

Corporate Governance Report

GOVERNANCE FRAMEWORK

The Company is committed to building and maintaining high standards of corporate governance to promote corporate accountability, transparency and integrity. The Board recognises that good corporate practices are fundamental to the smooth and effective operation of the Group and protection of the interests of shareholders and other stakeholders.

The Company has applied the principles, and complied with all code provisions, of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), from 1 January 2012 until its amendment on 1 April 2012 and with the amended Code (together with the Code, the "CG Code") from 1 April 2012 to 31 December 2012 with the exception of Code Provision A.6.7.

Code Provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings of the Company. Due to an unexpected business engagement, Mr. Huang Brad was unable to attend the extraordinary general meeting of the Company held on 6 July 2012.

THE BOARD

The Board is responsible for promoting the overall success of the Company and delivering long-term value to shareholders. The Board has delegated the management and day-to-day running of the Group to the Company management and certain matters to the Board committees, which are described more fully in the "Board Committees" section of this report. The Board reserved for its consideration and decision certain other matters which include:

- determining the Group's strategic direction;
- approving financial reporting including the annual, half-year and quarterly results;
- approving interim, and recommending final, dividends;
- approving major acquisitions, disposals and capital expenditure;
- approving Board appointments; and
- approving broad policies and systems of internal control and risk management.

As at 31 December 2012, the Board comprised seven Directors — three Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The Directors have a broad range of expertise and experience, which we believe, contributes significantly to the effectiveness of the Board. The list of Directors and their biographical details are set out on pages 23 to 27.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and continues to consider each of them to be independent.

The roles of Chairman and Chief Executive Officer are performed by separate individuals in accordance with the CG Code. There is a clear division of responsibilities between the Chairman and Chief Executive Officer to ensure a balance of power and authority so that no one individual should have unfettered powers of decision. Mr. Zhou Yong, the Chairman of the Board, is responsible for providing effective leadership of the Board and ensuring that Directors receive relevant and timely information and that all key and appropriate issues are discussed in a timely manner. The Chairman is also responsible for promoting open discussion and constructive debates in the boardroom and ensuring that good corporate practices and procedures are established. Dr. Cheong Chit Sun, the Chief Executive Officer, is responsible for managing the business of the Group, formulating and executing the Group's strategic plan and policies and keeping the Board informed of all relevant matters.

Board meetings shall be held at least once every quarter. Additional meetings of the Board or the Board committee established by it to consider specific matters, can be convened, when necessary. During the year, the Board held 6 meetings, of which 4 were regular meetings. Notice of at least 14 days is given to Directors of regular Board meetings and all Directors are given the opportunity to include matters in the agenda for discussion. The Board is supplied with an agenda and supporting documentation at least three days prior to the regular Board and committee meetings. The Board receives briefing from the chairmen of the Audit, Nomination and Remuneration Committees following meetings of these Committees.

The attendance of Directors at general meetings, meetings of the Board and Board committees of which they were members during the year is set out in the table below.

	Meetings attended/eligible to attend				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meetings
Chairman and Non-executive Director					
Zhou Yong (note 1)	3/3	N/A	2/2	2/2	2/2
Executive Directors					
Cheong Chit Sun (note 2)	3/3	N/A	2/2	2/2	2/2
Wang Hai (note 3)	1/1	N/A	N/A	N/A	0/0
Chan Sim Wang (note 4)	3/3	N/A	N/A	N/A	2/2
Ko Chuk Kin, Herbert (note 5)	6/6	N/A	1/1	0/0	3/3
Chiu Lok Man (note 6)	0/0	N/A	N/A	N/A	0/0
Non-Executive Directors					
Huang Brad (note 7)	5/5	N/A	1/1	0/0	2/3
Hung Cheung Shew (note 8)	4/5	N/A	N/A	N/A	3/3
Independent Non-executive Directors					
Zhou Jinsong	6/6	3/3	3/3	2/2	3/3
Yen Homer Shih Hung	6/6	3/3	3/3	2/2	3/3
Hong Winn	6/6	3/3	3/3	2/2	3/3

Notes:

1. Mr. Zhou Yong was appointed as a Non-executive Director and the Chairman of the Board on 2 March 2012 and as the chairman of the Nomination Committee and a member of the Remuneration Committee on 30 March 2012.
2. Dr. Cheong Chit Sun was appointed to the Board on 2 March 2012 and as members of both the Nomination Committee and the Remuneration Committee on 30 March 2012.
3. Mr. Wang Hai was appointed to the Board on 15 August 2012.
4. Mr. Chan Sim Wang was appointed to the Board on 2 March 2012.
5. Mr. Ko Chuk Kin, Herbert ceased to be members of both the Nomination Committee and the Remuneration Committee on 30 March 2012 and resigned from the Board on 2 November 2012.
6. Mr. Chiu Lok Man was removed from the Board on 30 January 2012.
7. Mr. Huang Brad ceased to be members of both the Nomination Committee and the Remuneration Committee on 30 March 2012 and resigned from the Board on 15 August 2012.
8. Mr. Hung Cheung Shew resigned from the Board on 15 August 2012.

