

## Corporate Governance Practices

The board of directors of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. With effect from 1 January 2005, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the “Code on CGP”) of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), except for certain deviations in respect of the service term and rotation of directors. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

JCG Finance is a deposit taking company incorporated in Hong Kong and is under the supervision of the Hong Kong Monetary Authority (“HKMA”). Its board of directors is fully committed to adopting and implementing the principles and best practices in corporate governance as set out in the guidelines on “Corporate Governance of Locally Incorporated Authorised Institutions” issued by the HKMA. Specialised committees with clear terms of references and specific authorities delegated by its board of directors have been set up by JCG Finance.

## Directors’ Securities Transactions

The Company has adopted the code of conduct regarding directors’ securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules. All the directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year.

## Board of Directors

The board of directors of the Company comprises:

Executive Directors	:	Tan Yoke Kong Lee Huat Oon
Non-executive Directors	:	Tan Sri Dato’ Sri Dr. Teh Hong Piow, Chairman Dato’ Sri Tay Ah Lek Dato’ Chang Kat Kiam Wong Kong Ming
Independent Non-executive Directors	:	Dato’ Yeoh Chin Kee Geh Cheng Hooi, Paul Lee Chin Guan

The non-executive directors provide the Group with a wide range of expertise and knowledge in the banking and finance sector. The three independent non-executive directors are persons of high calibre, with academic and professional qualifications in the fields of accounting, law, banking and business management. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the board. Each independent non-executive director gives an annual confirmation of his independence to the Company, and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules.

### Corporate Governance Practices (Continued)

#### Board of Directors (Continued)

Mr. Geh Cheng Hooi, Paul has been serving the board for more than 9 years. Mr. Geh is a man of integrity and a certified public accountant by profession. The board appreciates his valuable advice given and contribution made in the past years and believes that he continues to be independent in character and judgement as recommended by the Nomination Committee. Mr. Geh will be proposed for re-election at the forthcoming annual general meeting.

During the year, four full 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 in 2005</b>	<b>Attendance rate</b>
Tan Sri Dato' Sri Dr. Teh Hong Piow, Chairman	4/4	100%
Tan Yoke Kong	4/4	100%
Lee Huat Oon	4/4	100%
Dato' Sri Tay Ah Lek	4/4	100%
Dato' Chang Kat Kiam	4/4	100%
Wong Kong Ming	4/4	100%
Dato' Yeoh Chin Kee	4/4	100%
Geh Cheng Hooi, Paul	2/4	50%
Lee Chin Guan	4/4	100%

The board formulates overall strategy of the Group, monitors its financial performance and maintains effective oversight over the management. The board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

The board meeting schedule for a year is planned in the preceding year. At least 14 days notice of all board meetings is given to all directors and they can include matters for discussion in the agenda if the need arises. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying board papers are sent to all directors at least 3 days before the date of every board meeting so that the directors have the time to review the documents. Minutes of every board meeting are circulated to all directors for their perusal prior to confirmation of the minutes at the following board meeting.

Every board member is entitled to have access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required. The Company Secretary continuously updates all directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

## Corporate Governance Practices (Continued)

### Chairman and Chief Executive

The Chairman and the Chief Executive of the Company are Tan Sri Dato' Sri Dr. Teh Hong Piow and Mr. Tan Yoke Kong respectively. The roles of the Chairman and the Chief Executive are segregated and assumed by two separate individuals who have no relationship with each other to strike a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the board is responsible for the leadership and effective running of the board, while the Chief Executive is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive have been clearly established and set out in writing.

### Appointment and Re-election of Directors

The Company has not fixed the term of appointment for non-executive directors. However, they are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the bye-laws of the Company (the "Bye-laws"). This deviates from the provision A.4.1 of the Code on CGP which requires that non-executive directors be appointed for a specific term. The board has discussed and concluded that the current practice of appointing non-executive directors without specific terms but otherwise subject to rotation and re-election by shareholders was fair and reasonable, and does not intend to change the current practice at the moment.

