

Steve Leung Design Group Limited

Corporate Governance Manual

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Steve Leung Design Group Limited

CONTENTS	PAGE
1 INTRODUCTION	4
2 SCOPE	4
3 THE BOARD	4
3.1 Composition of the Board	4
3.2 Role of the Board	5
3.3 Appointments, Re-election and Removal	8
3.4 Board Meeting	10
3.4.1 Notice of Meetings	10
3.4.2 Proceedings at Meetings	11
3.4.3 Resolutions in writing and Conference Meetings	12
3.4.4 Board Minutes	13
3.4.5 Supply of and Access to Information	13
3.5 Responsibilities of members of the Board	14
3.5.1 Board Member	14
3.5.2 Chairman	16
3.5.3 Chief Executive Officer	17
3.5.4 Company Secretary	18
3.5.5 Authorised Representatives	19
3.5.6 Senior Management	19
4 COMMITTEES	20
4.1 Establishment of Committees	20
4.2 Audit Committee	20
4.3 Remuneration Committee	21
4.4 Nomination Committee	21
4.5 Other Board Committees	22
5 ACCOUNTABILITY AND AUDIT	22
5.1 Financial Reporting	22
5.2 Internal Controls	23
5.3 Corporate Governance Report	23
5.4 Whistleblowing	23
6 SECURITIES TRANSACTIONS BY DIRECTORS	25
6.1 Absolute Prohibitions	25
6.2 Notification	26
7 INFORMATION DISCLOSURE	27
7.1 Notifiable Transactions — Chapter 14 of the Main Board Listing Rules	27
7.2 Connected Transaction — Chapter 14A of the Main Board Listing Rules	29
7.3 Inside Information Policy — Part XIVA of Securities and Futures Ordinance	29
8 COMMUNICATION WITH SHAREHOLDERS	30
8.1 Communication Strategies	30
8.2 Annual General Meeting (“AGM”)	30

APPENDICES

1. Articles of Association
2. Terms of Reference of the Audit Committee
3. Terms of Reference of the Remuneration Committee
4. Terms of Reference of the Nomination Committee
5. Size Tests Checklist
6. Announcement Checklist
7. Circular Checklist — Connected Transaction
8. Circular Checklist — Major Realisation and Very Substantial Disposal
9. Circular Checklist — Major Acquisition/Very Substantial Acquisition; Listing Document — Reverse Takeover
10. Inside Information Policy

1 INTRODUCTION

This manual sets out the corporate governance policies and practices adopted by Steve Leung Design Group Limited (the “Company”). The Company is committed to a high standard of corporate governance practices in enhancing the confidence of shareholders, investors, employees, creditors and business partners and also the growth of its business. The Company’s corporate governance practices are based on the principles and the code provisions as set out in the Corporate Governance Code (the “Code”) contained in **Appendix C1** of the **Main Board Listing Rules** which is released by The Hong Kong Exchanges and Clearing Limited (the “Exchange”). The Company regularly reviews its corporate governance practices to ensure on-going compliance with the requirements of the Code, the Company Ordinance and Securities and Futures Ordinance (“SFO”).

2 SCOPE

This manual applies to assist the Board of Directors and the top management to better perform their corporate governance duties to the Company and delegate the responsibility to committees.

3 THE BOARD

3.1 Composition of the Board

- The Board of Directors (“Board”) should consist of not less than 3 and not more than 13 members (“Directors”), including executive directors (“ED”), non-executive directors (“NED”) and independent non-executive directors (“INED”).
- The Board should have a balance of skills, experience and diversity of perspective appropriate to the requirements of the business of the Company. Diversity of the Board can be achieved through consideration of gender, age, cultural and educational background, or professional experience.
- The Board should also ensure a balanced composition of executive and non-executive director (including INED) so that there is a strong independent element on the Board.
- The Board must include at least 3 INEDs and at least one of the INEDs should have appropriate professional qualifications or accounting or related financial management expertise in compliance with **rule 3.10** of the **Main Board Listing Rules**.
- The Company must appoint INEDs representing at least one-third of the Board.
- The Board should immediately inform the Exchange and publish an announcement containing the relevant details and reasons if at any time the number of its INEDs falls below the minimum number required and requirements set out in **rule 3.11** of the **Main Board Listing Rules**.

- The Board must appoint sufficient number of INEDs representing at least one-third of the board to meet the minimum number required under **rule 3.10(1)** or **3.10A** of the **Main Board Listing Rules** or appoint an INED to meet the requirement set out in **rule 3.10(2)** of the **Main Board Listing Rules** within three months after failing to meet the requirement(s).
- Details of the membership of the Board (including the INEDs) and the roles and functions of the Directors are given in the Annual Report and on the Company’s website.

