

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has a policy of seeking to comply with the established best practice in corporate governance. The Board believes that good corporate governance is crucial to improve the efficiency and performance of the Group and to safeguard the interests of its shareholders. This corporate governance report presents the corporate governance matters of the Group during the period covering the financial year ended 31 December 2022 and significant subsequent events (if any) for the period up to the date of publication of this annual report. For the year ended 31 December 2022, the Company has applied the principles and code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) (the “Code”), and the associated Listing Rules. During the year ended 31 December 2022, the Company has complied with the code provisions of the Code (“Code Provision(s)”), except for certain deviations as specified and explained below with considered reasons and explanation for such deviations.

1. Under Code Provision C.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Since the resignation of Dr. You Xian Sheng as the chairman and the executive director of the Company on 31 January 2014, the Company has not appointed a new chairman of the Board (the “Chairman”). Until the appointment of the new Chairman, the Board collectively focuses on the overall strategic planning and development of the Group and effective functioning of the Board. The Board considers that the principle of balance of power and authority is achieved by the check and balance between the executive directors and the independent non-executive directors of the Company. Since the resignation of Mr. Wang Hui as the chief executive officer of the Company (the “CEO”) on 1 June 2016, the Company has not appointed a new CEO. Until the appointment of the new CEO, the executive directors of the Company, possessing extensive relevant industry knowledge, collectively oversee the day-to-day management of the business and operations of the Group.

The Board believes that this arrangement still enables the Company to make and implement decisions promptly, and thus achieve the Company’s objectives efficiently and effectively in response to the changing environment. The Board will review the current structure from time to time and as and when appropriate if candidate with suitable leadership, knowledge, skills and experience is identified, the Company may make the necessary modification to the management structure.

2. Under Code Provision C.2.7 of the Code, the chairman should at least annually hold meetings with the independent non-executive directors without the presence of other directors.

Since the resignation of Dr. You Xian Sheng as the chairman and the executive director of the Company on 31 January 2014, the Company has not appointed a new Chairman, no meeting was held between the Chairman and the independent non-executive directors of the Company without the presence of other directors of the Company during the year ended 31 December 2022. Although such meeting was not held during the year, the executive directors of the Company have delegated the company secretary of the Company to gather any concerns and/or questions that the independent non-executive directors of the Company might have and report to them for setting up follow-up meetings, whenever necessary.

3. Under Code Provision F.2.2 of the Code, the Chairman should attend the annual general meeting. Since the Company currently does not have any officer with the title of the Chairman, Mr. Yeung Kwok Kuen, the executive director of the Company, has been elected by other directors of the Company present to act as the chairman of the annual general meeting of the Company held on 10 June 2022 in accordance with the Bye-laws of the Company. Mr. Yeung Kwok Kuen has sufficient calibre and knowledge for communication with the shareholders of the Company at the annual general meeting of the Company.

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CORPORATE GOVERNANCE PRACTICES (CONTINUED)

- Under Code Provision C.6.3 of the Code, the company secretary should report to the board chairman and/or the chief executive officer. Since the Company currently does not have any officer with the title of the Chairman or CEO, the company secretary of the Company reported to the executive directors of the Company since 1 June 2016.

The Board will continue to regularly review and monitor the Company's corporate governance practices to ensure compliance with the relevant provisions under the Listing Rules and to maintain a high standard of corporate governance practices of the Company.

CORPORATE GOVERNANCE AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

The Board has the overall responsibility for the ESG strategy, reporting and determining the management approach taken in this area. The Board believes that corporate governance and ESG are complementary, with corporate governance linked to good governance of environmental and social issues, which touch on all aspects of the Group's businesses. The Board should take into consideration the environmental and social risks or impacts, and embed these ESG factors including environmental protection culture into its business operation, and should consider how the Group is to interact with its own people and the communities in which it operates and how they are governed.

Further information on ESG matter of the Group is set out under the section headed "Environmental, Social and Governance Report" of this annual report.

