



## **FIRST PACIFIC COMPANY LIMITED**

*(Incorporated with limited liability under the laws of Bermuda)*

Website: <http://www.firstpacific.com>

(Stock code: 00142)

### **CODE ON CORPORATE GOVERNANCE PRACTICES** **(INTERNAL GUIDELINES)**

#### **A. DIRECTORS**

##### **A.1 The Board**

###### **Principle**

First Pacific Company Limited (“First Pacific” or “the Company”) should be headed by an effective board which should assume responsibility for its leadership and control and be collectively responsible for promoting its success by directing and supervising its affairs. Directors should take decisions objectively in the best interests of the Company.

The board should regularly review the contribution required from a director to perform his responsibilities to the Company, and decide whether he is spending sufficient time performing them.

- A.1.1** The board will meet at least quarterly, with four regular board meetings, which will normally involve the active participation, either in person or through electronic means of communication, of a majority of directors entitled to be present. Obtaining board consent through circulating written resolutions will not be regarded as a regular board meeting.
- A.1.2** All directors are given the opportunity to include matters in the agenda for regular board meetings. Other than in exceptional circumstances, the company secretary will send a draft agenda to the directors at least fourteen (14) days before the intended date of a board meeting (or such other period as the board may agree) asking for their comments and for matters to be included in the agenda.
- A.1.3** Notice of a regular board meeting will be sent to all directors at least fourteen (14) days before the meeting date to give all directors an opportunity to attend. For all other board meetings, reasonable notice will be given (except under emergency situation).
- A.1.4** A full agenda and accompanying board papers will be circulated to all directors usually seven (7) days, and in any event not less than three (3) days, in advance of each board meeting, except under emergency situation.
- A.1.5** The Company Secretary shall ensure that the directors are informed of the status of matters arising from discussions at previous meetings of the board.

- A.1.6** All directors are to be provided, in a timely manner, with information in a form and of a quality appropriate to enable them to perform their duties and responsibilities. In particular, all directors are entitled to access to board papers and related materials from the Company Secretary in a timely manner.
- A.1.7** Management is responsible for providing the board and its committees with adequate information which is complete and reliable, in a timely manner, to enable it to make informed decisions. Where any director requires more information than is provided by management, he will make further inquiries, to which management must respond quickly and effectively. Each director shall have separate and independent access to the Company's senior management.
- A.1.8** All directors are entitled to have free access to the advice and services of the Company Secretary and the Corporate Secretarial Department with a view to ensuring that board procedures are followed, and that applicable laws, rules and regulations, are complied with (especially obligations on directors relating to disclosure of interests in securities, disclosure of any conflict of interest in a transaction involving the Company, prohibitions on dealing in securities and restrictions on disclosure of inside information) and on any matter relating to the application and implementation of this Code.
- A.1.9** Minutes of board meetings and meetings of board committees are kept by the Company Secretary (or by a duly appointed secretary of the meeting) and are available for inspection by any director during office hours.
- A.1.10** Minutes of board meetings and meetings of the board committees will be recorded in sufficient detail the matters considered and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes will be sent to all directors for their comment and records respectively, within a reasonable time after the board meetings and meetings of the board committees are held.
- A.1.11** The board will enable its directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense, in order to assist them in performing their duties to the Company.
- A.1.12** If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter will be dealt with by a physical board meeting rather than a written resolution. The interested directors will abstain from voting on any board resolution in which they or any of their close associates have a material interest and that they shall not be counted in the quorum present at that board meeting. A majority of the Independent non-executive directors who, and whose close associates, have no material interest in the transaction should be present at that board meeting. A director's attendance by electronic means, including telephonic or videoconferencing, will be counted as attendance at a physical board meeting.
- A.1.13** The Company will maintain a Directors' and Officers' Liability Insurance cover in respect of legal action against its directors and senior executives, the terms of which will be reviewed by the board annually.

## **A.2 Chairman and Chief Executive Officer**

### **Principle**

There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of business. There should be a clear division of these responsibilities to ensure a balance of power and authority, so that power is not concentrated in any one individual.

**A.2.1** The roles of chairman and chief executive officer are separate and are not performed by the same individual, in order to ensure a clear distinction between the Chairman's responsibility to manage the board and the chief executive officer's responsibility to manage the Company's business. The division of responsibilities between the chairman and chief executive officer is clearly established to ensure a balance of power and authority, which is set out in writing.