3.2 Role of the Board

- The Board represents the shareholders of the Company (“Shareholders”) in managing the Company’s affairs.
- The Board should assume responsibility for its leadership and control, and be collectively responsible for promoting its success by directing and supervising its affairs.
- The duties, powers and functions of the Board should be as shown below:
 - (1) To manage the business of the Company and its subsidiaries in accordance with the **Articles of Association (Appendix 1)**;
 - (2) To ensure compliance with the **Articles of Association** and the laws, rules and regulations governing the Company;
 - (3) To lead and supervise the management to act in the interest of the public as well as its shareholders, but in case of conflict, the former shall prevail; and
 - (4) Without prejudice to the generality of the foregoing:
 - (a) to establish, adopt and review the vision, mission, objectives, policies and values of the Company;
 - (b) to oversee and enhance the development of the Company, to adopt and monitor its strategic and annual operating plan, and to approve its financial budget;
 - (c) to nominate candidates to fill any casual vacancies and to stand for election by shareholders;
 - (d) to review the performance of the Board as well as its members’ independence;

- (e) to form any committee(s), appoint members thereto, delegate at anytime and from time to time to any person or committee(s), any of its powers and functions conferred on it hereunder, review and approve the reports of the committees(s), review their performance and revise their composition and terms of reference as appropriate;
- (f) to oversee all matters and to formulate policies in relation to the internal control, businesses and corporate accommodation, investment, succession plans, remuneration and compensation for Directors and employees, risk management, corporate governance and corporate social responsibility, and to supervise the management to implement such policies;
- (g) to select, appoint, evaluate and if necessary, remove any senior executives, including without limitation the Chief Executive Officer, the Chief Financial Officer and the Company Secretary;
- (h) to review the Company's performance against targets and objectives, in particular its performances on finance, business, corporate governance and corporate social responsibility;
- (i) to be responsible for the preparation and the true and fair presentation of the financial statements in accordance with the prevailing accounting standards and laws, to approve the financial statements and to appoint and liaise with the external auditor;
- (j) to consider and, if appropriate, declare or recommend to shareholders on appropriation of profit, payment of dividend and allocation to reserve account;
- (k) to liaise with all regulatory authorities and organisations on all matter relating to the Company, and to monitor changes in their policies relating to and affecting the Company;
- (l) to convene general meetings and to make proposals for the approval of shareholders thereat;
- (m) to engage such external legal or other professional advisers to assist and/or advise it on issues as it considers necessary; and
- (n) to have full and free access to all information of the Company to ensure informed decision making.

- The Board should establish written guidelines no less exacting than the required standard of dealing in accordance with code **provision C.1.3** of the Code for relevant employees in respect of their dealings in the Company's securities. "Relevant employee" includes any employee or a director or employee of a subsidiary or holding company who, because of such office or employment, is likely to possess inside information in relation to the issuer or its securities.
- The Board should be responsible for performing the corporate governance duties no less than those set out the terms of reference in code **provision A.2.1** of the Code). The terms of reference of the Board include:
 - (1) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
 - (2) to review and monitor the training and continuous professional development of Directors and the Senior Management;
 - (3) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
 - (4) to develop, review and monitor the Code of Conduct and this compliance manual applicable to employees and Directors of the Company; and
 - (5) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report in accordance with **Appendix C1** of the **Main Board Listing Rules**.
- The Company should arrange appropriate insurance cover in respect of legal action against its Directors.
- 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 power, in particular, where management should report back and obtain prior board approval before making decisions or entering into any commitment on the Company's behalf.
- The Company should formalise the functions reserved to the Board and those delegated to management.
- The arrangements should be reviewed on an annually basis to ensure that they remain appropriate to the needs of the Company.
- The Company should disclose the respective responsibilities, accountabilities and contributions of the board and management.

- Directors should clearly understand delegation arrangements in place. The Company should have formal letters of appointment for Directors setting out the key terms and conditions of their appointment.

3.3 Appointments, Re-election and Removal

- The process of evaluating the skills and composition of the Board is ongoing and is kept under regular review in order to ensure that appropriate plans for succession to the Board are in place for smooth Board refreshment, and that the Board retains its effectiveness at all times.
- Directors are subject to re-election/re-appointment at regular intervals.
- Directors will be provided with an appointment letter which sets out the terms and conditions of their appointment, upon their appointment.
- All Directors appointed to fill a casual vacancy should be subject to re-election by shareholders at the first general meeting after appointment.
- Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.
- NEDs may be re-appointed for a further period or periods up to maximum of the longer of 6 consecutive years or 6 consecutive annual general meetings.
- Serving more than 9 years could be relevant to the determination of a NED's independence.
- If an INED serve more than 9 years, his or her further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should include the reasons why the Board believes the INED is still independent and should be re-elected including the factors considered, the process and the discussion of the board (or the nomination committee) in arriving at such determination.
- In assessing the independence of a NED, the Company should take into account the following factors in **rule 3.13(1) to (8)** of the **Main Board Listing Rules**, none of which is necessarily conclusive. Independence is more likely to be questioned if the Director:

(1) holds more than 1% of the number of issued shares of the Company;

- (2) has received an interest in any securities of the Company as a gift, or by means of other financial assistance, from a core connected person or the Company itself. However, the Director will still be considered independent if he receives shares or interests in securities from the Company or its subsidiaries as part of his director's fee or pursuant to share option schemes established in accordance with **Chapter 17** of the **Main Board Listing Rules**.
- (3) is a director, partner or principal of a professional adviser which currently provides or has within one year immediately prior to the date of his proposed appointment provided services, or is an employee of such professional adviser who is or has been involved in providing such services during the same period, to:
 - (a) the Company, its holding company or any of their respective subsidiaries or core connected persons; or
 - (b) any person who was a controlling shareholder or, where there was no controlling shareholder, any person who was the chief executive or a director (other than an INED), of the Company within two years immediately prior to the date of the proposed appointment, or any of their close associates.
- (4) has a material interest in any principal business activity of or is involved in any material business dealings with the Company or its respective subsidiaries or with any core connected persons of the Company;
- (5) is on the board specifically to protect the interests of an entity whose interests are not the same as those of the shareholders as a whole;
- (6) is or was connected with a director, the chief executive or a substantial shareholder of the Company within 2 years immediately prior to the date of his proposed appointment;
- (7) is, or has at any time during the 2 years immediately prior to the date of his proposed appointment been, an executive or a director (other than an INED) of the Company or of any of its respective subsidiaries or of any core connected persons of the Company; and
- (8) is financially dependent on the Company or any of its respective subsidiaries or core connected persons of the Company.