BOARD OF DIRECTORS

Composition

Directors of the Company during the year and up to the date of this annual report are as follows:

Executive Directors:

Yeung Kwok Kuen, *Chief Financial Officer*
Shi Xing Zhi
Shi Sheng Li

Independent Non-executive Directors:

Chu Kang Nam
Liang Xu Shu
Leung Ka Wo

The biographical details of the directors of the Company are set out under the section headed "Biographical Details of Directors and Senior Management" of this annual report.



CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

Composition *(CONTINUED)*

The composition of the Board is well balanced with the directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group.

There is no relationship among the members of the Board.

Independent Non-executive Directors

During the year ended 31 December 2022, the Board had at all times at least three independent non-executive directors of the Company and at least one independent non-executive director of the Company who has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of the independent non-executive directors of the Company an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors of the Company to be independent.

Independent views

The Board believes that the independent non-executive directors constituting more than one-third of the Board provides adequate checks and balances that safeguard the interests of the shareholders of the Company. The independent non-executive directors are from various different backgrounds with a diverse range of business, financial services and professional experience possess diversified expertise, skills and experience. Their views and participation in the Board meetings and committees' meetings bring independent judgment and advice on issues relating to the Group's strategies, prospects, internal control and conflicts of interest, and ensure that the interests of the shareholders are well taken into account.

Directors have sufficient access to information relating to the Group and management or other relevant staff can be asked to join the Board meetings, where appropriate, to provide information to the directors so that the Board will be able to make informed decisions. The Board and the Board committees are provided with sufficient resources to discharge their duties and are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Board will review the implementation and effectiveness of the abovementioned mechanism on an annual basis to ensure that independent views and input are available to the Board.

Board Responsibilities and Delegation

The principal roles of the Board are to oversee the strategic development, to determine the objectives, strategies and policies of the Group, to monitor and control the financial performance and to ensure effective internal controls and risk management. Implementation of strategies and day-to-day operations are delegated to the management. In order to better understand the respective accountabilities and contributions of the Board and management, the Company has adopted written terms of reference specifying a schedule of matters which should be reserved to the Board and which should be delegated to management.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

Board Meetings and General Meetings

During the year, a total of seven Board meetings (including four regular meetings) were held and the attendance records are as follows:

| Name of Directors | Number of Board Meetings Attended/Held |
|--------------------------|---|
| Yeung Kwok Kuen | 7/7 |
| Shi Xing Zhi | 7/7 |
| Shi Sheng Li | 7/7 |
| Chu Kang Nam | 7/7 |
| Liang Xu Shu | 7/7 |
| Leung Ka Wo | 7/7 |

During the year, two general meetings of the Company were held and the attendance records are as follows:

| Name of Directors | Number of General Meetings Attended/Held |
|--------------------------|---|
| Yeung Kwok Kuen | 2/2 |
| Shi Xing Zhi | 2/2 |
| Shi Sheng Li | 2/2 |
| Chu Kang Nam | 2/2 |
| Liang Xu Shu | 2/2 |
| Leung Ka Wo | 2/2 |

Induction and Continuous Professional Development

Upon appointment to the Board, each director of the Company is provided with guideline and reference materials to enable them to be familiarised with the Group's business operations and Board's policies, as well as the general and specific duties of directors under general law (the common law and legislation) and the Listing Rules.

The directors of the Company have participated in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The continuous professional development programme comprised training seminars provided by professional bodies and reading regulatory updated materials. The costs for such trainings are borne by the Company. The Company will continue to provide and fund the continuing professional development training in accordance with Code Provision C.1.4 of the Code.

During the year, all directors of the Company have participated in continuous professional development by reading regulatory updated materials and materials relevant to the Company's business, director's duties and responsibilities (including the director training webcasts and the directors' e-training launched by the Stock Exchange) and provided a record of training they received to the Company.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (CONTINUED)

Induction and Continuous Professional Development (CONTINUED)

| | Reading materials | Attending seminars/ briefings/e-training |
|---|-------------------|---|
| Executive Directors | | |
| Yeung Kwok Kuen, <i>Chief Financial Officer</i> | ✓ | ✓ |
| Shi Xing Zhi | ✓ | ✓ |
| Shi Sheng Li | ✓ | ✓ |
| Independent Non-executive Directors | | |
| Chu Kang Nam | ✓ | ✓ |
| Liang Xu Shu | ✓ | ✓ |
| Leung Ka Wo | ✓ | ✓ |

