



Corporate Governance Report

The Company believes that good corporate governance provides a framework that is essential for effective management, healthy corporate culture, successful business growth and thereby enhancing Shareholders' value. It is committed to maintaining a high standard of corporate governance practices through the establishment of a comprehensive and efficient framework of policies, procedures and systems throughout the Group.

Corporate Governance Practices

During the year ended December 31, 2020, the Company has applied the principles of and has complied with all the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the year ended December 31, 2020.

Board of Directors

As at the date of this report, the Board comprises the following eleven Directors:

Executive Directors

Mr. Lu Chin Chu (*Chairman*)
Ms. Tsai Pei Chun, Patty (*Managing Director*)
Mr. Chan Lu Min
Mr. Lin Cheng-Tien
Mr. Hu Chia-Ho
Mr. Liu George Hong-Chih
Mr. Yu Huan-Chang

Independent Non-executive Directors

Mr. Wong Hak Kun
Mr. Ho Lai Hong
Ms. Yen Mun-Gie (*also known as Teresa Yen*)
Mr. Chen Chia-Shen

The list of Directors and their role and function is available on the Company's website.

During the year ended December 31, 2020, the Company has at all times met the requirements under Rules 3.10(1) and (2), and 3.10A of the Listing Rules by appointing sufficient number of independent non-executive directors with at least one of them possesses appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of its independent non-executive directors an annual confirmation confirming their independence pursuant to Rule 3.13 of the Listing Rules.



Corporate Governance Report

Relationship between Board Members

As at the date of this report, none of the members of the Board are related to one another.

Functions of the Board

The Board takes responsibility to oversee all major matters of the Group, including the formulation and approval (after taking into consideration of the recommendations made by the relevant committees) of all policies, overall strategies, risk management and internal control systems, and monitoring the performance of the senior management. The Directors make decisions objectively and in the interests of the Company.

The day-to-day management, administration and operation of the Group are delegated to the managing director and the senior management of the Company. The delegated functions and work tasks are reviewed periodically.

Board meetings and practices

The Board meets regularly and Board meetings are held at least four times a year at approximately quarterly intervals. The chairman holds at least annually one meeting with the independent non-executive directors of the Company without the presence of other Directors. Notices of regular Board meetings are served to all Directors at least fourteen days before the meetings to ensure that all Directors are given the opportunity to attend the meetings. All Directors are advised to inform the Company Secretary any time before the date specified on the notice if they wish to include any matter in the agenda of the meeting. Matters which are material and may cause potential conflicts of interest will be dealt with by physical Board meetings instead of by written resolutions of the Directors. Draft minutes of Board meetings are circulated to all Directors for review and comments within a reasonable time after the meetings prior to confirmation. Minutes are recorded in sufficient detail of the matters considered by the Board and decisions reached. The final versions of the minutes would be opened for inspection at any reasonable notice by any Directors.

During the year ended December 31, 2020, ten Board meetings and two Shareholders' meetings were held. The attendance rate of each Board members at such meetings are set out in the section entitled "Attendance rate of meetings".

General Meetings

The summary of the matters resolved at the general meeting of the Company held in 2020 are as follows:

| Date | Type of general meeting | Matters resolved |
|-------------------|-------------------------|---|
| May 31, 2020 | Annual general meeting | <ul style="list-style-type: none">Adopted the audited financial statements for the year ended December 31, 2019; andApproved the re-election of Directors, re-appointment of auditor and grant of general mandates to issue and repurchase shares. |
| November 26, 2020 | Special general meeting | <ul style="list-style-type: none">Approved the renewal of certain continuing connected transactions. |



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General Meetings (continued)

The 2021 AGM of the Company is scheduled to be held on Friday, May 28, 2021 at 2:00 p.m.. Shareholders may refer to the notice of the 2021 AGM dated April 23, 2021 for details.

All resolutions at the general meetings of the Company shall be decided by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted by a show of hands.

