

# CORPORATE GOVERNANCE REPORT

In pursuit of the objectives of achieving sustainable development, protecting shareholders' interest and enhancing shareholders' value, the Board strives to maintaining high standard of corporate governance practices by adopting various guidelines and procedures for the Company which adheres to the principles of corporate governance, with particular emphasis on areas such as internal control, fair disclosure and accountability to all shareholders.

The Company has complied throughout the year with the Code on Corporate Governance Practices ("the Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), except for the deviation with considered reasons as explained below.

## DIRECTORS AND BOARD PRACTICES

### Composition and responsibilities

The Company is headed by the Board which currently comprises thirteen directors, including nine executive directors, one non-executive director and three independent non-executive directors. Their names, biographical details and relationship amongst them, if any, are set out on pages 74 to 77 of this annual report.

The Board, led by the Chairman, is collectively responsible for the management and operations of the Company. In particular, it is responsible for setting the business and strategic direction, financial performance of the Group and oversight of the management and is positioned to approve the interim and annual financial statements, annual budgets, business plans and other significant operational matters. The running of the day-to-day businesses of the Company is delegated by the Board to the management who is working under the leadership and supervision of the Managing Director and the Executive Committee to implement the policies laid down by the Board in connection with the conduct of the businesses of the Group.

### Chairman and Managing Director

Dr. Cheng Kar-shun, Henry is the Chairman and Managing Director of the Company. In his dual capacity as Chairman and Managing Director, Dr. Cheng Kar-shun, Henry is responsible for effective running of the Board and formulating business strategies. He also provides leadership for effective running of the Company's business and implementing the policies devised by the Board.

The Code provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, the Board believes that Dr. Cheng Kar-shun, Henry, in his dual capacity as the Chairman and Managing Director, will provide strong and consistent leadership for the development of the Group.

### Independent non-executive directors

Independent non-executive directors ("INED") have a significant role in the Board by virtue of their independent judgement and their views carry significant weight in the Board's decisions. In particular, they bring an impartial view to bear on issues of the Company's strategy, performance and control.

During the year, the Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules regarding the appointment of sufficient number of INED and is having INED with relevant professional qualifications or accounting or relating financial management expertise. A written annual confirmation of independence was received from each of the INED pursuant to Rule 3.13 of the Listing Rules and the Company considers each of the INED to be independent.

### Nomination of directors

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the succession planning of directors and assessing the independence of independent non-executive directors. During the year under review, the Company had not established a nomination committee.

In evaluating whether an appointee is suitable to act as a director, the Board will consider the experience, qualification and other relevant factors. An induction will be given to newly appointed director to provide information regarding the businesses and operation of the Company as well as his/her responsibilities under the statutes, rules and regulations.

### Rotation of directors

In accordance with the Company's articles of association, all directors are subject to retirement by rotation at least once every three years and each newly appointed director is subject to re-election by the shareholders at the first general meeting after his/her appointment. The names of directors who are eligible for re-election will be disclosed in the notice of the relevant general meetings and their biographical details will be provided in the accompanying circulars.

The Code provides that non-executive director should be appointed for a specific term, subject to re-election. In this regard, the Company entered into service contracts with the non-executive directors of the Company whereby they are appointed for an initial term of three years commencing from 1st January 2006 subject to retirement by rotation and re-election at least once every three years at the annual general meetings of the Company in accordance with the Company's articles of association.

### Meetings

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications. Five full board meetings were convened in the year under review. The attendance of each individual director at these board meetings is set out in the following table:

	Number of board meetings attended/held
Executive directors	
Dr. Cheng Kar-shun, Henry ( <i>Chairman</i> )	5/5
Mr. Doo Wai-hoi, William ( <i>Vice-Chairman</i> )	3/5
Mr. Cheng Kar-shing, Peter	5/5
Mr. Cheng Chi-kong, Adrian	4/5
Mr. Leung Chi-kin, Stewart	3/5
Mr. Chow Kwai-cheung	2/5
Mr. Chow Yu-chun, Alexander	5/5
Mr. Fong Shing-kwong, Michael	2/5
Ms. Ngan Man-ying, Lynda	5/5
Non-executive director	
Mr. Fu Sze-shing	0/5
Independent non-executive directors	
Mr. Cheng Wai-chee, Christopher	5/5
Mr. Tien Pei-chun, James	4/5
Mr. Lee Luen-wai, John	5/5