CHAIRMAN AND CEO

Since the resignation of Dr. You Xian Sheng as the Chairman on 31 January 2014, the Company has not appointed a new Chairman. Since the resignation of Mr. Wang Hui as the CEO on 1 June 2016, the Company has not appointed a new CEO. As explained above, the Board will review the current structure from time to time and as and when appropriate if candidate with suitable leadership, knowledge, skills and experience is identified to be the Chairman or CEO, the Company may make the necessary modification to the management structure.

NON-EXECUTIVE DIRECTORS

All the independent non-executive directors of the Company were appointed for an initial term of one year. All directors of the Company appointed during the year are subject to re-election by shareholders of the Company at the next annual general meeting after their appointment and every director of the Company (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

BOARD COMMITTEES

For the year ended 31 December 2022, the Board had four standing Board committees, namely, Executive Committee, Audit Committee, Remuneration Committee and Nomination Committee to oversee particular aspects of the Company's affairs. All Board committees were established with defined terms of reference which clearly define the role, authority and functions of each committee.

EXECUTIVE COMMITTEE

The Executive Committee is composed of two executive directors, namely, Mr. Yeung Kwok Kuen and Mr. Shi Xing Zhi. The Executive Committee operates as a general management committee under the direct authority of the Board to increase the efficiency for the business decisions. It monitors the execution of the Company's strategic plans and operations by all business units and decides on matters relating to the management and day-to-day operations of the Group. During the year ended 31 December 2022, a total of six meetings held and all members of Executive Committee attended the meetings.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Company established the Audit Committee in 1998. The current members of the Audit Committee are:

Leung Ka Wo, *Independent Non-executive Director, Chairman of the Audit Committee*

Chu Kang Nam, *Independent Non-executive Director*

Liang Xu Shu, *Independent Non-executive Director*

The Audit Committee has adopted terms of reference which are in line with the Code. A copy of the terms of reference is posted on the Company's website.

The Audit Committee is primarily responsible for the following duties:

1. to be primarily responsible for making recommendation 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 any questions of its resignation or dismissal;
2. to review and monitor the external auditor's independence and objectively and the effectiveness of the audit process in accordance with applicable standard, to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
3. to develop and implement policy on the engagement of an external auditor to supply non-audit services, to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
4. 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;
5. regarding No. (4) above:
 - i. to liaise with the Board and senior management of the Company and to meet, at least twice a year, with the Company's external auditors; and
 - ii. to consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, to 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;
6. to review the Company's financial control, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;
7. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
8. to consider major investigations 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;
9. 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;

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (CONTINUED)

10. to review the Group's financial and accounting policies and practices;
11. 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;
12. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
13. to report to the Board on the matters set out in the Code;
14. to consider the major findings of internal investigations and management's response;
15. to consider other topics, as defined by the Board or handle the job assigned by the Board;
16. to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
17. to act as the key representative body for overseeing the Company's relations with the external auditor.

The Audit Committee met five times during the year to (i) review the Group's annual and interim financial statements; (ii) review the external auditor's plan for the audit of the Group's accounts; (iii) make recommendations with respect to the reappointment of the external auditors of the Company, the remuneration and terms of engagement of the external auditors for provision of audit services; (iv) make recommendations with respect to the engagement of the external auditors to supply non-audit services; (v) review the internal control procedures and the financial reporting systems of the Group; (vi) review the risk management and internal control review plan and reports; and (vii) review the whistleblowing policy.

Individual attendance of each member of the Audit Committee during the year ended 31 December 2022 is set out below:

| Name of Members | Number of Audit Committee Meetings Attended/Held |
|------------------------|---|
| Leung Ka Wo | 5/5 |
| Chu Kang Nam | 5/5 |
| Liang Xu Shu | 5/5 |

The financial statements for the year ended 31 December 2022 have been reviewed by the Audit Committee.

