

## **(A) CORPORATE GOVERNANCE PRACTICE**

With effect from 1 January 2005, The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) issued a new Code on Corporate Governance Practices (the “New Code”) which has replaced the Code of Best Practice and was in force for the reporting financial year commencing after 1 January 2005. The Company has adopted the New Code as its own code of corporate governance practices.

In the opinion of the Board, the Company has complied throughout the year ended 28 February 2006 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 (the “Listing Rules”), except that the non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company’s annual general meetings in accordance with the Company’s articles of association.

## **(B) MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the code governing the transactions of securities by the Directors. After making specific enquiry to all Directors, it is confirmed by the Company that the Directors of the Company had complied with the relevant standard as provided in such code referred to above.

## **(C) BOARD OF DIRECTORS**

### **(i) The Board**

The Board has five members, comprising three independent non-executive Directors and two executive Directors. The Board is responsible to ensure the Company achieves its objectives, approve the business strategic plans and review management performance. The Chief Executive Officer (i.e. Group Managing Director and Executive Director) is responsible for leading the management team to manage day-to-day operation and report to the Board the way the business is run and its performance. The Chairman is responsible for running the Board, ensuring that members of the Board receive accurate, timely and clear information to help them reach well-informed and well-considered decisions; and ensuring that enough time is allowed for discussion of complex or contentious issues.

The positions of the Executive Chairman of the Board and the Chief Executive Officer are held separately by two individuals to ensure their respective independence, accountability and responsibility.

### **(ii) Relationship among members of the Board**

Mr. Walter K W Ma, Mr. Philip K H Ma and Mr. King Wing Ma are cousins. To the best knowledge of the Company, save as disclosed above, there is no financial, business and family relationship among members of the Board and between the Chairman and the General Manager. All of them are free to exercise their independent judgement.

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## (C) BOARD OF DIRECTORS *(continued)*

### (iii) Independent Non-executive Directors

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules for the appointment of three Independent Non-executive Directors.

The Company 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 Company considers all of the Independent Non-executive Directors are independent.

### (iv) The Board meets regularly and held twelve meetings in 2005. The following table shows the attendance of Directors at Board meetings during the year:-

	Attendance	Attendance Rate
Executive Directors:		
Walter K W MA ( <i>Executive Chairman</i> )	12/12	100%
Philip K H MA ( <i>Group Managing Director and Executive Director</i> )	12/12	100%
Independent Non-executive Directors:		
King Wing MA	11/12	92%
Eric K K LO	12/12	100%
Charles M W CHAN	12/12	100%

## (D) COMMITTEES OF THE BOARD

The Board has established committees, namely Audit Committee, Remuneration Committee and Nomination Committee to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities.

### (i) Audit Committee

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely Mr. King Wing Ma, Mr. Eric K K Lo and Mr. Charles M W Chan and Mr. Eric K K Lo is the chairman of the Audit Committee. The Audit Committee held two meetings during the year with attendance rate of 100%.

The Audit Committee is mainly responsible for monitoring the integrity of the Company's financial statements, reviewing the Company's internal control system and its execution, evaluating financial information and related disclosure; and auditing major connected transactions.

The Group's audited financial statements for the year ended 28 February 2006 has been reviewed by the Audit Committee.

## **(D) COMMITTEES OF THE BOARD** *(continued)*

### **(ii) Remuneration Committee**

The Company has established Remuneration Committee with written terms of reference as stated in Code B.1.3 of the Appendix 14 of the Listing Rules. The Remuneration Committee consists of three independent non-executive Directors and Mr. Charles M W Chan is the chairman of the Remuneration Committee.

The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policies and overseeing the remuneration packages of the executive Directors and senior management. The Remuneration Committee convenes one meeting during the year with attendance rate of 100%. The Remuneration Committee is also responsible for determining the remuneration standards of Directors and senior management, reviewing and approving remuneration plan, deciding bonus and reward system of the Directors and senior management. It takes into account factors such as salaries paid by comparable companies with similar size and trade, education background and qualification of each Director and senior management, time commitment and responsibilities of Directors and senior management.

### **(iii) Nomination Committee**

The Company has established Nomination Committee with written terms of reference as stated in Code A.4.5 of the Appendix 14 of the Listing Rules. The existing Nomination Committee comprises three independent non-executive Directors.

The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board regarding any proposed changes, identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for Directorships, assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer.

## **(E) DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

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## (F) AUDITORS' REMUNERATION

During the year, the fees payable to Ernst & Young, the Company's external auditors, for audit services totalled to HK\$2,288,000 (2005: HK\$1,888,000). Ernst & Young has also provided the Group with non-audit services, including review of interim financial report and provision of tax services, at fees to HK\$514,000 (2005: HK\$483,000).

## (G) INTERNAL CONTROL

The Board is responsible for ensuring that an adequate system of internal control is maintained within the Group for the operations of its business.

The internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement, fraud or loss and to manage, but not to eliminate, risks of failure in achieving the Group's objectives.

The Group's internal control system, which includes a defined management structure with the aim to (a) achieve business objectives and safeguard the Group's assets; (b) ensure proper maintenance of accounting records; and (c) ensure compliance with relevant legislation and regulations.

The Board will be responsible to (a) ensure the Group has complied with the New Code and the Listing Rules; (b) monitor the performance and operation of the Group through review and approval of business strategies, budgets and plans and setting of key business performance targets; (c) formulate the business policy, system and strategy of the Group as a whole; (d) control over capital expenditure and investments; and (e) set standards and targets for safety and health performances.

The Board has set up a Council which consists of Mr. Philip K H MA; the General Manager; and senior management of merchandising and finance departments to oversee the department stores operations. The Council is responsible to review an annual business plan and budget, which are subject to review and approval by the Board and monitor the performance and operation through comparison of the annual business plan and budget with the actual financial results.

Upon the annual business plan and budget being reviewed and approved by the Board, the department heads of various departments have to strictly adhere to the respective annual departmental plan and budget. The department head of the various departments have to obtain prior approval for any unbudgeted expenses. The Council review monthly management report on the financial results and the key operating statistics and hold regular meetings with various department heads to review the business performance against budgets, forecasts, significant business risk sensitivities and strategies and to address accounting and finance related matters.

The Audit Committee reviews the effectiveness of the Group's internal control system twice a year.