Each Director is fully aware of his duties and responsibilities as a Director of the Company and the requirement to give sufficient time and attention to the affairs of the Company. The Board is dominated by Non-executive Directors who can bring independent and objective judgement to bear on Board decisions through regular attendance and active participation in the meetings of the Board and the Board committees on which they serve.

Directors have access to relevant and timely information, and they can ask for further information if necessary. They also have access to the advice and services of the Company Secretary and, if required, can seek independent professional advice at the Company's expense. There is an agreed procedure to enable them to do so which is managed by the Company Secretary. Directors are given sufficient time for discussion at the Board meetings. Where queries are raised by Directors, prompt and full responses will be given if possible.

If a conflict of interest involving a substantial shareholder or a Director arises, the matter will be discussed at a physical meeting, as opposed to being dealt with by written resolution. Independent Non-executive Directors with no material interest in the proposed matter or transaction will be present at the meeting to deal with the conflict.

The Company has in place appropriate directors and officers insurance cover in respect of legal action against Directors. The coverage and sum insured under the directors and officers issuance policy are reviewed annually.

All Non-executive Directors are appointed under letters of appointment for specific terms. Directors appointed by the Board are subject to election by shareholders at the first general meeting following their appointments in the case to fill a casual vacancy or at the next following annual general meeting in the case as an addition to the Board. In addition, all Directors are subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company. A retiring Director is eligible for re-election and re-election of retiring Directors at general meetings is dealt with by separate resolutions.

All newly-appointed Directors are briefed on the duties and responsibilities they owe as directors to the Company as well as on the relevant Company policies and key governance issues following their appointments. Directors are encouraged to attend internal and external briefings and courses on aspects of their respective committee specialisms and regular updates on relevant legal, regulatory and corporate governance matters are provided to Directors as appropriate.

All Directors are required to provide training records to the Company on a half-yearly basis and such records are maintained by the Company Secretary.

During the year, the participation of individual Directors in the continuing professional development activities is set out as below:

	Attending seminars, conferences, courses or briefings	Giving talks	Reading relevant materials
Chairman and Non-executive Director			
Zhou Yong	✓	✓	✓
Executive Directors			
Cheong Chit Sun	✓	✓	✓
Wang Hai	✓	—	✓
Chan Sim Wang	✓	✓	✓
Independent Non-executive Directors			
Zhou Jinsong	✓	—	✓
Yen Homer Shih Hung	—	—	✓
Hong Winn	—	—	✓

BOARD COMMITTEES

The Board currently has three committees, namely, the Audit Committee, Nomination Committee and Remuneration Committee and each of which has specific written terms of reference approved by the Board. The terms of reference of the Audit Committee, Nomination Committee and Remuneration Committee are available on the Company's website or, on request, from the Company Secretary. All committees report back to the Board on their decisions and recommendations on a regular basis.

The committees are provided with all necessary resources including access to independent professional advice, if necessary, to enable them to undertake their duties in an effective manner. The Company Secretary acts as secretary to the committees.

Audit Committee

The Audit Committee, established in 2010, is currently composed of the three Independent Non-executive Directors with Mr. Zhou Jinsong who possesses appropriate professional qualifications and experience in financial matters, as chairman of the committee since March 2010. This is in compliance with Rule 3.21 of the Listing Rules. Both Mr. Yen Homer Shih Hung and Mr. Hong Winn have served on the committee since its establishment.

Starting from 2013, the Audit Committee will meet at least four times a year and its primary duties include ensuring the Group's financial statements (including annual, half-year and quarterly results) present a true and balanced assessment of the Group's financial position; reviewing the Group's financial reporting process, internal control and risk management systems; reviewing the Group's financial and accounting policies and practices; and recommending the appointment and approving remuneration of external auditor. Other duties of the Audit Committee are set out in its specific terms of reference.

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The committee met three times during the year. The Chief Financial Officer and Financial Controller attended each meeting by invitation. External auditors were invited to attend two of those meetings to discuss various accounting issues and findings and the audit plan with the Audit Committee.

The work of the committee during the year included reviewing the annual financial statements and the preliminary results announcement for the year ended 31 December 2011, the interim financial statements and results announcement for the six months ended 30 June 2012, the third quarter results, report from external auditors on the annual financial statements, the connected transactions and internal control matters, approving the audit plan for the 2012 year end audit and making recommendation on the appointment of new auditor.