Induction and Continuous Professional Development of Directors

According to code provision A.6.1 of the CG Code, all newly appointed Directors are given a comprehensive, formal and tailored induction programme to ensure their proper understanding of the Company's operations and business, awareness of their responsibilities and obligations under the Listing Rules and relevant laws.

According to code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development ("CPD") to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

The Company has received from all Directors of their respective training records. A summary of the trainings participated by the Directors during the year ended December 31, 2020 is as follows:

Mode of CPD Training Reading materials

Executive Directors

| | |
|----------------------------------|---------|
| Lu Chin Chu | 8 hours |
| Tsai Pei Chun, Patty | 8 hours |
| Chan Lu Min | 8 hours |
| Lin Cheng-Tien | 8 hours |
| Tsai Ming-Lun, Ming ¹ | 3 hours |
| Hu Chia-Ho | 8 hours |
| Liu George Hong-Chih | 8 hours |
| Hu Dien Chien ² | 5 hours |
| Yu Huan-Chang ³ | 5 hours |

Independent Non-executive Directors

| | |
|--|---------|
| Wong Hak Kun | 8 hours |
| Ho Lai Hong | 8 hours |
| Yen Mun-Gie (<i>also known as Teresa Yen</i>) | 8 hours |
| Chen Chia-Shen ⁴ | 8 hours |
| Hsieh Yung Hsiang (<i>also known as Alfred Hsieh</i>) ⁵ | N/A |

Notes:

1. Mr. Tsai Ming-Lun, Ming resigned as an executive director of the Company on April 1, 2020.
2. Mr. Hu Dien Chien resigned as an executive director of the Company on November 30, 2020.
3. Mr. Yu Huan-Chang was appointed as an executive director of the Company on April 27, 2020.
4. Mr. Chen Chia-Shen was appointed as an independent non-executive director of the Company on January 10, 2020.
5. Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh) retired as an independent non-executive director of the Company on March 25, 2020.



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Directors' Liability Insurance and Indemnity

The Company has arranged for appropriate liability insurance to cover the liabilities of the Directors that may arise out of the corporate activities. The insurance coverage is reviewed on an annual basis. During the year ended December 31, 2020, no claim was made against any Directors.

Chairman and Managing Director

The position of the chairman of the Company is held by Mr. Lu Chin Chu and the position of the managing director of the Company is held by Ms. Tsai Pei Chun, Patty. The roles of the chairman and the managing director are clearly segregated and are not exercised by the same individual.

The chairman of the Company provides leadership for the Board and ensures that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. It also ensures that the Board as a whole plays a full and constructive part in the development and determination of the Group's strategies and policies and that Board decisions taken are in the Group's best interests and fairly reflect the Board's consensus. The managing director of the Company leads the management in the day-to-day operation of the Group's business in accordance with the business plans and develops and proposes the Group's strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

Appointment and Re-Election of Directors

Any appointment of a new Director is recommended by the nomination committee of the Company (the "Nomination Committee") with reference to the Company's Nomination Policy and Board Diversity Policy for the Board's consideration and approval and is subject to the approval by the Shareholders in general meetings. Any Director who is appointed by the Board to fill a casual vacancy shall retire at the first general meeting of the Company after appointment. Any Director who is appointed as an addition to the Board shall hold office only until the next following annual general meeting of the Company.

All independent non-executive directors of the Company are appointed for a specific term of three years. All Directors are subject to retirement by rotation at least every three years and re-election in accordance with the provisions of the Listing Rules and the Bye-laws. At least one-third of the Directors shall retire from office every year at the Company's annual general meeting.

Board Committees

Currently, the Board has established three principal committees, namely the Nomination Committee, the remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") of the Company. Each committee is delegated with specific authorities by the Board in assisting the Board to discharge its duties and to administer particular aspects of the Group's activities. The Board and all Board committees are provided with adequate resources to discharge their duties and can seek independent professional advice at the Company's expense whenever deemed necessary by Directors. The roles and functions of each committee are summarized below.