**A.2.2** The responsibilities of the chairman include:

- (a) To ensure that all directors are properly briefed on issues arising at board meetings;
- (b) To ensure that all directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable;
- (c) To provide leadership for the board;
- (d) To ensure that the board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner;
- (e) To delegate to the company secretary the responsibility of drawing up, settling and approving the agenda for each board meeting, after taking into account any matters proposed by the other directors for inclusion in the agenda;
- (f) To take primary responsibility for ensuring that good corporate governance practices and procedures are established;
- (g) To encourage all directors to make a full and active contribution to the board's affairs and take the lead to ensure that it acts in the best interests of the Company. He will encourage directors with different views to voice their concerns, and to allow sufficient time for discussion of issues and to ensure that board decisions fairly reflect board consensus;
- (h) To hold meetings at least annually with the non-executive directors (including independent non-executive directors) without the executive directors present;
- (i) To ensure that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the board as a whole; and
- (j) To promote a culture of openness and debate by facilitating the effective contribution of non-executive directors (including independent non-executive directors), in particular and ensuring constructive relations between executive and non-executive directors (including independent non-executive directors).

**A.2.3** The chairman has a casting vote in the event of an equality of votes on any matter to be decided by the board.

**A.2.4** The chief executive officer is appointed by the board and in the Company's case, the responsibilities of the chief executive officer, who is also the Managing Director of the Company, include:

- (a) To provide leadership for the management;
- (b) To implement and report to the board on the Company's strategy, policies, processes and codes of conducts;
- (c) To oversee the realization by the Company of the objectives set by the board;
- (d) To provide adequate information to the board as is necessary to enable the board to monitor the performance of management;
- (e) To lead the management of the Company's relationships with its stakeholders;
- (f) To put in place programmes for management development and succession;
- (g) To develop business plans, budgets and strategies for the Company for consideration by the board and, to the extent approved by the board, implementing these plans, budgets and strategies;
- (h) To operate the Company's business within the parameters set by the board from time to time, and keeping the board informed of material developments in the Company's business;
- (i) Where proposed transactions, commitments or arrangements exceed the parameters set by the board, to refer the matter to the board for its consideration and approval;
- (j) To identify and manage operational and other risks and, where those risks could have a material impact on the Company's business, to formulate strategies for managing these risks for consideration by the board;
- (k) To manage the Company's current financial and other reporting mechanisms and control and to monitor systems to ensure that these mechanisms and systems capture all relevant material information on a timely basis and will be functioning effectively;
- (l) To ensure that the board is provided with sufficient information on a timely basis in regard to the Company's businesses, and in particular, with respect to the Company's performance, financial condition, operating results and prospects, to position the board to fulfill its governance responsibilities;
- (m) To implement policies, processes and procedures for the management and development of the Company's employees;
- (n) With the Chief Financial Officer, to establish and maintain proper risk management and internal control mechanism as well as disclosure controls and procedures; and

- (o) To perform such duties and authority as may be delegated in writing to him/her by the board.

### **A.3 Board composition**

#### **Principle**

The board should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. It should ensure that changes to its composition can be managed without undue disruption. It should include a balanced composition of executive and non-executive directors (including independent non-executive directors), having regard to the Board Diversity Policy, so that there is a strong independent element on the board, which can effectively exercise independent judgment. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

- A.3.1** The minimum number of directors of the Company shall not be less than three (3) and the maximum number of Directors shall not be more than eighteen (18), or any other such number as the board may determine, from time to time.
- A.3.2** The board consists of a chairman, managing director and chief executive officer, executive directors, non-executive directors and independent non-executive directors or such other designation as the board may determine, from time to time.
- A.3.3** The board currently has four independent non-executive directors, and comprises one-third of the board. The independent non-executive directors are identified in all corporate communications that disclose the names of directors.
- A.3.4** The Company will maintain on its website and on the Exchange's website an updated list of its directors identifying their role and function and whether they are independent non-executive directors.

### **A.4 Appointments, re-election and removal**

#### **Principle**

There should be a formal, considered and transparent procedure for the appointment of new directors. There should be plans in place for orderly succession for appointments. All directors should be subject to re-election at regular intervals. The Company must explain the reasons for the resignation or removal of any director.