- Every year INED should submit to the Exchange a written confirmation which must state:
 - (1) his independence as regards each of the factors referred to in **rule 3.13 (1) to (8)** of the **Main Board Listing Rules**;
 - (2) his past or present financial or other interest in the business of the Company or its subsidiaries or any connection with any core connected person of the Company, if any; and
 - (3) that there are no other factors that may affect his independence at the same time as the submission of his declaration, undertaking in Form B or H of **Appendix 5** of the **Main Board Listing Rules**.
- Each INED should inform the Exchange as soon as practicable if there is any subsequent change of circumstances which may affect his independence and must provide an annual confirmation of his independence to the Company.
- The Company must confirm in each of its annual reports whether it has received such confirmation and whether it still considers the INED to be independent.
- Director may be removed before his or her term of office has expired in accordance with the **Articles of Association**.
- The Company will explain the reasons for the resignation or removal of any Directors.

3.4 Board Meeting

3.4.1 Notice of Meetings

- Board meeting should be held at least on a quarterly basis.
- Notice of at least 14 clear business days should be given to all Directors an opportunity to attend general meeting of the Company.
- In the case of an annual general meeting, notice of at least 20 clear business days should be given to Chairman, Directors, members of committee, shareholders and person invited to the meeting.
- Notice of meeting should specify the place, the date and the time of the meeting and the general nature of the business to be dealt with at the meeting.
- In case of an annual general meeting, the notice should also be specified the meeting as such.

- If a resolution is intended to be moved at a general meeting, the notice of meet should include notice of the resolution and a statement containing the information and explanation, if any, which is reasonably necessary to indicate the purpose of the resolution.
- Matters that Director is concerned or wants clarifications should be submitted to the Chairman at least 5 working days before the board meeting is held to ensure that all Directors are given an opportunity to include matters in the agenda for regular board meetings.
- Agenda of the board meeting and other relevant documents should be sent by the Company Secretary via email at least 3 working days before the board meeting is held.
- There should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense. The board should resolve to provide separate independent professional advice to Directors to assist them to perform their duties to the Company.
- 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 should be dealt with by a physical board meeting rather than a written resolution. INEDs who, and whose associates, have no material interest in the transaction should be present at that board meeting.

3.4.2 Proceedings at Meetings

- A majority number of Directors should be a quorum for the time being provided always that not less than half of such number of Directors as should constitute a quorum.
- Chairman should, if present and willing, preside at all board meeting, but if no such Chairman be appointed, or if he or she is not present within 30 minutes after the time fixed for holding the meeting or is unwilling to act as Chairman of such meeting, the Directors present should choose one of their number to act as Chairman of such meeting and the Director so chosen should preside at such meeting accordingly.
- Questions arising at any meeting should be decided by a majority of votes of the members present.
- In the case of an equality of votes, the Chairman should have a second or casting vote in addition to his original vote.
- Where a member is in any way directly or indirectly interested in a contract made or proposed to be made by the Company:

- (1) he/she should disclose in writing the nature of his/her interest at the earliest board meeting at which it is practicable for him/her by giving the company a general notice of his/her interest before the date on which the question of entering into the contract is first taken into consideration;
 - (2) the disclosure should be recorded in the minutes of the Board; and
 - (3) Director should not take any part in any deliberation of the Board with respect to that contract except with the permission of the Chairman and should not vote on any question concerning it.
- The validity of any proceedings of the Board should not be affected by:
 - (1) any defect in the appointment of any Director;
 - (2) the absence of any Director from the meeting at which any such proceeding occurred; or
 - (3) any vacancy among Directors.

3.4.3 Resolutions in writing and Conference Meetings

- A resolution in writing signed or approved in writing by all the Directors entitled to notice of a meeting of the Directors or by all the members of a committee for the time being should be as valid and effectual as if it had been passed at a meeting of the Directors or, as the case may be, such committee duly called and constituted.
- A written notification of confirmation of such resolution in writing given by a Director to the board by any means should be deemed to be his/her signature to such resolution in writing.
- Such resolution in writing may be contained in one document or in several documents in like form, each signed or approved by one or more of the said Directors or the said members of the committee concerned.
- A meeting of the Directors or of committee may consist of a conference between Directors or members of the committee some or all of whom are in different places provided that each Director, or as the case may be, member of the committee who participates is able:
 - (1) To hear each of the other participating Directors or members of the committee addressing the meeting; and
 - (2) If he so wishes, to address all of the other participating Directors or members of the committee simultaneously,whether directly, by telephone conference or by any other form of communications equipment or by a combination of these methods.