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REMUNERATION COMMITTEE

The Company established the Remuneration Committee in 2005. The current members of the Remuneration Committee are:

Chu Kang Nam, *Independent Non-executive Director, Chairman of the Remuneration Committee*
Liang Xu Shu, *Independent Non-executive Director*
Leung Ka Wo, *Independent Non-executive Director*
Yeung Kwok Kuen, *Executive Director*

The Remuneration Committee has adopted terms of reference which are in line with the Code. A copy of the terms of reference is posted on the Company's website.

The Remuneration Committee is primarily responsible for the following duties:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing remuneration policy;
2. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
3. to consult the Chairman and/or the CEO about their remuneration proposals for other executive directors of the Company;
4. to make recommendations to the Board on the remuneration packages of individual executive directors and senior management of the Company, which should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
5. to make recommendations to the Board on the remuneration of non-executive directors of the Company;
6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;
7. to review and approve the compensation payable to executive directors and senior management of the Company for any loss or termination of office or appointment to ensure that it is consistent with relevant contractual terms and is otherwise fair and not excessive;
8. to review and approve compensation arrangements relating to dismissal or removal of directors of the Company for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
9. to ensure that no director of the Company or any of their associates is involved in deciding that director's own remuneration;
10. to review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules; and
11. to deal with any other matters delegated by the Board or otherwise required by the Listing Rules, from time to time.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE *(CONTINUED)*

The Remuneration Committee met one time during the year to (i) approve discretionary bonus payment to the executive directors and member of the senior management of the Company and review the remuneration package of the member of the senior management of the Company; (ii) review the special discretionary payments to the independent non-executive directors of the Company; and (iii) review the remuneration policy and structure of the directors of the Company.

Individual attendance of each member of the Remuneration Committee during the year ended 31 December 2022 is set out below:

| Name of Members | Number of Remuneration Committee Meeting Attended/Held |
|------------------------|---|
| Chu Kang Nam | 1/1 |
| Liang Xu Shu | 1/1 |
| Leung Ka Wo | 1/1 |
| Yeung Kwok Kuen | 1/1 |

Details of the emoluments of the directors of the Company for the year ended 31 December 2022 are set out in note 12 to the consolidated financial statements.

Senior Management Remuneration By Band

The emolument of the member of the senior management of the Group for the year ended 31 December 2022 fell within the following band:

| Emolument band | Number of individual |
|-----------------------|---------------------------------|
| HK\$0 – HK\$1,000,000 | 1 |

NOMINATION COMMITTEE

The Company established the Nomination Committee in March 2012. The current members of the Nomination Committee are:

Chu Kang Nam, *Independent Non-executive Director, Chairman of the Nomination Committee*
Liang Xu Shu, *Independent Non-executive Director*
Leung Ka Wo, *Independent Non-executive Director*

The Nomination Committee has adopted terms of reference which are in line with the Code. A copy of the terms of reference is posted on the Company's website.

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NOMINATION COMMITTEE (CONTINUED)

The Nomination Committee is primarily responsible for the following duties:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to the Board on any proposed changes to the Board to complement the Company's corporate strategy;
2. 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;
3. to assess the independence of independent non-executive directors of the Company;
4. 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 CEO;
5. to make recommendations to the Board on the membership of Board committees e.g. audit committee and remuneration committee, in consultation with the Chairman and the chairmen of such committees, as appropriate;
6. before recommending an appointment of the Board, to evaluate the existing balance of skills, knowledge and experience on the Board, and, in light of this evaluation, prepare a description of the role and capabilities required for a particular appointment; and
7. to deal with any other matters delegated by the Board.

The Nomination Committee met two times during the year to (i) review the size, composition and structure of the Board; (ii) review the board diversity policy; (iii) assess the independence of the independent non-executive directors of the Company; and (iv) review the suitability of the directors of the Company proposed for re-election at the annual general meeting.