- A.4.1** The appointment of a new director is a matter for consideration by the Nomination Committee and a decision by the full board, having regard to the Board Diversity Policy.
- A.4.2** Non-executive directors are appointed for a specific term of not more than three (3) years, subject to re-election.
- A.4.3** All directors appointed to fill a casual vacancy will be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, will be subject to retirement by rotation at least once every three years.

**A.4.4** The names and biographical details (including other directorships held in listed public companies and other major appointments) of the directors who offer themselves for election or re-election at the next general meeting are contained in the notice of the general meeting to assist shareholders to make an informed decision on their election.

**A.4.5** Serving more than nine (9) years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than nine (9) years, his further appointment will be subject to a separate resolution to be approved by shareholders. The circular to shareholders accompanying that resolution will include the reasons why the board believes he is still independent and should be re-elected.

## **A.5 Nomination Committee**

### **Principle**

In carrying out its responsibilities, the nomination committee should give adequate consideration to diversity of perspectives in the appointment/removal of directors, and to the Principles under A.3 and A.4 of the Code.

**A.5.1** The Company has established a nomination committee which is comprised of a majority of independent non-executive directors and chaired by the chairman of the board or an independent non-executive director.

**A.5.2** The nomination committee is established with specific written terms of reference which deal clearly with its authority and duties. It will perform the following duties:

- (a) To review the structure, size and composition (including the skills, knowledge, experience, length of service, age, gender, cultural and educational background and ethnicity) of the board at least annually and to make recommendations on any proposed changes to the board to complement the Company's corporate strategy, having regard to the Board Diversity Policy;
- (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, having regard to the Board Diversity Policy;
- (c) To assess the independence of independent non-executive directors; 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 and the chief executive officer, having regard to the Board Diversity Policy.

**A.5.3** The nomination committee will make available its terms of reference explaining its role and the authority delegated to it by the board by including them on the Exchange's website and the Company's website.

**A.5.4** The Company will provide the nomination committee sufficient resources to perform its duties. Where necessary, the nomination committee will seek independent professional advice, at the Company's expense, to perform its responsibilities.

- A.5.5** Where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it will set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he will be elected and the reasons why they consider him to be independent.
- A.5.6** The nomination committee will review the Company's Board Diversity Policy concerning diversity of board members on a regular basis and will disclose this policy or a summary of this policy in the corporate governance report.

The board acknowledges that board diversity will differ according to the circumstance of each company. Diversity of board members can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, or professional experience. The Company will take into account its own business model and specific needs, and disclose the rationale for the factors it uses for this purpose.

## **A.6 Responsibilities of directors**

### **Principle**

Every director must always know his responsibilities as a director of the Company and its conduct, business activities and development. Given the essential unitary nature of the board, non-executive directors (including independent non-executive directors) have the same duties of care and skill and fiduciary duties as executive directors.

- A.6.1** Upon the appointment of a new director, the Company Secretary will provide the director with a Director's Package, including but not limited to "A Guide on Directors' Duties" issued by the Hong Kong Companies Registry and "Guidelines for Directors" published by the Hong Kong Institute of Directors. In the case of the appointment of a new independent non-executive director, he will also receive the "Guide for Independent Non-executive Directors" published by the Hong Kong Institute of Directors.

Subsequently he will receive any briefing and professional development necessary to ensure that he has a proper understanding of the Company's operations and business and is fully aware of his responsibilities under statute and common law, the Exchange Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

- A.6.2** All directors will receive guidelines in relation to inside information and dealings in the Company's securities. In addition, all directors will be provided with appropriate briefings on the Company's affairs and relevant up-to-date corporate governance materials published by relevant bodies, in a timely manner.

- A.6.3** All directors (with the exception of the managing director and chief executive officer and executive directors) are non-executive directors and they are independent of management. The functions of non-executive directors include:

- (a) participating in board meetings to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;

- (b) taking the lead where potential conflicts of interests arise;
- (c) serving on the audit, risk management, remuneration, nomination, corporate governance and other board committees, if invited;
- (d) giving the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation;
- (e) attending general meetings and developing a balanced understanding of the views of shareholders;
- (f) bringing a wide range of business and financial experience to the board which contributes to the effective direction of the Company;
- (g) positively contributing to the development of the Company's strategy and policies; and
- (h) scrutinizing the Company's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting.