According to the Bye-laws, one-third of the directors for the time being shall retire from office by rotation at each annual general meeting. As there are nine directors, one-third of them shall retire subject to rotation, and barring unforeseen resignation/retirement during a year, each director is effectively appointed for an average term of not more than 3 years. Any director appointed to fill a casual vacancy or as an addition to the board shall hold office only until the next annual general meeting of the Company and shall retire and be subject to re-election. The above practice deviates from the provision A.4.2 of the Code on CGP which requires all directors appointed to fill casual vacancy be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years. Having reviewed the relevant Bye-laws, the board proposed to put forth a special resolution to amend the Bye-laws to comply with the said code provision.

### Corporate Governance Practices (Continued)

#### Remuneration Committee

The Remuneration Committee of the Company comprises two Non-executive Directors and three Independent Non-executive Directors.

The Remuneration Committee was formed in January 2005 and meetings shall be held at least once a year. One meeting was held in 2005. The attendance of each member is set out as follows:

<b>Name of member</b>	<b>Number of meetings attended in 2005</b>	<b>Attendance rate</b>
Tan Sri Dato' Sri Dr. Teh Hong Piow, Chairman	1/1	100%
Dato' Sri Tay Ah Lek	1/1	100%
Dato' Yeoh Chin Kee	1/1	100%
Geh Cheng Hooi, Paul	1/1	100%
Lee Chin Guan	1/1	100%

At the meeting held during the year, the overall pay trend in Hong Kong of 2005 was reviewed and noted.

The Company has adopted a share option scheme on 28 February 2002, which serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Details of the share option scheme are set out in note 28 to the financial statements. 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 8 to the financial statements.

The major roles and functions of the Group's Remuneration Committee are as follows:

1. To review annually and recommend to the board the overall remuneration policy for the directors, the Chief Executive and key senior management officers.
2. To review annually the performance of the executive directors, the Chief Executive and key senior management officers and recommend to the board specific adjustments in remuneration and/or reward payments.
3. To ensure that the level of remuneration for Non-executive Directors and Independent Non-executive Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the board of the respective companies in the Group.
4. To review and approve the compensation payable to executive directors, the Chief Executive and key senior management officers in connection with any loss or termination of their office or appointment.
5. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct.
6. To ensure that no director is involved in deciding his own remuneration.

The terms of reference of the Remuneration Committee are posted on the Company's website.

## Corporate Governance Practices (Continued)

### Nomination Committee

The Nomination Committee of the Company comprises two Non-executive Directors and three Independent Non-executive Directors.

The Nomination Committee was formed in January 2005 and meetings shall be held at least once a year. One meeting was held in 2005. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2005	Attendance rate
Tan Sri Dato' Sri Dr. Teh Hong Piow, Chairman	1/1	100%
Dato' Sri Tay Ah Lek	1/1	100%
Dato' Yeoh Chin Kee	1/1	100%
Geh Cheng Hooi, Paul	1/1	100%
Lee Chin Guan	1/1	100%

At the meeting held during the year, the relevant provisions relating to appointment, re-election and removal of directors under the Code on CGP were reviewed and adopted except for the deviation from provision A.4.1 of the Code on CGP which requires Non-executive Directors to be appointed for a specific term. In addition, the promotions of two senior management staff were discussed and approved.

The major roles and functions of the Group's Nomination Committee are as follows:

1. To assess and recommend the appointment and re-appointment of directors and Chief Executive to the board.
2. To oversee the overall composition of the board, in terms of the appropriate size and skills, and the balance of authority among Executive Directors, Non-executive Directors and Independent Non-executive Directors through annual review.
3. To assess the independence of Independent Non-executive Directors.
4. To establish a mechanism for the formal assessment on the effectiveness of the board as a whole and the performances of each director, the Chief Executive and other key senior management officers.
5. To oversee the appointment, management succession planning and performance evaluation of key senior management officers.

The terms of reference of the Nomination Committee are posted on the Company's website.

### Accountability and Audit

The directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2005, the directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

### Audit Committee

The Audit Committee of the Company comprises one Non-executive Director and three Independent Non-executive Directors.