Individual attendance of each member of the Nomination Committee during the year ended 31 December 2022 is set out below:

| Name of Members | Number of Nomination Committee Meetings Attended/Held |
|------------------------|--|
| Chu Kang Nam | 2/2 |
| Liang Xu Shu | 2/2 |
| Leung Ka Wo | 2/2 |

Each director of the Company appointed during the year is subject to re-election by shareholders of the Company at the next annual general meeting of the Company after his appointment and every director of the Company (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

No director of the Company is involved in fixing his own terms of appointment and nominations and no independent non-executive director of the Company is involved in assessing his own independence.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE *(CONTINUED)*

Nomination Policy

The Board has adopted the Nomination Policy which sets out the approach and procedures for the Board to nominate and select directors. The Nomination Committee shall consider a number of factors in making nominations, including but not limited to his/her skills and experience; commitment; independence; and reputation for integrity. The policy also lays down the following nomination procedures: the Nomination Committee (a) will take appropriate measures to identify and evaluate a candidate; (b) may consider a candidate recommended or offered for nomination by a shareholder of the Company; and (c) will, on making the recommendation, submit the candidate's personal profile to the Board for consideration.

The appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Bye-laws of the Company and other applicable rules and regulations.

DIVERSITY

Summary of the Board Diversity Policy

The Company recognises and embraces the benefits of diversity in the members of the Board to enhance the quality of its performance and hence the purpose of the Board Diversity Policy aims to build and maintain a Board with a diversity of directors, in terms of skills, regional and industry experience, background, gender and other qualities of the members of the Board. These differences will be taken into account in determining the optimum composition of the Board. The Nomination Committee will discuss the measurable objectives for implementing diversity on the Board from time to time and recommend them to the Board for adoption.

The Nomination Committee will report annually on the composition of the Board under diversified perspectives and monitor the implementation of this policy to ensure the effectiveness of this policy.

The Board has an appropriate mix of skills, experience and diversity which are relevant to the Company's business and governance and supports its efficiency and effectiveness. The Board's composition as at the date of this report under diversified perspectives is summarized as follows:

| | | |
|---------------------------------|---|--|
| Category | : | Executive Directors: 3 |
| | : | Independent Non-executive Directors: 3 |
| Gender | : | Male: 6 |
| Age | : | 40-60: 4 |
| | : | Over 60: 2 |
| Number of year as Board members | : | 3-6 years: 3 |
| | : | Over 6 years: 3 |

Having reviewed the Board diversity profile, the Board will continue to take initiative to identify female candidates to achieve gender diversity at the Board level. The Board will take opportunity to invite female members over time to join the Board when selecting and making recommendation on suitable candidates for Board appointments. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender diversity. The Group will also ensure that there is gender diversity when recruiting staff at mid to senior level and are committed to provide career development opportunities for female staff so that the Group will have a pipeline of female senior management and potential successor to the Board in the near future. Target has been set for appointing at least one female Board member by the end of year 2024.

CORPORATE GOVERNANCE REPORT

DIVERSITY (CONTINUED)

As at 31 December 2022, the ratio of male and female in the Group's workforce (including the executive directors and senior management) is approximately 80% and 20%, respectively. Due to the business nature and job duties, the Group may not be able to achieve half to half gender diversity between males and females at workforce level. At present, the Group has not set any measurable objectives for implementation of the diversity policies in relation to the workforce of the Group. However, the Group will consider and review from time to time such diversity policies and setting of any measurable objectives where necessary. The Group would also continue to take into account of diversity perspectives including gender diversity in its hiring.

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions including, but not limited to, developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors, the Company's policies and practices in compliance with legal and regulatory requirements.

The Board has adopted terms of reference of the Board on corporate governance in line with the Code in March 2012.

Summary of the terms of reference on corporate governance are as follows:

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 senior management of the Company;
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 compliance manual (if any) applicable to employees and directors; and
5. to review the Company's compliance with the Code and disclosures in the corporate governance report of its annual reports.

During the year, the Board reviewed and discussed the corporate governance policy and practices of the Company and the Board discharged the abovesaid responsibilities or through delegation to the Audit Committee, Remuneration Committee and Nomination Committee during the year.