3.4.4 Board Minutes

- For regular board meetings, and as far as practicable in all other cases, an agenda and accompanying board papers should be sent, in full, to all Directors.
- These should be sent in a timely manner and at least 3 days before the intended date of a board or board committee meeting.
- The Directors should cause minutes to be made in books provided for the purpose:
 - (1) of all appointments of officers made by the Directors;
 - (2) of the names of all the Directors present at each meeting of the Directors and of the names of all the members present at each meeting of any committee; and
 - (3) of all resolutions and proceedings of all meetings of the Company and of any class of members, and of the Directors and of any committee

and any such minutes as aforesaid, if purporting to be signed by the Chairman of the meeting at which such appointment were made or such Directors or members were present or such resolutions were passed or proceedings held, or by the Chairman of the next succeeding meeting of the Company of Directors or committee, should be sufficient evidence without any further proof of the facts therein stated.

- Minutes of board meetings and meetings of board committees should record 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 should be sent to all Directors for their comment and records respectively, within a reasonable time after the board meeting is held.
- Minutes of board meetings and meetings of board committees should be kept by the Company Secretary and should be open for inspection at any reasonable time on reasonable notice by any Director.

3.4.5 Supply of and Access to Information

- 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 fulfil his/her duties properly, a Director may not, in all circumstances, be able to rely purely on information provided voluntarily by management and he/she may need to make further enquiries.
- Where any Director requires more information than is volunteered by management, he should make further enquiries where necessary. So, the board and individual directors should have separate and independent access to the Company's senior management.
- All Directors are entitled to have access to board papers and related materials.
- These papers and related materials should be in a form and quality sufficient to enable the board to make informed decisions on matters placed before it.
- Queries raised by Directors should receive a prompt and full response, if possible.

3.5 Responsibilities of members of the Board

3.5.1 Board Member

- Every Director must always know his responsibilities as a Director of the Company and its conduct, business activities and development.
- The Board of Directors is expected to exercise their judgment to act in what they reasonably believe to be in the best interests of the Company and the Shareholders.
- Given the essential unitary nature of the board, NEDs have the same duties of care and skill and fiduciary duties as EDs.
- INEDs and other NEDs, as equal board members, should 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 should also attend general meetings and develop a balanced understanding of the views of shareholders.
- INEDs and other NEDs should make a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments.

- Every newly appointed director should receive a comprehensive, formal and tailored induction on appointment. Subsequently, he/she should receive any briefing and professional development necessary, to ensure that he has a proper understanding of the operations and business of the Company, and is fully aware of his/her responsibilities under statute and common law, the GEM Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.
- The functions of NEDs should include:
 - (1) 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;
 - (2) taking the lead where potential conflicts of interests arise;
 - (3) serving on the audit, remuneration, nomination and other governance committees, if invited; and
 - (4) scrutinising the performance of the Company in achieving agreed corporate goals and objectives, and monitoring performance reporting.
- Every Director should ensure that he can give sufficient time and attention to the Company's affairs and should not accept the appointment if he/she cannot do so.
- All Directors should 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 should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director.
- All Directors should provide to the Company a record of the training they received.
- Each director should disclose to the Company at the time of his/her appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments.
- The identity of the public companies or organisations and an indication of the time involved should also be disclosed. This disclosure should be made on an annually basis.

3.5.2 Chairman

- According to **rule C.2.1** of the Code, the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive should be clearly established and set out in writing.
- There is a clear and effective division of accountability and responsibility between the Chairman and the Chief Executive and each plays a distinctive role but complementing each other to ensure that there is a balance of power and authority and no individual has unfettered powers of decision and control.
- Any appointment of a person to the office of Chairman by the Directors should be subject to the written approval of such appointment by the Chief Executive.
- The Chairman should be a NED and appointed by the Board.
- The responsibilities and duties of Chairman should include:
 - (1) providing leadership and governance of the Board so as to create the conditions for overall Board's and individual Director's effectiveness, and ensuring that all key and appropriate issues are discussed by the Board in a timely manner;
 - (2) Promoting effective relationships and open communication, and creating an environment that allows constructive debates and challenges, both inside and outside the boardroom, between NEDs and the management being responsible for ensuring that Directors receive, in a timely manner, adequate information, which must be accurate, clear, complete and reliable;
 - (3) ensuring that the Board as a whole plays a full and constructive part in the development and determination of the Company's strategies and policies, and that Board decisions taken are in the Company's best interests and fairly reflect Board's consensus;
 - (4) ensuring that the strategies and policies agreed by the Board are effectively implemented by the Chief Executive and the management;
 - (5) Setting, in consultation with the Chief Executive and Company Secretary, the Board meeting schedule and agenda to take full account of the important issues facing the Group and the concerns of all Directors, and ensuring that adequate time is available for thorough discussion of critical and strategic issues;

- (6) ensuring that the Board is properly briefed on issues arising at Board meetings and receives, in a timely manner, adequate information which must be accurate, clear, complete and reliable, to fulfill its duties, such as reports on the Company's performance, the issues, challenges and opportunities facing the Company, and matters reserved to it for decision;
 - (7) arranging informal meetings of the Directors at least annually, including meetings of the NEDs at which the Chief Executive is not present, and ensuring that sufficient time and consideration is given to complex, contentious or sensitive issues;
 - (8) ensuring that there is effective communication with shareholders, and that each Director develops and maintains an understanding of the stakeholders' views; and
 - (9) establishing good corporate governance practices and procedures and promotes the highest standards of integrity, probity and corporate governance throughout the Company and particularly at Board level.
- The term of Chairman should be for an initial term coinciding with his term as a NED and may be re-appointed for a further period or periods up to maximum of the longer of 6 consecutive years or 6 consecutive annual general meetings.