**A.6.4** Every director must ensure that he can give sufficient time and attention to the Company's affairs and must not accept the appointment if he cannot do so.

**A.6.5** All directors and relevant employees of the Company must comply with the Company's written guidelines governing the directors and relevant employees' dealings in the Company's securities, which are no less exacting than the Model Code issued by the Exchange. "Relevant employee" includes any employee or a director or employee of a subsidiary or holding company who, because of his office or employment, is likely to be in possession of unpublished inside information in relation to the Company or its securities.

**A.6.6** All directors will participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The Company will be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director, as appropriate. The Company will also arrange for site visits to the overseas operations of its subsidiaries and major operating companies so as to enable the directors to take an active interest in the Company's affairs and to obtain a general understanding of its business.

As a formality, all directors are required to provide a record of the training they received to the Company on an annual basis, or at such other time, as considered appropriate.

**A.6.7** Each director will disclose to the Company at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organizations (both in Hong Kong and overseas) and other significant commitments. The identity of the public companies or organizations and an indication of the time involved will also need to be disclosed, preferably on an annual basis.

**A.6.8** Non-executive directors (including independent non-executive directors), as equal board members, will give the board and any committees on which they serve the benefit of their

skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They will also attend general meetings and develop a balanced understanding of the views of shareholders.

- A.6.9** Non-executive directors (including independent non-executive directors) will make a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments.

## **A.7 Supply of and access to information**

### **Principle**

Directors should be provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities.

- A.7.1** For regular board meetings, and as far as practicable in all other cases, an agenda and accompanying board papers will be sent, in full, to all directors. These will be sent in a timely manner and at least three (3) days before the intended date of a board or board committee meeting (or other agreed period).
- A.7.2** Management has an obligation to supply the board and its committees with adequate information, in a timely manner, to enable it to make informed decisions. The information supplied must be complete and reliable. To fulfill his duties properly, a director may not, in all circumstances, be able to rely purely on information provided voluntarily by management and he may need to make further inquiries. Where any director requires more information than is volunteered by management, he will make further inquiries, to which management must respond quickly and effectively. The board and each director shall have separate and independent access to the Company's senior management.
- A.7.3** All directors are entitled to have access to board papers and related material. These papers and related materials shall be in a form and quality sufficient to enable the board to make informed decisions on matters placed before it. Queries raised by directors will receive a prompt and full response, if possible.

## **B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT AND BOARD EVALUATION**

### **B.1 The level and make-up of remuneration and disclosure**

#### **Principle**

The Company should disclose its directors' remuneration policy and other remuneration related matters. The procedure for setting policy on executive directors' remuneration and all directors' remuneration packages should be formal and transparent. Remuneration levels should be sufficient to attract and retain directors to run the company successfully, without paying more than necessary. No director should be involved in deciding his own remuneration.

- B.1.1** The Company has established a remuneration committee which is comprised of a majority of independent non-executive directors and chaired by an independent non-executive director.
- B.1.2** The remuneration committee will consult the chairman and/or chief executive officer about their remuneration proposals for other executive directors. The remuneration committee will have access to independent professional advice, if necessary.
- B.1.3** The remuneration committee's terms of reference will include, as a minimum:-
- (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 with reference to the board's corporate goals and objectives;
  - (c) to determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management, which will 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 the 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;
  - (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;
  - (i) to administer and oversee the Company's share option scheme (the "Scheme") in accordance with the terms and conditions of the Scheme, including the granting of options to the Company's directors and senior managements under the Scheme and the exercise of options by them thereunder (including, but not limited to, number of options, exercise price, option period, minimum period which must be held before the options can be exercised and performance targets which must be met before the options can be exercised), and/or to administer and oversee any other share incentive schemes or other equity based schemes of the Company in place from time to time; and
  - (j) to ensure that no director is involved in deciding any matters relating to granting of options to him or his associates under the Scheme and the exercise of options by them thereafter.

- B.1.4** The remuneration committee will make available its terms of reference, explaining its role and the authority delegated to it by the board by including them on the Exchange's website and the Company's website.
- B.1.5** The remuneration committee will be provided with sufficient resources to perform its duties.
- B.1.6** The Company will disclose details of any remuneration payable to members of senior management by band (instead of on an individual and named basis) in their annual reports, if considered appropriate.
- B.1.7** The remuneration committee will ensure that a significant proportion of executive directors' remuneration will link rewards to corporate and individual performance.
- B.1.8** The board will conduct a regular evaluation of its performance.