COMPANY SECRETARY

Ms. Leung Lai Ming ("Ms. Leung") was appointed as the company secretary of the Company on 16 July 2007. The biographical detail of Ms. Leung is set out under the section headed "Biographical Details of Directors and Senior Management" of this annual report.

For purpose of the Rule 3.29 of the Listing Rules, Ms. Leung has taken not less than 15 hours of relevant professional training for the year ended 31 December 2022.



CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors of the Company regarding any non-compliance with the Model Code and its code of conduct regarding directors' securities transaction during the year ended 31 December 2022, and they all confirmed that they had fully complied with the required standards set out in the Model Code.

RISK MANAGEMENT AND INTERNAL CONTROL

It is the policy of the Company to maintain a sound and effective risk management and internal control systems to safeguard the shareholders' investment and the Group's assets. No risk committee has been established and the Board is responsible for the risk management and internal control systems of the Group and reviewing their effectiveness and overseeing the management of the Group in the design, implementation and monitoring of the risk management and internal control systems of the Group. The risk management and internal control 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.

The Board continuously monitors the Group's risk management framework, reviews the Group significant risks and conducts an annual review of the effectiveness of the risk management and internal control systems. The Board determines the nature and extent of significant risks it is willing to take in achieving the strategic objectives of the Group. The Group's risk management and internal control systems include, among others, the relevant financial, operational and compliance control and risk management procedures or policies, a well-established organizational structure with clearly defined lines of responsibilities and authorities. Each department is accountable for its daily operations and is required to implement the policies adopted from the Board from time to time.

The Board have reviewed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2022, which covered all material controls, including financial, operational and compliance controls and risk management of the Group and considered that they are effective and adequate. The Board is also of the opinion that the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit, financial reporting functions, as well as those relating to the Company's ESG performance and reporting are adequate and sufficient.

The Company does not have internal audit department and the company secretary of the Company is responsible to perform the internal audit function during the year ended 31 December 2022 according to an annual plan and routine checking. The Company would review the arrangement of the internal audit function from time to time. The Audit Committee have reviewed the Company's internal audit function and the risk management and the internal control systems for the year ended 31 December 2022 and considered that they are effective and adequate.

The Board approved and adopted an inside information policy and procedures for the handling and dissemination of inside information. The inside information policy provide the guidelines to the directors, management and relevant staff (likely possessing the unpublished inside information) of the Group to ensure that the inside information of the Group is to be disseminated to the public in equal and timely manner in accordance with the applicable laws and regulations. The procedures include, among others, regularly remind the directors, management and relevant staff about the compliance with the securities dealing restrictions as set out in the Model Code (Appendix 10 of the Listing Rules) and the notification of the regular “Blackout Period”.

The Company has established whistleblowing policy and system that facilitate employees of the Group and those deal with the Group (e.g. customers, suppliers, etc) to raise concerns, in confidence, about possible improprieties in any matters related to the Group.

The Company has also established anti-corruption policies and system that promote and support anti-corruption laws and regulations.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION AND AUDITOR RELATED MATTERS

During the year ended 31 December 2022, the Group engaged CCTH CPA Limited, auditors of the Company, to perform audit and non-audit services. The fees were as follows:

| Nature of services | Amount <i>HK\$'000</i> |
|--|----------------------------------|
| Audit services in relation to annual results | 1,380 |
| Review of interim results | 420 |
| Others – outlays | 9 |
| | <hr/> |
| | 1,809 |

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

The directors of the Company acknowledge that it is their responsibility to prepare the accounts for each financial period which give a true and fair view of the state of affairs of the Group and to present a balanced, clear and understandable assessment of the financial results and disclosures of the Group under the Listing Rules and any other rules and statutory requirements. The directors of the Company are responsible for ensuring that appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable; and the accounts are prepared on a going concern basis.

The responsibility of the external auditor of the Company is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by the external auditors of the Company about their reporting responsibility is set out under the section headed "Independent Auditor's Report" of this annual report.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to the Bye-laws of the Company, a special general meeting of the Company ("SGM") can be convened by a written requisition signed by the shareholder(s) of the Company holding not less than one-tenth of the paid-up share capital of the Company carrying the right of voting at general meetings of the Company, stating the objects of the meeting, and deposited at the head office and principal place of business of the Company in Hong Kong at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong for the attention of the Board or the company secretary of the Board. Such meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting should be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, but any meeting so convened shall not be held after the expiration of three (3) months from the said date.