3.5.3 Chief Executive Officer

- Any appointment of a person to the Chief Executive Officer by the Directors should be subject to:
 - (1) the Chairman providing his/her prior written recommendation to the appointment of the relevant person to the relevant office; and
 - (2) the written approval of the Commission.
- The Chief Executive Officer has responsibilities for the following functions:
 - (1) leading the management in the day-to-day running of the Company's business in accordance with the business plans and within the budgets approved by the Board;
 - (2) leading the management to ensure effective working relationships with the Chairman and the Board by meeting or communicating with the Chairman on a regular basis to review key developments, issues, opportunities and concerns;
 - (3) developing and proposing the Company's strategies and policies for the Board's consideration;

- (4) implementing, with the support of the management, the strategies and policies as approved by the Board and its committees in pursuit of the objectives of the Company;
- (5) maintaining regular dialogue with the Chairman on important and strategic issues facing the Group, and ensuring bringing these issues to the Board's attention;
- (6) ensuring that the management gives appropriate priority to providing reports to the Board which contain relevant, accurate, timely and clear information necessary for the Board to fulfill its duties;
- (7) ensuring that the Board, especially the Chairman, is alerted to forthcoming complex, contentious or sensitive issues affecting the Company;
- (8) leading the communication program with our stakeholders including shareholders; and
- (9) conducting the affairs of the Company in accordance with the practices and procedures adopted by the Board and promoting the highest standards of integrity, probity and corporate governance within the Company.

3.5.4 Company Secretary

- The Company Secretary supports the Chairman in promoting the highest standards of corporate governance, and facilitating the effective functioning of the Board and its committees, where appropriate.
- The Company Secretary reports to the Chairman on Board/committee matters and to the Chief Executive Officer on administrative matters.
- All Directors have direct access to the advice and services of the Company Secretary for the ongoing discharge of their duties and responsibilities.
- The key function of the Company Secretary include:
 - (1) assisting the Chairman in ensuring that there are timely and appropriate information flows to the Board and between the NEDs and the management, to enable Directors to discharge their responsibilities;
 - (2) ensuring that Board's policy and procedures, and all applicable rules and regulations, are complied with by each and every Director;

- (3) ensuring accurate records of Board/committee (where appropriate) meeting proceedings, discussions and decisions are recorded and kept;
 - (4) giving independent, impartial advice to the Board on governance matters;
 - (5) providing updates to the Board on regulatory, corporate governance, new legislations, and Directors' duties and obligations;
 - (6) facilitating induction and professional development of Directors; and
 - (7) facilitating communications with shareholders through a variety of means, including annual general meetings, circulars and periodic reports.
- The Board should approve the selection, appointment or dismissal of the Company Secretary by way of a physical Board meeting rather than by written resolutions.
 - Please refer to **rule 3.28** of the **Main Board Listing Rules** for the academic or professional qualifications, relevant experience and relevant professional training considered by the Exchange.

3.5.5 Authorised Representatives

- The Company should ensure that, at all times, it has 2 authorised representatives.
- The authorised representatives must be 2 individuals from amongst the Company's EDs and Company Secretary.
- The authorised representative should be acting as the principal channel of communication between the Exchange and the Company.

3.5.6 Senior Management

- Draft and final versions of minutes of the meetings should be sent to all committee members for their comment and records within a reasonable time after the meeting.

4 COMMITTEES

4.1 Establishment of Committees

- The Board has established a number of standing committees including the following committees:
 - (1) Audit Committee;
 - (2) Remuneration Committee; and
 - (3) Nomination Committee.
- The terms of reference of the above Committees are available on the Company's website and in writing upon request to the Company Secretary.
- The Board may from time to time establish and delegate specific responsibilities to ad hoc Committees, such as an independent Board Committee to deal with matters involving conflict of interests of Directors or substantial Shareholders of the Company, connected transactions or a special purpose Committee to deal with major or material transactions of the Company.
- The Board should ensure that sufficient resources are made available to each Committee to ensure that it can duly and fully discharge its duties.

4.2 Audit Committee

- The Audit Committee should be appointed by the board of directors and must comprise a minimum of three members.
- All members should be NEDs. The majority of which should be INEDs and at least one of who should have appropriate professional qualifications or accounting or related financial management expertise as required in **rule 3.10(2)** of the **Main Board Listing Rules**.
- The Audit Committee must be chaired by an INED.
- A former partner of the Company's existing auditing firm should be prohibited from acting as a member of its audit committee for a period of 1 year from the date of his/her ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is later, according to **rule D.3.2** of the Code.
- The Audit Committee should meet at least twice a year and special meetings may be called at the discretion of the Chairman of the Audit Committee or at the request of the Board or Senior Management to review significant control or financial issues.

- The **Terms of Reference of the Audit Committee (Appendix 2)**, which clearly establish its authority and duties, should be posted on the official website of the Company and the Exchange website, and provided to the Shareholders upon request to the Company Secretary.
- Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should disclose in the Corporate Governance Report the recommendation of the Audit Committee and the reasons why the Board has taken a different view.