## **C. ACCOUNTABILITY AND AUDIT**

### **C.1 Financial Reporting**

#### **Principle**

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

- C.1.1** Management will provide sufficient explanation and information to the board to enable it to make an informed assessment of financial and other information put before it for approval.
- C.1.2** Management will provide all members of the board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

The information provided may include background or explanatory information relating to matters to be brought before the board, copies of disclosure documents, budgets, forecasts and monthly and other relevant internal financial statements such as monthly management accounts and management updates. For budgets, any material variance between the projections and actual results will also be disclosed and explained.

- C.1.3** The directors will acknowledge in the Corporate Governance Report their responsibility for preparing the accounts. There will be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements. Unless it is inappropriate to assume that the Company will continue in business, the directors will prepare the accounts on a going concern basis, with supporting assumptions or qualifications as necessary. Where the directors are aware of material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, they will be clearly and prominently disclosed and discussed at length in the Corporate Governance Report. The Corporate Governance Report will contain sufficient information for investors to understand the severity and significance of matters. To a reasonable and appropriate extent, the Company may refer

to other parts of the annual report. These references will be clear and unambiguous and the Corporate Governance Report will not contain only a cross-reference without any discussion of the matter.

- C.1.4** The directors will include in the separate statement containing a discussion and analysis of the group's performance in the annual report, an explanation of the basis on which the Company generates or preserves value over the longer term (the business model) and the strategy for delivering the Company's objectives.

The Company will have a corporate strategy and a long term business model. Long term financial performance as opposed to short term rewards will be a corporate governance objective. The Company's board will not take undue risks to make short term gains at the expense of long term objectives.

- C.1.5** The board will present a balanced, clear and understandable assessment in annual and interim reports and other financial disclosures required by the Listing Rules. It will also do so for reports to regulators and information disclosed under statutory requirements.

## **C.2 Risk management and internal controls**

### **Principle**

The board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the board on the effectiveness of these systems.

- C.2.1** The board will oversee the Company's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the Company's and its subsidiaries' risk management and internal control systems have been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The review will cover all material controls, including financial, operational and compliance controls.

- C.2.2** The board's annual review will, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

- C.2.3** The board's annual review will, in particular, consider:

- (a) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
- (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;

- (c) the extent and frequency of communication of monitoring results to the board (or board committee(s)) which enables it to assess control of the Company and the effectiveness of risk management;
- (d) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
- (e) the effectiveness of the Company's processes for financial reporting and Listing Rule compliance.

**C.2.4** The Company will disclose, in the Corporate Governance Report, a narrative statement on how it has complied with the risk management and internal control code provisions during the reporting period. In particular, the disclosures will include:

- (a) the process used to identify, evaluate and manage significant risks;
- (b) the main features of the risk management and internal control systems;
- (c) an acknowledgement by the board that it is responsible for the risk management and internal control systems and reviewing their effectiveness. It will also explain that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss;
- (d) the process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects; and
- (e) the procedures and internal controls for the handling and dissemination of inside information.

**C.2.5** The Company does not have an internal audit department. However, the Group has multiple listed issuers, each of which has its own internal audit and/or risk management functions to monitor the internal control system for operational, financial and compliance and risk management functions. Accordingly, the Company can rely on group resources to carry out internal audit/risk management functions for members of the Group. The Company will review the need for one on an annual basis and will disclose the outcome of this review in the Corporate Governance Report.

**C.2.6** The board will disclose in the Corporate Governance Report that it has received a confirmation from management on the effectiveness of the Company's risk management and internal control systems.

**C.2.7** The board will disclose in the Corporate Governance Report details of any significant areas of concern, if applicable.

### **C.3 Audit Committee**

#### **Principle**

The Company should establish formal and transparent arrangements to consider how it will apply financial reporting, risk management and internal control principles and maintain an appropriate relationship with the Company's auditors. The audit committee established under the Listing Rules should have clear terms of reference.

**C.3.1** The Company has established an audit committee which is comprised entirely of non-executive directors, with the Chairman having the appropriate professional qualification and experience in financial matters. It will meet at least twice a year.