Nomination Committee

The Nomination Committee was established on December 29, 2011 with written terms of reference which are available under the "Corporate Governance" section of the Company's website.



Corporate Governance Report

Board Committee (continued)

Nomination Committee (continued)

The Nomination Committee currently comprises Mr. Ho Lai Hong (chairman of the Nomination Committee), Ms. Tsai Pei Chun, Patty and Ms. Yen Mun-Gie (also known as Teresa Yen). All of the Nomination Committee members are independent non-executive directors of the Company except for Ms. Tsai Pei Chun, Patty who is an executive director of the Company.

The primary duties of the Nomination Committee are: (i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board; (ii) to identify individuals suitably qualified to become Board members; (iii) to assess the independence of independent non-executive directors of the Company; (iv) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and (v) to review the Board Diversity Policy of the Company and make recommendation to the Board on any revisions to the same, as appropriate, to ensure its effectiveness.

The Nomination Committee held three meetings during the year ended December 31, 2020. The attendance rate of each committee members are set out in the section entitled "Attendance rate of meetings".

The following is a summary of the work performed by the Nomination Committee for the year ended December 31, 2020:

- Assessed, reviewed and affirmed the independence of the independent non-executive directors of the Company;
- Reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board;
- Considered the re-appointment of two executive directors of the Company upon expiry of their respective service agreements in 2020, and made recommendation for the Board's approval;
- Recommended the retirement and re-election of Directors at the 2020 AGM for the Board's approval;
- Reviewed the Company's Board Diversity Policy and Nomination Policy and their respective effectiveness;
- Considered the appointment of a new independence non-executive director of the Company, with reference to his independence and the Company's Board Diversity Policy and Nomination Policy, and made recommendation for the Board's approval; and
- Considered the appointment of a new executive director of the Company, with reference to his background against the selection criteria set out in the Company's Board Diversity Policy and Nomination Policy, and made recommendation for the Board's approval.



Corporate Governance Report

Board Committee (continued)

Remuneration Committee

The Remuneration Committee was established with written terms of reference which are available under the “Corporate Governance” section of the Company’s website.

The Remuneration Committee currently comprises Mr. Wong Hak Kun (chairman of the Remuneration Committee), Mr. Ho Lai Hong, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Chen Chia-Shen. All of the Remuneration Committee members are independent non-executive directors of the Company.

The primary duties of the Remuneration Committee are to make recommendations to the Board on (i) the Company’s policy and structure for all Directors’ and senior management’s remuneration; (ii) the remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation payments, etc.; and (iii) the remuneration of non-executive directors.

The Remuneration Committee held three meetings during the year ended December 31, 2020. The attendance rate of each committee members are set out in the section entitled “Attendance rate of meetings”.

The following is a summary of the work performed by the Remuneration Committee for the year ended December 31, 2020:

- Considered the remuneration of a new independent non-executive director and a new executive director of the Company, and made recommendation for the Board’s approval;
- Considered the remuneration of two executive directors of the Company for renewal of their service agreements in 2020, and made recommendation for the Board’s approval;
- Reviewed the Company’s 2019 remuneration for management with reference to the Board’s corporate goal and objectives, salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group, and made recommendation for the Board’s approval;
- Reviewed the Company’s policy and structure for all Directors’ and senior management’s remuneration; and
- Made sure that no Director or his/her associate was involved in deciding his/her own remuneration.

Pursuant to B.1.5 of the CG Code, the remuneration of the senior management of the Company by band for the year ended December 31, 2020 was set out in Note 11 to the consolidated financial statements.



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Board Committees (continued)

Audit Committee

The Audit Committee was established with written terms of reference which are available under the "Corporate Governance" section of the Company's website.

The Audit Committee currently comprises Mr. Wong Hak Kun (chairman of the Audit Committee), Mr. Ho Lai Hong, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Chen Chia-Shen. All of the Audit Committee members are independent non-executive directors of the Company. The Audit Committee has reviewed the audited consolidated financial statements for the year ended December 31, 2020.