4.3 Remuneration Committee

- The Remuneration Committee should be appointed by the board of directors and must comprise a minimum of two members.
- The Remuneration Committee must be chaired by an INED and comprising a majority of INEDs.
- Only members of the Committee have the right to attend the meetings. Other individuals may be invited to attend all or part of any meetings as and when appropriate.
- The Remuneration Committee should meet at least once a year or as requested by the Director responsible for human resources function or the Board or the Chair of the Remuneration Committee.
- The **Terms of Reference of the Remuneration Committee (Appendix 3)**, which clearly establish its authority and duties, should be posted on the official website of the Company and the Exchange website, and provided to the Shareholders upon request to the Company Secretary.
- The Company should disclose details of any remuneration payable to members of senior management by band in their annual reports.

4.4 Nomination Committee

- The Nomination Committee should be appointed by the board of directors and must comprise a minimum of two members.
- The Nomination Committee should be chaired by the Chairman of the board or an INED and comprises a majority of INEDs.
- The Nomination Committee should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report.

- Where the board proposes a resolution to elect an individual as an INED at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he/she should be elected and the reasons why they consider him/her to be independent.
- The Nomination Committee should meet at least once a year or as requested by the Director responsible for human resources function or the Chair of the Nomination Committee to consider and review the structure, size and composition of the Board and make recommendations on any proposed change to the Board.
- The **Terms of Reference of the Nomination Committee (Appendix 4)**, which clearly establish its authority and duties, should be posted on the official website of the Company and the Exchange website, and provided to the Shareholders upon request to the Company Secretary.

4.5 Other Board Committees

- Where board committees are established to deal with matters, the board should give them sufficiently clear terms of reference to enable them to perform their functions properly.
- The terms of reference of board committees should require them to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their liability to do so (such as a restriction on disclosure due to regulatory requirements).

5 ACCOUNTABILITY AND AUDIT

5.1 Financial Reporting

- The board should ensure that a balanced, clear and comprehensible assessment of the Company's performance, position and prospects is presented in annual and interim reports.
- The Directors should include in the separate statement containing a discussion and analysis of the Company's performance in the annual report, an explanation of the basis on which the Company generates or preserves value over the business model and the strategy for delivering the Company's objectives.
- Management should 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.

- Management should provide all members of the board with quarterly 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 13.08** and **Chapter 13** of the **Main Board Listing Rules**.

5.2 Internal Controls

- The board should ensure that the Company maintains sound and effective internal controls to safeguard shareholders' investment and the Company's assets under **rule D.2** of **Appendix 14** of the **Main Board Listing Rules**.
- The directors should at least annually conduct a review of the effectiveness of the internal control systems of the Company and its subsidiaries and report to shareholders that they have done so in their Corporate Governance Report.
- The review should cover all material controls, including financial, operational and compliance controls and risk management functions.
- The board's annual review should, in particular, consider the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function.

5.3 Corporate Governance Report

- In preparing the Corporate Governance Report of the Company as required under **paragraph 34** and **paragraph 50** of **Appendix D2** of the **Main Board Listing Rules**, the Directors should have regard to and comply with the requirements of the Code and acknowledge in the Corporate Governance Report their responsibility for preparing the Company's accounts.
- The Corporate Governance Report is required to contain all the information set out in **Paragraphs A** to **L** of the Code.
- Any failure of disclosure is regarded as a breach of the **Listing Rules**.

5.4 Whistleblowing

- Whistleblowing is the term used for an employee raising concerns about practices and procedures in their workplace. It enables employees to report concerns of fraud, illegal, immoral, illegitimate practices, misconduct or malpractice in a way that will not be seen as being disloyal to colleagues.
- In general, the Whistleblowers should make their reports to the working committee group in writing by post in a sealed envelope clearly marked "To be opened by addressee only".

- The working committee comprising the Director, Chief Financial Officer and Head of Human Resources is responsible for evaluating every report received and decide if a full investigation is necessary.
- If the concerns raised involve a Director or Chief Financial Officer or Head of Human Resources, the Whistleblowers may, at their own discretion, choose to report directly to the respective Chairman of the Audit Committee of the Group.
- Upon receipt of a report, the working committee will evaluate the validity and relevance of the concerns raised, and to decide if a full investigation is necessary. If an investigation is warranted, an investigation team will be appointed by the working committee to look into the reported matter.
- The format and length of an investigation will vary depending upon the nature and particular circumstances of each report made. The matters raised may: 1) be investigated internally; 2) be referred to the external auditors or 3) be referred to the relevant public bodies or regulatory/law enforcement authorities.
- If there is sufficient evidence to suggest that a case of possible criminal offence or corruption exists, the matter will be reported to relevant local authorities (for instance, the Independent Commission Against Corruption in Hong Kong, the Public Security Bureau in China, etc).
- In some situations (e.g. in case of possible criminal offence), the committee/chairman of Audit committee may have to refer the matter together with the relevant information to relevant authorities. Please note that once the matter is referred to relevant authorities, the Group will not be able to take further action on the matter.
- The working committee is responsible for reporting the issue, in a format of written report, the result of investigation and the corrective action taken to the Audit Committee to ensure the Audit Committee notices the issue and the issue should not occur again in the future.
- The Whistleblower will be informed of the final results of the investigation, wherever reasonably practicable.