**C.3.2** Full minutes of the audit committee meetings are kept by a duly appointed secretary of the meeting (who will normally be the Company Secretary). Draft and final versions of minutes of the meetings will be sent to all committee members for their comment and records, within a reasonable time after the meeting.

**C.3.3** A former partner of the Company's existing auditing firm will be prohibited from acting as a member of its audit committee for a period of 1 year from the date of his ceasing:

- (a) to be a partner of the firm; or
- (b) to have any financial interest in the firm,

whichever is later.

**C.3.4** The audit committee's terms of reference will include at least:-

*Relationship with the Company's auditors*

- (a) to be primarily responsible for making recommendations to the board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and to respond to any questions of its resignation or dismissal;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The audit committee will discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (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 audit committee will report to the board, identifying and making recommendations on any matters where action or improvement is needed;

*Review of the Company's financial information*

- (d) to monitor integrity of the Company's financial statements and 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 will 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;
- (e) Regarding (d) above:
- (i) members of the audit committee will liaise with the board and senior management and the audit committee must meet, at least twice a year, with the Company's auditors; and
  - (ii) the audit committee will consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it will 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;

*Oversight of the Company's financial reporting system, risk management and internal control systems*

- (f) to review the Company's financial controls, risk management and internal control systems;
- (g) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion will include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (h) to consider major investigation findings on risk management and internal control matters as delegated by the board or on its own initiative and management's response to these findings;
- (i) 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;
- (j) to review the group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

- (l) to ensure that the board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the board on the matters in this code provision; and
- (n) to consider other topics, as defined by the board.

Notes:

- (1) The audit committee will establish the following procedures to review and monitor the independence of external auditors:
  - (i) consider all relationships between the Company and the audit firm (including non-audit services);
  - (ii) obtain from the audit firm annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; and
  - (iii) meet with the auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise.
- (2) The audit committee may wish to consider agreeing with the board the Company's policies on hiring employees or former employees of the external auditors and monitoring the application of these policies. The audit committee will then be in a position to consider whether there has been or appears to be any impairment of the auditor's judgment or independence for the audit.
- (3) The audit committee will ensure that an external auditor's provision of non-audit services does not impair its independence or objectivity. When assessing the external auditor's independence or objectivity in relation to non-audit services, the audit committee will consider:
  - (i) whether the skills and experience of the audit firm make it a suitable supplier of non-audit services;
  - (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditor provides non-audit services;
  - (iii) the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm; and
  - (iv) criteria for compensation of the individuals performing the audit.

*Oversight of the Company's arrangements on financial investigation:*

- (o) to review arrangements and systems (such as the establishment of a whistleblowing policy) whereby employees of the Company and those who deal with the Company (e.g. customers and suppliers) can use, in confidence, to raise concerns with the audit committee about possible improprieties in financial reporting, risk

management and internal control or any other matters relating to the Company. The audit committee will ensure that proper arrangements will be in place for fair and independent investigation of these matters and for appropriate follow-up action; and

- (p) to act as the key representative body for overseeing the Company's relationship with the external auditor.

**C.3.5** The audit committee will make available its terms of reference, explaining its role and the authority delegated to it by the board by including them on the Exchange's website and the Company's website.

**C.3.6** Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company will include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the board has taken a different view.

**C.3.7** The audit committee will be provided with sufficient resources to perform its duties. The audit committee is authorized to seek information from any employee, director, agent or advisor, and to seek external independent professional advice at the Company's expenses, if considered necessary.

## **D. DELEGATION BY THE BOARD**

### **D.1 Management functions**

#### **Principle**

The Company should have a formal schedule of matters specifically reserved for board approval. The board should give clear directions to management on the matters that must be approved by it before decisions are made on the Company's behalf.

**D.1.1** When the board delegates aspects of its management and administration functions to management, it must, at the same time, give clear directions as to the management's powers, in particular, where management will report back and obtain prior board approval before making decisions or entering into any commitments on the Company's behalf.

The board will not delegate matters to a board committee, executive directors or management to an extent that would significantly hinder or reduce the ability of the board as a whole to perform its functions.

**D.1.2** The Company will formalize the functions reserved to the board and those delegated to management. It will review those arrangements periodically to ensure that they remain appropriate to the Company's needs.