In addition, the Audit Committee monitors the audit and non-audit services rendered to the Group by its external auditor and ensures that their engagement in non-audit services will not impair their audit independence or objectivity. An independence confirmation has been obtained from PricewaterhouseCoopers which confirms that they are independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants.

The fees in respect of audit and non-audit services provided to the Company and its subsidiaries by PricewaterhouseCoopers for the financial year ended 31 December 2012 amounted to approximately HK\$1,886,000 and HK\$436,000, respectively. The non-audit services mainly consist of tax services and other services for ad hoc project.

The Audit Committee was satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers and had recommended the Board to propose a resolution of their re-appointment as the Company's external auditor at the 2013 annual general meeting of the Company.

Nomination Committee

The Nomination Committee, established on 10 March 2010, currently comprises the Chairman of the Board, Mr. Zhou Yong who was appointed as chairman of the committee on 30 March 2012, and the three Independent Non-executive Directors, namely, Mr. Zhou Jinsong, Mr. Yen Homer Shih Hung and Mr. Hong Winn as members. Dr. Cheong Chit Sun, an Executive Director and Chief Executive Officer of the Company, was appointed to the committee on 30 March 2012 in place of Mr. Ko Chuk Kin, Herbert who stepped down from the committee following his cessation to act as Chief Executive Officer. Mr. Huang Brad also stepped down from the committee on 30 March 2012 upon his cessation to act as the Chairman of the Board.

The Nomination Committee meets as necessary and is responsible for reviewing the Board structure, size and composition, identifying and nominating to the Board candidates who are appropriate for appointment or reappointment as Directors, assessing the independence of Independent Non-executive Directors and making recommendation to the Board on succession planning. The committee is conscious of the need for due regard to be given to diversity when considering appointments to the Board following the publication by the Stock Exchange of the consultation conclusions on board diversity which will be implemented on 1 September 2013.

The Nomination Committee met twice during the year. The work of the committee during the year included consideration of the composition of the Board to ensure there is an appropriate balance of skills, knowledge and experience, the independence of Independent Non-executive Directors, the appointment of Mr. Zhou Yong, Dr. Cheong Chit Sun, Mr. Chan Sim Wang and Mr. Wang Hai to the Board and the re-appointment of the retiring Directors at the annual general meeting. There has been a formal procedure for the appointment of Directors to the Board which may involve the Nomination Committee meeting candidates proposed by existing Board members, if necessary. Careful consideration is given to ensure appointees have enough time available to devote to the role and that the balance of skills, knowledge and experience on the Board is maintained. When the committee has found a suitable candidate, the chairman of the committee will make a proposal to the Board since the appointment is the responsibility of the whole Board following recommendation from the committee.

Remuneration Committee

The Remuneration Committee, established on 10 March 2010, currently comprises the three Independent Non-executive Directors, namely, Mr. Zhou Jinsong as the chairman and Mr. Yen Homer Shih Hung and Mr. Hong Winn as members since its establishment. Mr. Zhou Yong, the Chairman of the Board, and Dr. Cheong Chit Sun, an Executive Director and Chief Executive Officer of the Company, was appointed to the committee on 30 March 2012 in place of Mr. Huang Brad and Mr. Ko Chuk Kin, Herbert who stepped down from the committee following their cessation to act as the Chairman of the Board and Chief Executive Officer of the Company respectively.

The Remuneration Committee meets as necessary and is responsible for formulating and making recommendations to the Board on the policy and structure for all remuneration of Directors and senior management of the Group, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure and other compensation-related issues. The Remuneration Committee determines the remuneration packages of individual Executive Directors and senior management and reviews the adequacy and effectiveness of the Group's remuneration policy. The committee also has the responsibility to make recommendations to the Board on the remuneration of Non-Executive Directors.

The Remuneration Committee held three meetings during the year. The committee reviewed and approved the remuneration packages of Directors and senior management on their appointments which were determined by reference to the job responsibilities of the individuals in the Company, prevailing market conditions, salaries paid by comparable companies and time commitment. The committee also reviewed and approved the annual salary adjustment and discretionary bonus of individual Executive Directors and senior management of the Company which were determined with reference to the Group's overall performance as well as individuals' performance. In addition, the Committee also reviewed and determined the termination packages of a senior employee.

Remuneration of Directors and Senior Management

Information relating to the remuneration of each Director for the year ended 31 December 2012 is set out in note 10 to the consolidated financial statements.