6 SECURITIES TRANSACTIONS BY DIRECTORS

6.1 Absolute Prohibitions

- The Company and its Directors must measure their conduct regarding transactions in securities of their Company in compliance with **Appendix C3** of the **Main Board Listing Rules**.
- Director must not deal in any of the securities of the Company at any time when he/she possesses inside information in relation to those securities, or where clearance to deal is not otherwise conferred upon him/her under **rule B.8** of the **Appendix C3** of the **Main Board Listing Rules**.
- Director must not deal in the securities of the Company when by virtue of his/her position as a director of another listed company, he/she possesses inside information in relation to those securities.
- Director must not deal in any securities of the listed company on any day on which its financial results are published and:
 - (1) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
 - (2) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results,unless the circumstances are exceptional, for example, where a pressing financial commitment has to be met as described in **section C** of the **Appendix C3** of the **Main Board Listing Rules**.
- In any event, the director is required to comply with the procedure in **rules B.8** and **B.9** of the **Appendix C3** of the **Main Board Listing Rules**.
- The listed company is required to notify the Exchange in advance of the commencement of each period during which directors are not allowed to deal under **rule A.3(a)** of the **Appendix C3** of the **Main Board Listing Rules**.
- Where Director is a sole trustee, the required standard of dealings apply to all dealings of the trust as if he/she were dealing on his/her own account.
- When Director deals in the securities of an issuer in his/her capacity as a co-trustee and he/she has not participated in or influenced the decision to deal in the securities and is not, and none of his/her close associates is, a beneficiary of the trust, dealings by the trust will not be regarded as his/her dealings.

- The required standard of dealings will be regarded as equally applicable to any dealings by the director's spouse or by or on behalf of any minor child (natural or adopted) and any other dealings in which for the purposes of Part XV of the SFO he/she is or is to be treated as interested. It is the duty of the director, therefore, to seek to avoid any such dealing at a time when he himself/she herself is not free to deal.
- When Director places investment funds comprising securities of the Company under professional management, discretionary or otherwise, the managers must nonetheless be made subject to the same restrictions and procedures as the Director himself/herself in respect of any proposed dealings in the Company's securities.
- Any breach of the required standard of dealings is regarded as a breach of the **Main Board Listing Rules**.
- In addition, Director must not make any unauthorised disclosure of confidential information, whether to co-trustees or to any other person (even those to whom he owes a fiduciary duty) or make any use of such information for the advantage of himself or others.

6.2 Notification

- Director must not deal in any securities of the company without first notifying in writing the Chairman or director designated by the board for the specific purpose and receiving a dated written acknowledgement.
- In his/her own case, the Chairman must first notify the board at a board meeting, or alternatively notify director designated by the board for the purpose and receive a dated written acknowledgement before any such dealing.
- The designated director must not deal in any securities of the issuer without first notifying the Chairman and receiving a dated written acknowledgement. In each case,
 - (1) a response to a request for clearance to deal must be given to the relevant director within five business days of the request being made; and
 - (2) the clearance to deal in accordance with (1) above must be valid for no longer than five business days of clearance being received.
- The procedure established within the issuer must, as a minimum, provide for there to be a written record maintained by the issuer that the appropriate notification was given and acknowledged pursuant to **rule B.8 of Appendix C3 of the Main Board Listing Rules**, and for the director concerned to have received written confirmation to that effect.

- Director of the Company who acts as trustee of a trust must ensure that his/her co-trustees are aware of the identity of any company of which he/she is a director so as to enable them to anticipate possible difficulties. A director having funds under management must likewise advise the investment manager.
- Director who is a beneficiary, but not a trustee, of a trust which deals in securities of the company must endeavour to ensure that the trustees notify him/her after they have dealt in such securities on behalf of the trust, in order that he/she in turn may notify the issuer. For this purpose, he/she must ensure that the trustees are aware of the issuers of which he/she is a director.
- The register maintained in accordance with section 352 of the SFO should be made available for inspection at every meeting of the board.
- Directors must as a board and individually endeavour to ensure that any employee or director or employee of its subsidiary company who, because of his/her office or employment in the company or its subsidiary, is likely to possess inside information in relation to the securities of any issuer on GEM or the Main Board does not deal in those securities when he/she would be prohibited from dealing by the required standard of dealings if he/she was a director.

7 INFORMATION DISCLOSURE

7.1 Notifiable Transactions — Chapter 14 of the Main Board Listing Rules

- **Chapter 14** of the **Main Board Listing Rules** sets out the obligations of the Company in relation to the acquisition or disposal transactions taken by the Company.
- The Company should use the percentage ratios set out in **rule 14.07** to determine whether the acquisition or disposal transaction falls into one of the classifications set out in **rule 14.06** below:
 - (1) **Share Transaction** — an acquisition of assets (excluding cash) by the Company where the consideration includes securities for which listing will be sought and where all percentage ratios are less than 5%;
 - (2) **Discloseable Transaction** — a transaction or a series of transactions by the Company where any percentage ratio is 5% or more, but less than 25%;
 - (3) **Major Transaction** — a transaction or a series of transactions by the Company where any percentage ratio is 25% or more, but less than 100% for an acquisition or 75% for a disposal;
 - (4) **Very Substantial Disposal** — a disposal or a series of disposals of assets by the Company where any percentage ratio is 75% or more;