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All directors are supplied with relevant materials relating to the matters brought before the meetings at least 3 days before the meetings to ensure that the directors are given sufficient review time. They have separate access to the senior management and the Company Secretary at all time and may seek independent professional advices at the Company's expense. All directors have the opportunity to include matters in the agenda for board meetings. Reasonable notices of board meetings are given to the directors and board procedures are compliant with the relevant rules and regulations. The proceedings of the board meetings are normally conducted by the chairman of the Board who ensures that sufficient time is allowed for discussion among the directors and equal opportunities are being given to the directors to express their views and share their concerns. All minutes of board meetings are kept by the Company Secretary and are open for inspection at any reasonable time by the directors. Minutes record in sufficient detail the matters considered by the Board and the decisions reached.

## Board committees

The Board has set up three committees, namely, the Executive Committee, the Audit Committee and the Remuneration Committee to oversee various aspects of the Group's affairs.

### (i) Executive committee

The Executive Committee serves as an executive arm of the Board in implementing the policies laid down by the Board and handling the day-to-day businesses of the Company. They are responsible for overseeing the management of the Company, considering issues regarding finance, investments, merger and acquisition, corporate governance and corporate communication matters. Members of the Executive Committee include Dr. Cheng Kar-shun, Henry as Chairman, Messrs. Doo Wai-hoi, William, Cheng Kar-shing, Peter, Cheng Chi-kong, Adrian, Chow Yu-chun, Alexander and Ms. Ngan Man-ying, Lynda as members. Meetings of the Executive Committee are held frequently as and when required.

### (ii) Audit committee

The Audit Committee is responsible for the review and supervision of the Group's financial reporting process, internal controls and review of the Company's financial statements. The Audit Committee meets regularly with the Company's external auditors to discuss the audit process and accounting issues. Their written terms of reference are in line with the Code provision and are available on the Company's website.

Members of the audit committee comprise three INEDs including Mr. Cheng Wai-chee, Christopher as Chairman, Messrs. Tien Pei-chun, James and Lee Luen-wai, John, as members.

The Audit Committee met two times during the fiscal year. During the meetings, the Audit Committee has reviewed the audit plans, internal control procedures and financial reporting system. They have also considered the interim and final results of the Group for the fiscal year as well as the audit report prepared by the external auditors relating to accounting issues and major findings in course of audit. Full minutes of the meetings are kept and sent to all members of the Committee.

The attendance of individual member of the Audit Committee at the meetings is set out in the following table:

	Number of meetings attended/held
Members of Audit Committee	
Mr. Cheng Wai-chee, Christopher	2/2
Mr. Tien Pei-chun, James	2/2
Mr. Lee Luen-wai, John	2/2

(iii) *Remuneration committee*

The Remuneration Committee is responsible for making recommendations to the board on the Company's policy and structure for all remuneration of the directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing remuneration policy. Their written terms of reference are in line with the Code provision and are available on the Company's website.

Members of the Remuneration Committee comprise three INEDs and one executive director including Mr. Cheng Wai-chee, Christopher as Chairman, Messrs. Tien Pei-chun, James, Lee Luen-wai, John and Chow Yu-chun, Alexander as members.

No meeting was held by the Remuneration Committee during the year, however, the members have reviewed the remuneration policy of the Company and made recommendation to the Board regarding the amount of directors' fees for the fiscal year by reference to the directors' duties and responsibilities with the Company, prevailing market situation and the Company's performance.

### **Remuneration of directors**

In recognition of their services with the Company, directors are paid directors' fees annually with the approval of the shareholders of the Company. Monthly salaries are also paid to directors commensurable with their duties in the Group. To provide an opportunity for the directors to participate in the equity of the Company as well as to motivate them to optimize their performance, executive directors have been granted share options to subscribe for shares of the Company under the share option schemes of the Company. In addition, all directors are covered by appropriate insurance on directors' liabilities from their risk exposure arising from the management of the Group.

### **Model code for securities transactions by directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiries, all directors confirmed that they have complied with the standard set out in the Model Code during the year under review.

### **Model code for securities transactions by employees**

The Code provision A.5.4 provides that there should be written guidelines on no less exacting terms than the Model Code for the relevant employees in respect of their dealing in the securities of the Company.

The Company has not established guidelines for employees as required under the Code provision, instead, the relevant provisions for insider dealing as set out in the Securities and Futures Ordinance have been included in the in-house "Human Resources & Administration Manual" so that the employees are reminded of their obligation under the Ordinance.