The crucial decisions which must be taken at the board level or at the board committee level and cannot be delegated to management include remuneration and selection of auditors, approval of interim and final financial statements, significant changes to accounting policies, board appointments and removals, directors' remuneration policy, major business acquisitions or disposals, approval of investment projects which are required to be disclosed pursuant to the Listing Rules (being 5% or more under the

relevant percentage ratios as defined under the Listing Rules), terms of reference of board committees, appointment to board committees, approval of overall corporate strategy and direction, terms and appointment of top executives, the selection, appointment and dismissal of the company secretary, fundamental changes to pension scheme rules, main treasury policies such as debt/equity mix, major borrowings, currency exposure, corporate risk management and major changes to corporate control systems.

**D.1.3** The Company will disclose the respective responsibilities, accountabilities and contributions of the board and management.

**D.1.4** In order that the directors will clearly understand delegation arrangements in place, the Company will have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

## **D.2 Board Committees**

### **Principle**

Board committees should be formed with specific written terms of reference which deal clearly with their authority and duties.

**D.2.1** Where board committees are established to deal with matters, the board will give them sufficiently clear terms of reference to enable them to perform their functions properly.

**D.2.2** The terms of reference of board committees will require them to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

## **D.3 Corporate Governance Functions**

**D.3.1** The Company has established a corporate governance committee which is comprised of a majority of independent non-executive directors. It will meet at least twice a year.

**D.3.2** Full minutes of the corporate governance committee meetings are kept by a duly appointed secretary of the meeting (who will normally be the Company Secretary). Draft and final versions of minutes of the meetings will be sent to all committee members for their comment and records, within a reasonable time after the meeting.

**D.3.3** The terms of reference of the corporate governance committee will include at least:-

- (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 the directors and employees of the Company; and

- (e) To review the Company's compliance with the Corporate Governance Code (Appendix 14 of the Listing Rules) and disclosure requirements in the Corporate Governance Report.

## **E. COMMUNICATION WITH SHAREHOLDERS**

### **E.1 Effective communication**

#### **Principle**

The board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with them and to encourage their participation.

- E.1.1** For each substantially separate issue at a general meeting, a separate resolution will be proposed by the chairman of that meeting. The Company will avoid "bundling" resolutions unless they are interdependent and linked forming one significant proposal. Where the resolutions are "bundled", the Company will explain the reasons and material implications in the notice of meeting.
- E.1.2** The chairman of the board will attend the annual general meeting, where feasible. He will also invite the chairmen of the audit, remuneration, nomination, corporate governance and any other committees (as appropriate) to attend. In their absence, he will invite another member of the committee or failing this his duly appointed delegate, to attend. These persons will be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) will also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. The Company's management will ensure that the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.
- E.1.3** The Company will arrange for the notice to shareholders to be sent for annual general meetings at least twenty (20) clear business days before the meeting and to be sent at least ten (10) clear business days for all other general meetings.
- E.1.4** The board has established a shareholders' communication policy and will review it on a regular basis to ensure its effectiveness.

### **E.2 VOTING BY POLL**

#### **Principle**

The Company should ensure that shareholders are familiar with the detailed procedures for conducting a poll.

- E.2.1** The chairman of a meeting will ensure that an explanation is provided of the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll.

## **F. COMPANY SECRETARY**

### **Principle**

The company secretary plays an important role in supporting the board by ensuring good information flow within the board and that board policy and procedures are followed. The company secretary is responsible for advising the board through the chairman and/or chief executive officer on governance matters and should also facilitate induction and professional development of directors.

- F.1.1** The company secretary is an employee of the Company and has day-to-day knowledge of the Company's affairs. Where the Company engages an external service provider as its company secretary, it will disclose the identity of a person with sufficient seniority (e.g. chief legal counsel or chief financial officer) at the Company whom the external provider can contact.
- F.1.2** The board will approve the selection, appointment or dismissal of the company secretary. A board meeting will be held to discuss the appointment and dismissal of the company secretary and the matter will be dealt with by a physical board meeting rather than a written resolution.
- F.1.3** The company secretary will report to the board chairman and/or the chief executive officer.
- F.1.4** All directors will have access to the advice and services of the company secretary to ensure that board procedures, and all applicable law, rules and regulations, will be followed.

*Revised on 30 March 2016*