

CORPORATE GOVERNANCE REPORT

(A) Corporate Governance Practices

During the financial year ended 31 December 2014, all the code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were met by the Company, with the exception of two deviations, namely, (i) Code Provision A.2.1 (the "First Deviation") providing for the roles of the chairman and chief executive to be performed by different individuals; and (ii) Code Provision F.1.3 (the "Second Deviation") providing for the company secretary to report to the board chairman or the chief executive.

The reason for the First Deviation from the relevant Code Provision is stated under section (D) below. Regarding the Second Deviation, the Company Secretary of the Company has for some years directly reported to, and continues to report to, the Deputy Chairman of the Company, which is considered appropriate and reasonable given the size of the Group. In the view of the Directors, this reporting arrangement would in no way adversely affect the efficient discharge by the Company Secretary of his job duties.

(B) Directors' Securities Transactions

During the financial year ended 31 December 2014, the Company adopted its own set of code of conduct regarding directors' securities transactions (the "Company's Code") with terms thereof being no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors of the Company, and all the Directors have complied with the required standard set out in the Model Code and/or the Company's Code during the financial year.

(C) Board of Directors

(i) Composition of the Board, Number of Board/General Meetings and Directors' Attendance

The Company's Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business, and a balanced composition of executive and non-executive directors. Four Board meetings and one general meeting were held during the financial year ended 31 December 2014. The composition of the Board and attendance of the Directors are set out below:

Directors	Attendance/Number of Meeting(s)	
	Board Meetings	General Meeting
Douglas C K Woo (<i>Chairman & Managing Director</i>)	4/4	1/1
Peter K C Woo (<i>Senior Director</i>)	4/4	0/1
Stephen T H Ng (<i>Deputy Chairman</i>)	4/4	1/1
Stewart C K Leung (<i>Vice Chairman</i>)	4/4	1/1
Paul Y C Tsui (<i>Executive Director & Group Chief Financial Officer</i>)	4/4	1/1
Ricky K Y Wong	4/4	1/1
Non-executive Director		
Mignonne Cheng (Mrs)	3/4	1/1
Independent Non-executive Directors		
Tak Hay Chau	3/4	1/1
Winston K W Leong	4/4	1/1
Alan H Smith	4/4	0/1
Richard Y S Tang	4/4	1/1
Kenneth W S Ting	3/4	1/1
Nancy S L Tse	4/4	1/1
Glenn S Yee	4/4	1/1

Each Director of the Company has been appointed on the strength of his/her calibre, experience and stature, and his/her potential to contribute to the proper guidance of the Group and its businesses. Apart from formal meetings, matters requiring Board approval were arranged by means of circulation of written resolutions.

During the year ended 31 December 2014, the Chairman of the Company held a meeting with the Non-executive Directors (including Independent Non-executive Director ("INED(s)")) without the presence of the executive Directors.

The Chairman of the Company, namely, Mr Douglas C K Woo, is the son of Mr Peter K C Woo who is the Senior Director of the Company.

(II) **Operation of the Board**

The Company is headed by an effective Board which makes decisions objectively in the interests of the Company. The Company's management has closely monitored changes to regulations that affect its corporate affairs and businesses, and changes to accounting standards, and adopted appropriate reporting format in its interim report, annual report and other related documents to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. Where these changes are pertinent to the Company or Directors' disclosure obligations, the Directors are either briefed during Board meetings or issued with regular updates and materials to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group. Newly appointed Directors receive briefings and orientation on their legal and other responsibilities as a Director and the role of the Board. The Company has also provided appropriate information in a timely manner to the Directors to enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

There is a clear division of responsibilities between the Board and the management. Decisions on important matters are specifically reserved to the Board while decisions on the Group's general operations are delegated to the management. Important matters include those affecting the Group's strategic policies, major investment and funding decisions and major commitments relating to the Group's operations.

(III) **Directors' Continuous Professional Development**

The Company has arranged for Directors to attend training sessions which place emphasis on the roles, functions and duties of a listed company director. In addition to the training arranged by the Company, some of the Directors also received training organised by other companies and provided records thereof to the Company.