- (5) **Very Substantial Acquisition** — an acquisition or a series of acquisitions of assets by the Company where any percentage ratio is 100% or more; and
 - (6) **Reverse Takeover** — an acquisition or a series of acquisitions of assets by the Company which involves either a change of control or the acquisition of assets from a person who has gained control of the Company with the last 36 months.
- The calculations of the percentage ratios set out in **rule 14.07**:
 - (1) **Assets ratio** — the total assets which are the subject of the transaction divided by the total assets of the Company;
 - (2) **Profits ratio** — the profits attributable to the assets which are the subject of the transaction divided by the profits of the Company;
 - (3) **Revenue ratio** — the revenue attributable to the assets which are the subject of the transaction divided by the revenue of the Company;
 - (4) **Consideration ratio** — the consideration divided by the total market capitalisation of the Company. The total market capitalisation is the average closing price of the Company's securities as stated in the Exchange's daily quotations sheets for the five business days immediately preceding the date of the transaction; and
 - (5) **Equity capital ratio** — the nominal value of the Company's equity capital issued as consideration divided by the nominal value of the Company's issued equity capital immediately before the transaction.
 - **Rule 14.08** sets out a table of summary for the classification and percentage ratios.
 - The Company should refer to the table of summary sets out in **rule 14.33** to determine whether notification, publication and shareholders' approval for the transaction is required.
 - The Company must complete the **Size Tests Checklist (Appendix 5)**, **Announcement Checklist (Appendix 6)**, and relevant **Circular Checklist (Appendix 7 to 9)**.
 - The Company must submit an announcement to the Exchange and publish the announcement on the Company's website as soon as possible after the terms of the notifiable transaction are finalised.

7.2 Connected Transaction — Chapter 14A of the Main Board Listing Rules

- **Chapter 14A** of the **Main Board Listing Rules** sets out the disclosure and shareholders' approval requirements for connected transactions entered into by the Company and its subsidiaries.
- In general terms, all the transactions with connected persons require an announcement, a circular and independent shareholder approval unless one of the de minimis transactions exemption under **rule 14A.76** or other exemptions under **rule 14A.73** apply.
- Persons with material interests cannot vote on the resolution at the general meeting to approve the transaction. Continuing connected transactions also require annual reviews by the INEDs and the auditors.
- The Company must complete the **Size Tests Checklist (Appendix 5)**, **Announcement Checklist (Appendix 6)**, and relevant **Circular Checklist (Appendix 7 to 9)**.
- The Company must submit an announcement to the Exchange and publish the announcement on the Company's website as soon as possible after the terms of the connected transaction is finalised.

7.3 Inside Information Policy — Part XIVA of Securities and Futures Ordinance

- The provisions under **Part XIVA** of the **SFO** (Cap. 571) impose a general obligation for disclosing price sensitive or inside information by the listed corporations.
- Inside information is the specific information about the Company, its Shareholder or officer or its listed securities or derivatives, which is not generally known to the persons who are accustomed, or would be likely, to deal in the Company's listed securities but would, if generally known to them, be likely to materially affect the price of the Company's listed securities.
- The **Inside Information Policy (Appendix 10)** documents the system for the establishment and maintenance of effective internal control and reporting system in relation to inside information.
- The **Inside Information Policy** ensure that potentially price sensitive or inside information can be promptly identified, assessed and escalated for the attention of the Board of the Company to decide the need for disclosure, in order to ensure compliance with **Part XIVA** of the **SFO**.
- All staff of the Company must comply with the **Inside Information Policy**.

8 COMMUNICATION WITH SHAREHOLDERS

8.1 Communication Strategies

- The board has the responsibility to maintain an on-going dialogue with the Shareholders to provide them with the information necessary to evaluate the performance of the Company.
- Information relating to the Company is communicated to the Shareholders through the following means:
 - (1) annual and interim reports of the Company are distributed to all Shareholders in accordance with the requirements of the **Main Board Listing Rules**;
 - (2) announcements relating to the Company's interim and annual results and on other occasions under the continuous disclosure requirements under the **Main Board Listing Rules**;
 - (3) the Company's website which includes the corporate information of the Company such as the Board and corporate governance, results of the Company (annual and interim), the Company's press releases; and
 - (4) general meetings of the Company which provides an opportunity for constructive communication between the Board, the Senior Management and the Shareholders.

8.2 Annual General Meeting ("AGM")

- Notice of at least 21 clear days should be given to all Shareholders to attend the AGM of the Company.
- The Company regards the AGM as an important opportunity for constructive communication between the Board, the Senior Management and the Shareholders.
- For each substantially separate issue proposed at a general meeting, such as the nomination of persons as directors and on the annual report and accounts, a separate resolution should be proposed by the Chairman of that meeting. The Company should avoid "bundling" resolutions unless they are interdependent and linked forming one significant proposal. Where the resolutions are "bundled", the Company should explain the reasons and material implications in the notice of the meeting.
- The Board should encourage full and active participation of the Shareholders at the general meetings. The Chairman of the meeting should allow a reasonable opportunity for the Shareholders to ask questions to the external auditors regarding the audit and the auditors' report.

- The following persons should attend the AGM to answer questions raised at the meeting:
 - (1) the Chairman of the Board;
 - (2) the Chairman of the Audit Committee, the Remuneration Committee and the Nomination Committee or failing him, another member of the relevant Committee or, his duly appointed delegate;
 - (3) the employee or senior management; and
 - (4) the external auditors of the Company.
- The Chairman of the meeting should ensure that an explanation is provided of the detailed procedures for conducting a poll and answer any questions from Shareholders on voting by poll.
- The process of the AGM should be monitored and reviewed in the next general meeting and changes should be made to ensure that Shareholder's needs are best served.