

Select Committee to Inquire into Matters Relating to
the Post-service Work of Mr. LEUNG Chin-man

Second Statement of Dr. Henry CHENG Kar-shun

In this statement I set out my answers to each of the items as listed in Appendix V of the Select Committee's letter dated 2 March 2009.

Circumstances surrounding the appointment offered by New World China Land Limited ("NWCL") to Mr. LEUNG Chin-man

1. Your role and participation in the recruitment and selection process of Mr. LEUNG for the appointment of an Executive Director of NWCL, including how the offer of the appointment to Mr. LEUNG arose, and the details of the discussion between you, Mr. LEUNG and any other party on the offer of the appointment.

Answer: See paragraphs 1 to 7 of my statement of 23 March 2009. W16(C)

2. The job requirements for an Executive Director of NWCL.

Answer: No special requirements to be appointed as an Executive Director of NWCL other than the general reputation of Mr. LEUNG Chin-man as an able/capable administrator when he was in the public service, his personal integrity, his leadership quality, and perceived performance generally; the long unfilled post needed for a capable person for central procurement work in the mainland, including looking after the procurement requirements for hotel business; and the immediate availability of Mr. LEUNG Chin-man to take up the job, subject to government approval.

3. The factors taken into account in offering the appointment to Mr. LEUNG.

Answer: See Answer 2 above.

4. The remuneration package of Mr. LEUNG and the criteria used and factors taken into consideration in determining the remuneration package, including the discussion process with Mr. LEUNG.

Answer: See the Letter of Employment and acceptance from page 54 to 57 of the Bundle, as well as the standard terms and conditions from page 45 to 52 of the Bundle. The salary of HK\$3.12 million per year was in line with comparable packages in the management level of NWCL.

R2(C) (P.1-4)

R3 (P.37-44)

5. The relationship between you and Mr. LEUNG:

- (a) the occasion when you first met Mr. LEUNG and the length of time for which you have known him.

Answer: See paragraph 1 of my statement of 23 March 2009. W16(C)

- (b) the personal relationship between you and Mr. LEUNG when he was in the civil service.

Answer: No personal relationship between us when Mr. LEUNG Chi-man was in the civil service.

- (c) the personal relationship between you and Mr. LEUNG Chin-man after his retirement.

Answer: No personal relationship between us after his retirement.

Details of the appointment offered by NWCL to Mr. LEUNG Chin-man

6. The dealings or contacts between NWCL and Mr. LEUNG when Mr. LEUNG was in civil service.

Answer: No dealings or contacts between NWCL and Mr. LEUNG Chin-man when the latter was in civil service.

7. Business relationship between NWCL and its parent company, New World Development Company Limited (“NWDL”), and the major business activities of NWCL and NWDL.

R8

Answer: See the Press Release of NWCL of 15 August 2008 at page 65 of the Bundle concerning the business activities of NWCL. NWCL (SEHK: 917) is the Mainland China property flagship of NWDL which controls about 71% of the shareholdings of NWCL. It is engaged in property development projects in Mainland China, including property sales, rental operations, hotel operations and property management services. It was listed on the Hong Kong Stock Exchange in 1999 from its parent company NWDL. As to NWDL, see the extract from its website at http://www.nwd.com.hk/html/eng/comp_info.asp, quoted as follows:

“New World Development Company Limited (“NWD” or “the Group”, Hong Kong stock code: 17) is a Hong Kong-based leading conglomerate. Established in 1970, the Company was listed in Hong Kong since 1972, and is now a constituent stock of the benchmark Hang Seng Index with a total asset value exceeding HK\$165.6 billion.

After more than 30 years of operations, the Group has expanded from its original property business to include four core businesses, including property & hotel; infrastructure; service; department store in Hong Kong, Macau and Mainland China. The Group is also involved in direct investment and a number of other businesses.”

8. Business relationship between NWCL and the subsidiaries of NWDL especially those subsidiaries incorporated and operating in the People’s Republic of China (“PRC”) whose principal activities relate to land and property development and/or property investment in PRC.

Answer: NWCL, via New World Hotel Management Limited, a wholly owned subsidiary of NWCL, manages two hotel properties in PRC owned by NWDL’s subsidiaries since late 2007 and early 2008 respectively.

9. The dealings or contacts between NWDL and Mr. LEUNG when Mr. LEUNG was in the civil service.

Answer: I did not know of any “dealings or contacts” between NWDL and Mr. LEUNG Chin-man.

10. The major duties and responsibilities of an Executive Director of NWCL, and those of an Executive Director and Deputy Managing Director of NWCL; and in relation to the appointment offered to Mr. LEUNG, the difference, if any, between Mr. LEUNG's major duties and responsibilities and those of an Executive Director of NWCL and an Executive Director and Deputy Managing Director of NWCL.

Answer: An Executive Director of NWCL is one of the members of the Board of Directors. For Mr. LEUNG Chin-man, his role as an Executive Director would be the same as other Executive Directors. Since he was also simultaneously engaged full time as the Deputy Managing Director of NWCL, his specific duties have been outlined at page 58^{R5} of the Bundle, which is the letter from NWCL to the Secretary for the Civil Service. Please also see page 12^{R3 (P. 8)} of the Bundle, which is the email of 20 July 2008 from Mr. LEUNG Chin-man concerning the title of Deputy Managing Director.

11. The reason for changing Mr. LEUNG's appointment as Executive Director of NWCL to Executive Director and Deputy Managing Director of NWCL when Mr. LEUNG took up the appointment on 1 August 2008.

Answer: There had never been any change of title since from the beginning no decision on title was made. Since NWCL intended to engage Mr. LEUNG Chin-man, on a full time basis, to oversee central procurement work in PRC, the question of title was not decided until after the email of 20 July 2008 from Mr. LEUNG Chin-man (See page 12^{R3 (P. 8)} of the Bundle). Eventually, the Letter of Employment formalized the title as "Executive Director and Deputy Managing Director".

12. The involvement of Mr. LEUNG, if any, as an Executive Director of NWCL/Executive Director and Deputy Managing Director of NWCL, in the business of NWDL and the subsidiaries of NWDL, including those subsidiaries incorporated and operating in the People's Republic of China ("PRC") whose principal activities relate to land and property development and/or property investment in the PRC.

Answer: Mr. LEUNG Chin-man had not been involved in whatever capacity in the business of NWDL and its subsidiaries, whether in Hong Kong or in PRC.

13. The manner in which the change in the title of the appointment would impact on Mr. LEUNG's involvement in the business of NWDL or its subsidiaries.

Answer: NWCL's management is separate from NWDL, both of which are independently and separately operated. This "change of title" had no impact at all on the business activities of NWDL or its subsidiaries.

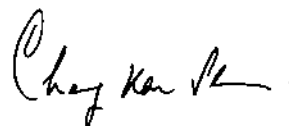
Circumstances surrounding the termination of employment contract between NWCL and Mr. LEUNG

14. The party who initiated the termination of the contract and the reason for the termination of the contract.

Answer: Mr. LEUNG Chin-man telephoned me on 15 August 2008 on termination of employment and I agreed.

15. The arrangements in respect of the termination of the contract, including the terms and conditions in the employment contract governing termination of the contract and payment of compensation, in any, upon termination of contract.

Answer: Since the termination was mutually resolved with no liability on either party, no salary or fees were payable.



Dr. Henry CHENG Kar-shun

2 April 2009