According to the records of training maintained by the Company Secretary, during the financial year under review, all the current Directors pursued continuous professional development and relevant details are set out below:

Directors	Type of training <i>(See Remarks)</i>
Douglas C K Woo	A, C
Peter K C Woo	C
Stephen T H Ng	A, C
Stewart C K Leung	A, C
Paul Y C Tsui	A, C
Ricky K Y Wong	A, C
Mignonne Cheng (Mrs)	A, C
Tak Hay Chau	A, C
Winston K W Leong	A, C
Alan H Smith	A, C
Richard Y S Tang	A, C
Kenneth W S Ting	A, C
Nancy S L Tse	A, B, C
Glenn S Yee	A, C

Remarks:

A: attending seminars and/or conferences and/or forums

B: giving talks at seminars and/or conferences and/or forums

C: reading journals, updates, articles and/or materials, etc.

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(D) Chairman and Chief Executive

Mr Douglas C K Woo serves as the Chairman and also as the *de facto* chief executive of the Company. This is a deviation from Code Provision A.2.1 with respect to the roles of chairman and chief executive to be performed by different individuals. Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be the Chairman of the Company as well as to discharge the executive functions of a chief executive. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with half of them being INEDs.

The Chairman is responsible for the Board, focuses on Group strategies and Board issues, ensures a cohesive working relationship between members of the Board and management, and also in his capacity as *de facto* chief executive, he directly has responsibilities in certain major business units of the Group.

(E) Non-Executive Directors

All those existing Directors of the Company who do not hold any executive office of the Company (including INEDs) have their respective terms of appointment coming to an end normally three years after their appointment to the Board or (in the case of Directors who were re-elected to the Board at previous Annual General Meetings) their last re-election as Directors. The re-election of each of those INEDs who has served on the Board for more than nine years is subject to (i) a separate resolution to be approved by Shareholders at the relevant Annual General Meeting; and (ii) further information being given to Shareholders together with the notice of meeting regarding the reasons why the Board believes the relevant Director is still independent and should be re-elected.

(F) Board Committees

(I) Audit Committee

The Company has set up an Audit Committee ("AC") with all its members appointed from the Company's INEDs.

All AC members have sufficient experience in reviewing audited financial statements as aided by the auditors of the Group whenever required. In addition, Mr Alan H Smith and Ms Nancy S L Tse have the appropriate professional qualifications and/or experience in financial matters.

Four AC meetings were held during the financial year ended 31 December 2014. Attendance of the AC members is set out below:

Members	Attendance/Number of Meetings
Alan H Smith (<i>Chairman of AC from 10 June 2014 onwards</i>)	4/4
Kenneth W S Ting (<i>former Chairman of AC until 10 June 2014</i>)	3/4
Nancy S L Tse (<i>Member of AC from 10 June 2014 onwards</i>)	2/2
Glenn S Yee	4/4

- (i) The terms of reference of the AC are aligned with the provisions set out in the CG Code and the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of the AC:

(A) Relationship with the Company's Auditors

- (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of their resignation or dismissal;
- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences; and

- (c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

(B) Review of Financial Information of the Company

- (a) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on: –
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (b) regarding (B)(a) above: –
 - (i) members of the Committee should liaise with the Company's Board and Senior Management and the Committee must meet, at least twice a year, with the Company's auditors; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors.

(C) Oversight of the Company's Financial Reporting System and Internal Control Procedures

- (a) to review the Company's financial controls, internal control and risk management systems;
- (b) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (c) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (d) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

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- (e) to review the Group's financial and accounting policies and practices;
- (f) to review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
- (g) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (h) to report to the Board on the matters in the Code Provisions in the Listing Rules;
- (i) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (j) to act as the key representative body for overseeing the Company's relations with the external auditors; and
- (k) to consider other topics, as defined by the Board.

(D) Oversight of the Company's Corporate Governance Matters

- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
 - (b) to review and monitor the training and continuous professional development of Directors and Senior Management;
 - (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
 - (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
 - (e) to consider other topics, as defined by the Board.
- (ii) Whistleblowing Policy & Procedures ("WPP") have been adopted by the Group, with the authority and responsibility being delegated to the AC. Such WPP are for employees and those who deal with the Group (e.g. customers and suppliers) to raise concerns, in confidence, with the Company Secretary, and any and all relevant complaints received may then be referred to the Deputy Chairman and Group Chief Financial Officer or the AC of the Company about possible improprieties in any matter related to the Group.
- (iii) The other work performed by the AC for the financial year ended 31 December 2014 is summarised below:
- (a) approval of the remuneration and the appointment and the terms of engagement of the external auditors;
 - (b) review of the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
 - (c) review of the half-year and annual financial statements before submission to the Board, with particular consideration of the points mentioned in paragraph (i)(B) above regarding the duties of the AC;

- (d) discussion with the external auditors before the audit commences, the nature and scope of the audit;
- (e) review of the audit programme of the internal audit function;
- (f) review of the Group's financial controls, internal control and risk management systems; and
- (g) meeting with the external auditors without executive Board members present.