The Audit Committee shall meet at least twice a year. Four meetings were held during the year. The minutes of the Audit Committee meetings were tabled to the board for noting and for action by the board where appropriate. The attendance of each member is set out as follows:

<b>Name of member</b>	<b>Number of meetings attended in 2005</b>	<b>Attendance rate</b>
Dato' Yeoh Chin Kee, Chairman	4/4	100%
Dato' Sri Tay Ah Lek	4/4	100%
Geh Cheng Hooi, Paul	2/4	50%
Lee Chin Guan	4/4	100%

During the meetings held in 2005, the Audit Committee had performed the following work:

- (i) reviewed the financial reports for the year ended 31 December 2004 and for the six months ended 30 June 2005;
- (ii) reviewed the findings and recommendations of the Internal Audit Department on the operations and performance of the branches and departments of JCG Finance and other subsidiaries of the Group;
- (iii) reviewed the effectiveness of internal control system;
- (iv) reviewed the On-Site Examination Report on JCG Finance issued by the HKMA and the Audit Report on the examination of the computer centre operations of JCG Finance issued by the Internal Auditors of Public Bank;
- (v) reviewed the external auditors' statutory audit plan and engagement letter;
- (vi) reviewed the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2004;
- (vii) reviewed and recommended for approval by the board the 2005 audit scope and fees; and
- (viii) reviewed the connected transactions entered into by the Group during the year.

## Accountability and Audit (Continued)

### Audit Committee (Continued)

The major roles and functions of the Group's Audit Committee are as follows:

1. To consider the appointment of the external auditors, the audit fees, and any questions of resignation or dismissal of the external auditors of the Group.
2. To discuss with the external auditors the nature and scope of the audit.
3. To review the interim and annual financial statements before submission to the board of directors.
4. To discuss problems and reservations arising from the interim review and final audit, and any matters the auditors may wish to discuss.
5. To review the external auditors' management letters and management's response.
6. To review the Group companies' statements on internal control systems (where one is included in the annual report) prior to endorsement by the respective board of directors.
7. To review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group.
8. To consider the major findings of internal investigations and management's response.

The terms of reference of the Audit Committee are posted on the Company's website.

### Auditors' Remuneration

During the year under review, the remuneration paid to the Company's auditors, Messrs Ernst & Young, is set out as follows:

<b>Services rendered</b>	<b>Fees paid/payable HK\$'000</b>
Audit services	1,473
Non-audit services i.e. taxation	56
	<b>1,529</b>

### Accountability and Audit (Continued)

#### Internal Control

The board is responsible for overseeing the Group's system of internal controls. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure, to achieve the business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines.

The board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group's assets.

The management assists the board in the implementation of the board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

- The Management Committee is established by the board of JCG Finance to ensure the effectiveness of the daily operations and that the operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Audit Committee of the Company reviews internal control issues identified by the Internal Audit Department, external auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems. It also conducts review of the internal audit functions with particular emphasis on the scope of audits, quality of internal audits and independence of the Internal Audit Department of the Group. The minutes of the Audit Committee meetings are tabled to the board for noting and further action, where appropriate.
- The Internal Audit Department of JCG Finance monitors compliance with policies and procedures and the effectiveness of the internal control systems, and highlights significant findings in respect of any non-compliance. Audits are carried out on all branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on the operational and management activities of these branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review.
- The Credit Committee under JCG Finance is responsible for making decision on loan applications for all types of loan facilities within its discretionary powers, assisting the board of directors in formulating policy guidelines for JCG Finance's lending business, and recommending applications for loan facilities exceeding the discretionary powers of the Credit Committee to the board for approval.



## Accountability and Audit (Continued)

### Internal Control (Continued)

- The Assets and Liabilities Committee under JCG Finance reviews and assesses the risk profile and capital structure of JCG Finance, sets the objectives for the asset and liability management function and implements the risk management policies approved by the board of JCG Finance.
- Operational committees have also been established under JCG Finance with appropriate authorities to ensure effective management and supervision of the Group's core areas of business operations. These committees include the Human Resources Committee and the Information Technology Committee.

The Human Resources Committee assists the board of directors in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration of all staff.

The Information Technology Committee is responsible for establishing objectives, policies and strategies for the computerisation of the Group, recommending to the board of JCG Finance on major acquisitions of computer hardware and software, and monitoring the progress of implementation of all information technology related projects.

