100%
Mr WANG Zhi	0 / 1	0%
<b>Independent Non-executive Directors</b>		
Dr Robin Yau Hing CHAN, GBS, LLD, JP, EOE	5 / 6	83.33%
Mr Wanchai CHIRANAKHORN	5 / 6	83.33%
Mr CHENG Yuk Wo	6 / 6	100%

# CORPORATE GOVERNANCE REPORT

The Board, constituted in accordance with the Bank's Articles of Associations for the time being in force, is the ultimate governing body of the Bank responsible for setting the Bank's strategic goals and policies; monitoring management performance against the achievement of such goals and the compliance with such policies; filling senior management positions and reviewing succession plans for such positions; ensuring that a proper system of internal controls exists; and accounting for the Bank's operations.

The day-to-day operations of the Bank are mainly managed by various specialised committees, as well as different divisions and departments reporting to the Managing Director and Chief Executive Officer, while the Board remains ultimately responsible for the Bank's operations and affairs.

Board meetings are usually scheduled a year in advance. At least 7 days' notice of board meetings is normally given to directors. The Executive Chairman sets the agenda for board meetings. The views of the directors, as expressed in the board meetings, on matters brought to their attention are duly minuted. Minutes of every board meeting are circulated to all directors comment before they are confirmed at the next board meeting.

Directors are entitled to have access to board papers and any other related materials, and may seek external professional advice, as they see fit, so as to keep themselves abreast of the latest relevant development of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and other applicable rules and regulations with an eye to ensuring better compliance and meeting better corporate governance standards.

The Bank has received, from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Bank considers all of its independent non-executive directors to be independent.

As to the nomination of candidates for appointment to the Board, instead of having a nomination committee in place, any director is entitled to recommend for the consideration and, if thought fit, approval of the Board suitable candidates who can contribute to the Bank, discharge their responsibilities in the interests of the Bank and its shareholders as a whole, and meet the requirements of The Stock Exchange of Hong Kong Limited and the Hong Kong Monetary Authority for appointment as directors.

## Chairman and Chief Executive Officer

Mr Liu Lit Man is the Executive Chairman of the Bank and Mr Liu Lit Chi is its Managing Director and Chief Executive Officer. The roles and responsibilities of the Executive Chairman and the Managing Director and Chief Executive Officer are separate. They are assumed by two different individuals. The Executive Chairman is responsible for the management of the Board, while the Managing Director and Chief Executive Officer is charged with the responsibilities to manage the day-to-day business of the Bank.

## Auditors' Remuneration

The remuneration paid and payable to the Group's auditors, Messrs. Deloitte Touche Tohmatsu, for 2005 amounted to:

	<b>HKD</b>
Audit services	2,525,000
Tax, information technology and regulatory consulting	435,694
Corporate finance	<u>380,000</u>
Total	<u><u>3,340,694</u></u>

## Remuneration Committee

The Remuneration Committee comprises two independent non-executive directors and one non-executive director appointed by the Board.

The Remuneration Committee reviews and makes recommendations to the Board on the remuneration policy applicable to directors and senior management of the Bank, and ensures that the Bank is able to attract, retain, and motivate a high-calibre team of senior executives which is essential to the success of the Bank. The terms of reference of the Remuneration Committee sets out its roles.

The Remuneration Committee meets at least twice a year. During the year of 2005, two meetings were held and the attendance of each member is set out as follows:

<b>Name of Member</b>	<b>Number of Committee Meetings Attended</b>	<b>Attendance Rate</b>
Mr Wanchai CHIRANAKHORN <i>(Chairman)</i>	2 / 2	100%
Mr CHENG Yuk Wo	2 / 2	100%
Mr Alfred Cheuk Yu CHOW, JP	2 / 2	100%

The Remuneration Committee is provided with sufficient resources to discharge its duties and the following is a summary of the work of the Remuneration Committee during 2005:

- (i) discussion and review of the current remuneration policy and structure applicable to the directors and senior management;
- (ii) discussion and review of the directors' fees;
- (iii) discussion and review of the remuneration of the senior management; and
- (iv) discussion and review of benefits in kind, including medical and other protections, club memberships, and the eligibility for the use of Bank-owned motor vehicles, provided to the directors and senior management.

The emolument payable to directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' remuneration are set out in note 10 to the financial statements.

## **Audit Committee**

The Audit Committee comprises two independent non-executive directors and one non-executive director who possess the appropriate professional expertise and experience in financial management and business. The Audit Committee is chaired by Mr Cheng Yuk Wo and the other members are Mr Wanchai Chiranakhorn and Mr Alfred Cheuk Yu Chow.

Under its terms of reference, the Audit Committee is required, among other things, to oversee the relationship with the external auditors, to advise the Board on the appointment and retention of the external auditors, to review the external auditors' independence and objectivity, to oversee the relationship with the external auditors, to review the half-yearly and annual reports and accounts, to review the external auditors' management letter, to hold meetings with the Hong Kong Monetary Authority, to assess the adequacy and effectiveness of the Bank's systems of internal control, to review the internal audit function, and to review and recommend internal procedures to ensure compliance with regulatory requirements and generally accepted accounting standards.

# CORPORATE GOVERNANCE REPORT

The Audit Committee shall meet at least twice a year. During the year of 2005, the Audit Committee held five meetings and record of individual attendance of members is set out as follows:

<b>Name of Member</b>	<b>Number of Committee</b>	
	<b>Meetings Attended</b>	<b>Attendance Rate</b>
Mr CHENG Yuk Wo <i>(Chairman)</i>	5 / 5	100%
Mr Wanchai CHIRANAKHORN	5 / 5	100%
Mr Alfred Cheuk Yu CHOW, JP	5 / 5	100%

To discharge its responsibilities, the Audit Committee performed the following major reviews in 2005:

## **Financial Statements**

The Audit Committee met with the external auditors and the executive director in charge of Finance and Treasury Management Division to discuss the accounts for the year ended 31 December 2004 and for the six months ended 30 June 2005. The Audit Committee reviewed and discussed with the external auditors to ensure that the Bank's financial statements had been prepared in accordance with the accounting principles generally accepted in Hong Kong.

## **Relationship with the External Auditors**

The Audit Committee reviewed the independence and objectivity of the external auditors, the scope of audit services and related audit fees payable to the external auditors for the Board's approval. Moreover, the Audit Committee met and discussed with the external auditors on their audit strategy and assessment of the sufficiency of the internal control of the Bank.

## **Internal Control Review**

The Audit Committee also reviewed the internal control issues and the internal audit function of the Bank, covering the annual audit plan, the staffing and resources of Internal Audit Department, the audit findings and recommendations raised in the internal audits undertaken, and the implementation status of related audit recommendations.