(II) **Remuneration Committee**

The Company has set up a Remuneration Committee ("RC") consisting of the Chairman and two INEDs of the Company.

Three RC meetings were held during the financial year ended 31 December 2014. Attendance of the RC members is set out below:

Members	Attendance/Number of Meeting
Kenneth W S Ting (<i>Chairman of RC</i>)	3/3
Alan H Smith	3/3
Douglas C K Woo	3/3

- (i) The terms of reference of the RC are aligned with the provisions set out in the CG Code. Given below are the main duties of the RC:
 - (a) to make recommendations to the Board on the Company's policy and structure for all Directors' and Senior Management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
 - (b) to review and approve the management's remuneration proposals by reference to the Board's corporate goals and objectives;
 - (c) either:
 - (i) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management; or
 - (ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and Senior Management.

This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
 - (d) to make recommendations to the Board on the remuneration of non-executive Directors;
 - (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
 - (f) to review and approve compensation payable to executive Directors and Senior Management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

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- (g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
 - (h) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and
 - (i) to advise Shareholders on how to vote with respect to any service contracts of Directors that require Shareholders' approval under the Listing Rules.
- (ii) The work performed by the RC, which has the delegated authority and responsibility, for the financial year ended 31 December 2014 is summarised below:
- (a) review of the Company's policy and structure for all remuneration of Directors and Senior Management;
 - (b) consideration and approval of the emoluments for all Directors and Senior Management; and
 - (c) review of the level of fees for Directors and AC members.

The basis of determining the emoluments payable to its Directors and Senior Management by the Company is by reference to the level of emoluments normally paid by a listed company in Hong Kong to directors and senior executives of comparable calibre and job responsibilities, so as to ensure a fair and competitive remuneration package as is fit and appropriate. The basis of determining the fee payable to the Chairman of the Company, currently at the rate of HK\$150,000 per annum (proposed to be increased to HK\$225,000 per annum with retroactive effect from 1 January 2015), the fee payable to each of the other Directors of the Company, currently at the rate of HK\$100,000 per annum (proposed to be increased to HK\$150,000 per annum with retroactive effect from 1 January 2015), and the fee payable to each of those Directors who are also members of the AC of the Company, currently at the rate of HK\$50,000 per annum (proposed to be increased to HK\$75,000 per annum also with retroactive effect from 1 January 2015), is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

(III) Nomination Committee

The Company has set up a Nomination Committee ("NC") comprising three members, namely, Chairman of the Company (as chairman of NC) and two INEDs of the Company, namely, Mr Kenneth W S Ting and Mr Alan H Smith.

During the financial year ended 31 December 2014, no NC meeting was held.

- (i) The terms of reference of the NC are aligned with the provisions set out in the CG Code. Given below are the main duties of the NC:
 - (a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
 - (b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
 - (c) to assess the independence of INEDs; and
 - (d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the chief executive.

- (ii) The Board has adopted a Board Diversity Policy. Under the Policy, the Company recognises and embraces the benefits of having a diverse Board towards enhancement of its overall performance. With a vision to achieving a sustainable and balanced development, the Company regards increasing diversity at the Board level as an essential element in achieving a diversity of perspectives and supporting the attainment of its strategic goals. Appointments of Directors are made on merits having due regard for the benefits of diversity on the Board.

At present, half of the Directors on the Board are INEDs. They represent diverse career experience in both international and local enterprises. They bring with them diverse professional backgrounds, spanning engineering, finance and banking, investment banking, legal, manufacturing and entrepreneurship. They also hold or have held important public service positions in Hong Kong and Mainland China, covering business, industry and commerce, health and welfare, educations, regulations and politics.

The Board composition reflects various cultural and educational backgrounds, professional development, length of service, knowledge of the Company and a broad range of individual attributes, interests and values. The Board considers the current Board composition has provided the Company with a good balance and diversity of skills and experience appropriate to the requirements of its business. The Board will continue to review its composition from time to time taking into consideration specific needs for the Group's business.

(IV) Corporate Governance Functions

While the Board is and remains to be principally responsible for the corporate governance functions of the Company, it has delegated the relevant duties to the AC to ensure the proper performance of corporate governance functions of the Company. In this connection, the terms of reference of the AC include various duties relating to corporate governance matters which are set out in paragraph "(D) Oversight of the Company's Corporate Governance Matters" on page 28.