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## FINANCIAL REPORTING AND INTERNAL CONTROL

### Financial reporting

The Board, supported by the finance department, is responsible for the preparation of the financial statements of the Company and the Group. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted together with the accounting standards issued by the Hong Kong Institute of Certified Public Accountants and appropriate accounting policies have been used and applied consistently.

The Board aims to present a clear, balanced and understandable assessment of the Group's performance in the annual and interim report to the shareholders, announcements and other financial disclosure. The annual and interim results are announced in timely manner within the limits of 4 months and 3 months respectively after the end of the relevant periods.

The reporting responsibilities of PricewaterhouseCoopers, the Company's external auditors, are stated in the Report of the Independent Auditor on pages 117 to 118 of this annual report.

### Internal control system

The Board is responsible for internal control of the Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance of applicable laws, rules and regulations. The procedures provide reasonable assurance against material errors, losses or fraud. The key procedures involved are as follows:

- (1) A defined organisational structure has been set up with clear line of responsibility and authority. Division heads are assigned to the property projects in the PRC on regional basis to oversee and control the operational and financial aspects of the projects. Systems are in place to review, approve, and administer contract works, capital expenditures, sales and rental arrangement of the property projects.
- (2) A comprehensive management accounting system has been adopted to provide financial and operational performance indicators to the management in a timely manner. Proper controls are in place for the recording and verification of accounting data to provide accurate and timely management information.
- (3) The financial results of the property projects are measured against the annual operational and financial targets. Variances against the budgets are analysed and explained to identify area of improvement and appropriate corrective actions to be taken.
- (4) Evaluation of the Group's internal control is conducted by the internal audit department on an on-going basis. The internal audit department performs risk-based audits to review the effectiveness of the Group's material internal controls so as to provide assurance that key business and operational risks are identified and managed. The work carried out by the internal audit department will ensure the internal controls are in place and functioning as intended. The internal audit department reports to the Board with its findings and makes recommendations to improve the internal control of the Group. The department also sent their reports to the Audit Committee for review and discussion.

During the course of audit performed by the external auditors, they will report on the weaknesses in the Group's internal control and accounting procedures which have come to their notice. Results of their finding and recommendations will be reported back to the Board through the Audit Committee which will monitor the corrective action to be taken.

### **External auditors' remuneration**

Fees for auditing services and non-auditing services amounting to HK\$7,317,000 and HK\$1,572,000 respectively were provided in the Group's consolidated income statement for the year ended 30th June 2008.

## **COMMUNICATION WITH SHAREHOLDERS**

The Company acknowledges the importance of communicating with shareholders, investors and the public. Various channels of communication have been established and maintained to ensure that they are kept abreast of the Company's latest news and development. Information relating to the Company's financial results, corporate details, notifiable transactions, property projects and major events are disseminated through publication of interim and annual report, press announcements, circulars, press release and newsletters. These publication can also be obtained from the Company's website ([www.nwcl.com.hk](http://www.nwcl.com.hk)).

In addition, the Chairman, members of the Board and external auditors will attend the annual general meetings of the Company where the directors will answer questions raised by the shareholders on the performance of the Group. To ensure the general meetings are conducted in a fair and transparent manner, the Chairman has demanded voting by poll on each resolutions considered at the general meetings held in the past year and appointed the branch Share Registrars as the scrutineers to count the votes and explain to the shareholders at the meetings the procedures for voting by poll. The poll results were subsequently posted both on the websites of the Company and the Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)).

The Company also holds press and analysts conferences at least twice a year following the release of interim and full year results announcements at which the executive directors and senior management of the Group are available to answer questions regarding the performance of the Group. The Group has participated in a number of roadshows and meetings with investors and organised a number of site visits during the fiscal year 2008.

The code provision E.1.2 provides (among other things) that the chairman of the board should attend the annual general meeting. Dr. Cheng Kar Shun, Henry, the Chairman of the Board, did not attend the annual general meeting of the Company held on 27th November 2007 (the "Meeting") as he had another business engagement. Mr. Cheng Chi-kong, Adrian, who took the chair of the Meeting, together with other members of the Board and the Audit and Remuneration Committees who attended the Meeting, were of sufficient calibre for answering questions at the Meeting.

The Company will review and improve the disclosure of information and effectiveness of communication with shareholders and the public from time to time.