Putting forward proposals at shareholders' meetings

The procedures for shareholder(s) to put forward proposals at SGM include a written notice of those proposals being submitted by the shareholder(s) of the Company, addressed to the Board or the company secretary of the Board at the head office and principal place of business of the Company in Hong Kong at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong.

The procedures for shareholders of the Company to propose a person for election as a director of the Company are available on the Company's website.



CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(CONTINUED)*

Enquiries to the Board

Shareholders of the Company may at any time send their enquiries and concerns to the Board in writing to the head office and principal place of business of the Company in Hong Kong at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong.

INVESTOR RELATIONS

Constitutional Document

During the year ended 31 December 2022, there were significant changes in the Company's constitutional document, namely, the Company has amended the Bye-laws to reflect certain amendments to the Listing Rules and the Companies Act 1981 of Bermuda (as amended), and made other consequential and housekeeping amendments. The amendment was approved by the shareholders of the Company in the annual general meeting of the Company held on 10 June 2022. Details of the amendment are set out in the circular of the Company dated 26 April 2022. An up-to-date version of the Bye-laws is available on both the websites of the Company and the Stock Exchange.

Shareholders' Communication Policy

To foster effective communication with the shareholders and potential investors of the Company, the Company has developed and maintained a shareholders' communication policy.

Information of the Group is delivered to the shareholders of the Company through a number of channels, which include annual reports, interim reports, announcements and circulars published at the Stock Exchange's website. The latest information of the Group together with the published documents are also available on the Company's website.

The general meeting of the Company provides a forum for communication between the Board and the shareholders of the Company. The Board members or their delegates are available to answer questions at the general meeting.

Shareholders of the Company should direct their questions about their shareholdings to the Company's branch share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

Shareholders of the Company and the stakeholders (e.g. the investment community) can mail their enquiries or comments to the head office and principal place of business of the Company in Hong Kong at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong or sent through email to enquiry@tongguangold.com.

The Board has reviewed the implementation and effectiveness of the shareholders' communication policy including the steps taken at the general meetings and the handling of enquires received (if any) which were conducted during the year ended 31 December 2022, the shareholders' communication policy was found to be effective and adequate.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS *(CONTINUED)*

Dividend Policy

The Company has adopted a dividend policy (“Dividend Policy”), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company (the “Shareholders”), provided that the Group records a profit after tax and that the declaration and distribution of dividends does not affect the normal operations of the Group.

The Dividend Policy which aims to provide the Shareholders with a target annual dividend payout of approximately 20% of the net profit attributable to the Shareholders in any financial year, whether as interim and/or final dividends, the declaration and payment of dividends being determined at the sole discretion of the Board. The total dividend recommended, declared or paid in any financial year shall not exceed 30% of the total net profit attributable to the Shareholders, unless otherwise approved by the Board.

In proposing any dividend payout and/or determining the form, frequency and/or the amount of such dividend payout, the Board shall also take into account, inter alia:—

- (i) the actual and expected financial performance and financial conditions of the Group;
- (ii) retained earnings and distributable reserves;
- (iii) results of operation and cash flow;
- (iv) the level of the Company’s debts to equity ratio and return on equity;
- (v) the ability of the Company’s subsidiaries to make dividend payments to the Company;
- (vi) restrictions on payment of dividends that may be imposed on the Company by any of its financing arrangements;
- (vii) the Group’s expected working capital requirements, the Group’s expected capital expenditure, future expansion, other investment plans and other funding requirements;
- (viii) general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group, including such legal or contractual restrictions as may apply from time to time or which the Directors may consider appropriate in the interest of the Company; and
- (ix) such other factors that the Directors deem appropriate.

The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods.

On behalf of the Board
Tongguan Gold Group Limited

Yeung Kwok Kuen
Executive Director and Chief Financial Officer

Hong Kong, 27 March 2023