- The Finance Committee assists the board of directors of JCG Finance in the financial planning and budgeting process of the business of JCG Finance and the review of the business performance, statutory and half year audited accounts.
- Compliance Working Group of JCG Finance is established to review the relevant policies and guidelines issued from time to time by the HKMA and other regulatory authorities, to assess the impact of the relevant regulatory requirements on JCG Finance and to ensure that the relevant business units and/or departments comply with the relevant regulatory requirements and internal policy guidelines of business units and departments.
- The Anti-Money Laundering Committee of JCG Finance is responsible for ensuring that the Guidelines on Prevention of Money Laundering of JCG Finance are reviewed, updated and implemented accordingly, and suspicious cases referred from branches or identified from relevant reports are reviewed, and suspicious money laundering cases are reported to the Joint Financial Intelligence Unit accordingly.

### Management of Risks

The respective boards of directors of the subsidiaries are responsible for the oversight of risks and approval of risk management policies. The Internal Audit Department of the Group performs regular audits to ensure compliance with the policies and reports directly to the Audit Committee.

#### Credit Risk

Credit risk is the risk associated with a customer or counterparty being unable to meet a commitment when it falls due, and arises from the lending activities undertaken by the Group.

The Group has established policies and systems for the monitoring and control of credit risk. The Credit Committee of JCG Finance is responsible for monitoring of asset quality and the formulation of credit policies and management of credit risk through reviews of regular reports on credit exposures, which include exposure limits and the level of impairment allowances for impaired loans. The approval of loan transactions is delegated to the Credit Committee members and/or authorised Zone and Branch Managers subject to the set limits. The Internal Audit Department of the Group is responsible for appraising the effectiveness of credit controls. The Group continues to maintain a tight control on loan assessments and approvals and will continue to pursue a conservative and prudent policy in granting loans.

#### Market Risk

Market risk is the risk associated with changes in interest rates, foreign exchange rates, equity prices, commodity prices and government policies; and the effect that such changes may have on the positions taken on market risk related financial instruments, including both on and off balance sheet instruments, which may result in profits or losses to the Group.

The Group adopts a conservative view on exposure to market risk related financial instruments. The Group monitors its exposure to market risk on a regular basis and will take appropriate action to minimise its exposure to market risk. The Assets and Liabilities Committee of JCG Finance meets at least quarterly to review the balance sheet structure, interest rate risk management, liquidity management, and capital structure, allocation and planning. It evaluates the impact of alternative asset and liability management strategies, identifies the types of risks inherent in JCG Finance and assesses the vulnerability of its net interest income to these risks. The latest development in interest rates and foreign exchange rate movements, fiscal and monetary policies will be brought to the attention of the board of directors.

During the year, the Group did not trade in any market risk including currency risk related financial instruments. The market risk including currency risk exposure of the Group arising from both on and off balance sheet activities was considered immaterial. Accordingly, quantitative market risk including currency risk information is not disclosed.

## Management of Risks (Continued)

### Liquidity Risk

The main objectives of the Group's liquidity risk management are to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund loan growth and to generate reasonable returns from available funds.

The Assets and Liabilities Committee of JCG Finance monitors its liquidity position as part of its ongoing assets and liabilities management, and sets up trigger limits to monitor liquidity risk. The balance between liquidity and profitability is carefully considered. The Accounts Department of the Group is responsible for the management of daily treasury operations, and to ensure availability of funds to fund loan growth and to meet contractual financial commitments.

### Communications with Shareholders and Investors

The board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the board to communicate directly with the shareholders. The Chairman of the board as well as Chairmen of the Audit, Nomination and Remuneration Committees together with the external auditors are present to answer shareholders' questions. An annual general meeting circular is distributed to all shareholders at least 21 days before the annual general meeting. It sets out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the annual general meeting and (except where a poll is demanded) reveals how many proxies for and against have been filed in respect of each resolution. The results of the poll, if any, will be published in the newspapers and on the Company's website.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner within 20 days after the end of the relevant periods in 2005, which were well before the time limits as laid down in the Listing Rules.

The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors.

The amendments to the Bye-laws were approved in the 2005 annual general meeting to reflect the changes brought by the new Listing Rules effective on 31 March 2004.

The market capitalisation of the Company as at 30 December 2005, the last trading day in 2005, was HK\$5,943,504,958 (issued share capital: 729,264,412 shares at closing market price: HK\$8.15 per share). The public float is around 36%.

The 2006 annual general meeting will be held at Queensway and Victoria Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 8 March 2006 at 10:00 a.m.