The remuneration of members of the senior management by band for the year end 31 December 2012 is set out below:

	Number of individuals
Nil–HK\$1,000,000	4
HK\$1,000,001–HK\$1,500,000	3
HK\$1,500,001–HK\$2,000,000	0
HK\$2,000,001–HK\$2,500,000	1
HK\$2,500,001–HK\$3,000,000	1

CORPORATE GOVERNANCE

The Board has undertaken the responsibility for performing the corporate governance duties pursuant to the CG Code and is committed to ensuring that an effective governance structure is in place to continuously review, monitor and improve the corporate governance practices within the Group with regard to the prevailing legal and regulatory requirements.

During the year, the work of the Board in this area included reviewing the policies and practices on the Group's corporate governance, monitoring the Company's legal and regulatory compliance and training and continuing professional development of Directors and senior management, developing a code of conduct applicable to the Directors and employees and reviewing the Company's compliance with the CG Code and the disclosure in this report.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Director's securities transactions. Having made specific enquiry by the Company, all Directors have confirmed that they have complied with the Model Code in their securities transactions throughout the year ended 31 December 2012.

ACCOUNTABILITY AND AUDIT

Financial Reporting

It is the responsibility of the Board to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

Management is responsible for providing such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval. All members of the Board are provided with regular updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Director, individually and collectively, to discharge their legal and regulatory duties.

The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently, and that judgments and estimates made are prudent and reasonable. In preparing the consolidated financial statements, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of Hong Kong Financial Reporting Standards and the applicable laws have been complied with.

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2012. The Directors, having made appropriate enquiries, were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern and on such basis, the Board has prepared the financial statements on a going concern basis.

The responsibilities of external auditors of the Company with respect to financial reporting are set out in the "Independent Auditor's Report".

Internal Controls

The Board is responsible for maintaining appropriate systems of internal control, policies and procedures within the Group and the Audit Committee has the delegated responsibility to assess on an ongoing basis the effectiveness and relevancy of the systems. Processes and procedures have been put in place to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication and to ensure compliance of applicable laws, rules and regulations.

During the year, management conducted review of the financial and treasury management, procurement process and sub-contracting arrangements in respect of the two principal operating subsidiaries of the Group in China and the findings and recommendations were reported to the Audit Committee. Following an annual review of the effectiveness of the financial, operational and compliance controls and risk management functions of the Group and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function, the Board confirms that no material control failure was noted and there were adequate resources and expertise in the accounting and financial reporting function.

COMPANY SECRETARY

The appointment and removal of the Company Secretary is subject to Board approval at a physical meeting in accordance with the Articles of Association of the Company. Whilst the Company Secretary reports to the Board through the Chairman and the Chief Executive Officer, all Directors have access to the advice and services of the Company Secretary for the ongoing discharge of their duties and responsibilities.

The Company Secretary assists the Chairman in preparing the agenda for the Board meetings, taking into account matters proposed by the Directors and ensures that all applicable rules and regulations regarding the Board meetings are followed. Minutes of meetings of the Board and Board committees are taken and kept by the Company Secretary and are open for inspection by Directors.

During 2012, the Company Secretary undertook no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Shareholders are encouraged to maintain direct communication with the Company. Shareholders who have any questions for the Board may send a letter to:

Company Secretary

Address: Far East Global Group Limited
16th Floor, Eight Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

The Company maintains procedures for Shareholders to propose a person for election as a Director. The details of these procedures are available on the Company's website.

Should shareholders wish to call an extraordinary general meeting, it must be convened according to the Company's Articles of Association, which state in summary:

- Two or more shareholders, or any one shareholder which is a recognised clearing house (or its nominee(s)) holding not less than one-tenth of the paid up capital of the Company can, in writing to the Board or the Company Secretary, request an extraordinary general meeting to be called by the Board so as to carry out any business specified in such request.
- The signed written requisition, which should specify the purpose of the meeting, should be delivered to the Company's principal office in Hong Kong. If the Board does not within twenty-one days of receiving the requisition proceed to convene such meeting to be held within a further twenty-one days, the requisitioner(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

RELATIONS WITH SHAREHOLDERS AND INVESTORS

The Board attaches great importance to maintaining good relationships with all shareholders and investors and ensures that shareholders are kept informed of significant Company developments.

The Board regards the Company's general meetings as an opportunity to communicate directly with private investors and actively encourages participative dialogue with all the Company's shareholders. The chairmen of the Board committees attend the annual general meeting each year as well as the other Directors and are available to answer questions from shareholders. To enhance the communication between the Company and the capital market, the management of the Company meets investors and analysts regularly and irregularly to present the latest development strategies and operation conditions to them in a timely manner. The Company holds briefing sessions to institutional shareholders, brokers and analysts following the announcement of its half-year and annual results. The Company will continue its effort to increase the investor relations service to shareholders and investors in 2013.

The website www.fareastglobal.com is an important source of information on the Group, including press releases, shareholder documentation, annual, half-year and quarterly results and the terms of reference of the principal Board committees.