(G) Auditors' Remuneration

The fees in relation to the audit and other services for the financial year ended 31 December 2014 provided by KPMG, the external auditors of the Company, amounted to HK\$30 million and HK\$4 million respectively.

(H) Internal Control

The Directors are ultimately responsible for the internal control system of the Group and, through the AC, have reviewed the effectiveness of the system, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The internal control system comprises a well-defined organisational structure with specified limits of authority in place. Areas of responsibility of each business and operational units are also clearly defined to ensure effective checks and balances.

Procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of the reliability of financial information for internal use or publication and compliance with relevant legislation and regulations. Such procedures are designed to manage risks of failure in operational systems and can provide reasonable assurance against material errors, losses or fraud.

The internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group. Findings regarding internal control matters are reported to the AC. The external auditors have access to a full set of internal audit reports.

A review of the effectiveness of the Group's internal control system and procedures covering all controls, including financial, operational and compliance and risk management, and the adequacy of, *inter alia*, resources, qualifications, experience and training of staff of the Group's accounting and financial reporting function was conducted by the AC and subsequently reported to the Board during the financial year ended 31 December 2014. Based on the result of the review, in respect of the financial year ended 31 December 2014, the Directors considered that the internal control system and procedures of the Group were effective and adequate.

CORPORATE GOVERNANCE REPORT (CONTINUED)

(I) Directors' Responsibilities for the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2014, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flows for the year then ended and in compliance with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended 31 December 2014:

- (i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;
- (ii) prudent and reasonable judgements and estimates are made; and
- (iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

(J) Communication with Shareholders

A Shareholders Communication Policy has been adopted by the Company to ensure that Shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and the investment community to engage actively with the Company.

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports are published/printed and printed copies of such reports or notifications of publication thereof on the Company's website are sent to all Shareholders. Such reports and press releases are posted and are available for download at the Company's corporate website (www.wheelockcompany.com). Constantly being updated in a timely manner, the website contains a wide range of additional information on the Group's business activities. As a standard part of the investor relations programme to maintain a constant dialogue on the Group's performance and objectives, senior executives hold regular briefings and attend conferences with institutional investors and financial analysts.

The Company encourages its Shareholders to attend Annual General Meetings to ensure a high level of accountability and for Shareholders to stay informed of the Group's strategy and goals.

The Board and external auditors attend the Annual General Meetings to answer Shareholders' questions.

(K) Shareholders' Rights

(I) Convene a General Meeting

Pursuant to Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "CO"), on written requisition by Shareholders representing at least 5% of the total voting rights of all Shareholders having a right to vote at general meetings, the Directors of the Company must convene a general meeting (other than an annual general meeting).

(II) Send Enquiries to the Board

The Company's corporate website (www.wheelockcompany.com) provides email address (for enquiry purpose only), postal address, fax number and telephone number for Shareholders to address their enquiries to the Company's Board at any time.

(III) **Make Proposals at General Meetings**

- (i) The procedures for proposing candidate(s) for election as Director(s) at a Shareholders' meeting are set out in the Corporate Governance section of the Company's corporate website.
- (ii) The procedures for proposing resolution(s) to be moved at the Company's annual general meeting(s) are as follows:

Pursuant to Section 615 of the CO, Shareholder(s) can submit a written requisition to move a resolution at the Company's annual general meeting(s) if they represent:

- at least 2.5% of the total voting rights of all Shareholders who have a right to vote at the annual general meeting to which the requests relate; or
- at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The relevant written requisition must—

- (a) identify the resolution of which notice is to be given;
- (b) be authenticated by the person or persons making it; and
- (c) be received by the Company not later than 6 weeks before the relevant annual general meeting to which the requests relate; or if later, the time at which notice is given of that meeting.

Any written requisitions from Shareholders pursuant to Sections 566 and 615 of the CO as set out in sections K(I) and K(III) above must be sent to the Company and deposited at the Company's registered office at 23rd Floor, Wheelock House, 20 Pedder Street, Hong Kong.

(L) Amendments to Constitutional Documents

During the financial year ended 31 December 2014, the Company adopted a revised set of articles of association (the "New Articles") for the purpose of, *inter alia*, keeping in line with the CO. The adoption of the New Articles was approved by the Shareholders of the Company at the Annual General Meeting held on 10 June 2014. The New Articles are available at the Company's corporate website (www.wheelockcompany.com) for viewing and downloading.