The primary duties of the Audit Committee are: (i) to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor; (ii) to approve the remuneration and terms of engagement of the external auditor; (iii) to monitor integrity of the Company's financial statements, interim and annual reports, and to review significant financial reporting judgments contained in such documents; and (iv) to oversee the Company's financial reporting system, risk management and internal control systems. At least twice a year the Audit Committee meets with the external auditor, without the presence of executive directors of the Company, to discuss any area of concern during the audit or review.

The Audit Committee held four meetings during the year ended December 31, 2020 (three of the meetings have met with the external auditor of the Company). The attendance rate of each committee members are set out in the section entitled "Attendance rate of meetings".

The following is a summary of the major works performed by the Audit Committee for the year ended December 31, 2020:

- Reviewed the continuing connected transactions of the Group for the year ended December 31, 2019;
- Reviewed the Group's final results for the year ended December 31, 2019 and the interim results for the six months period ended June 30, 2020;
- Made recommendation to the Board for re-appointment of Deloitte as the Group's external auditor;
- Reviewed Deloitte's performance, independence and objectivity and the effectiveness of the audit process and its scope;
- Reviewed the Group's quarterly results for the three months ended March 31, 2020 and for the nine months ended September 30, 2020 respectively;
- Reviewed the "Report to the Audit Committee" prepared by the external auditor for the year ended December 31, 2019 and the six months ended June 30, 2020 respectively;
- Reviewed the internal audit report and the effectiveness of the risk management and internal control systems, both for the year ended December 31, 2019 and the six months ended June 30, 2020 respectively;
- Reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions and the effectiveness of the internal audit function, and made recommendation to the Board;



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Board Committee (continued)

Audit Committee (continued)

- Reviewed the arrangements employees of the Group can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters; and
- Reviewed the audit planning report prepared by the external auditor for the year ending December 31, 2020.

Attendance Rate of Meetings

The attendance rate of the Board, principal committees and Shareholders' meetings held in 2020 are as follows:

| | Shareholders' Meetings | Board Meetings | Audit Committee Meetings | Remuneration Committee Meetings | Nomination Committee Meetings |
|--|------------------------------------|-------------------|-----------------------------|---------------------------------------|-------------------------------------|
| | Number of Meeting(s) Attended/Held | | | | |
| Executive Directors | | | | | |
| Lu Chin Chu | 2/2 | 10/10 | N/A | N/A | N/A |
| Tsai Pei Chun, Patty | 2/2 | 10/10 | N/A | N/A | 3/3 |
| Chan Lu Min | 2/2 | 10/10 | N/A | N/A | N/A |
| Lin Cheng-Tien | 2/2 | 10/10 | N/A | N/A | N/A |
| Tsai Ming-Lun, Ming ¹ | N/A | 4/4 | N/A | N/A | N/A |
| Hu Chia-Ho | 1/2 | 10/10 | N/A | N/A | N/A |
| Liu George Hong-Chih | 2/2 | 10/10 | N/A | N/A | N/A |
| Hu Dien Chien ² | 2/2 | 10/10 | N/A | N/A | N/A |
| Yu Huan-Chang ³ | 2/2 | 5/5 | N/A | N/A | N/A |
| Independent Non-Executive Directors | | | | | |
| Wong Hak Kun | 2/2 | 10/10 | 4/4 | 3/3 | N/A |
| Ho Lai Hong | 2/2 | 10/10 | 4/4 | 3/3 | 3/3 |
| Yen Mun-Gie (also known as Teresa Yen) | 2/2 | 10/10 | 4/4 | 3/3 | 3/3 |
| Chen Chia-Shen ⁴ | 2/2 | 9/9 | 4/4 | 2/2 | N/A |
| Hsieh Yung Hsiang ⁵ (also known as Alfred Hsieh) | N/A | 3/3 | N/A | 1/1 | N/A |

Notes:

- Mr. Tsai Ming-Lun, Ming resigned as an executive director of the Company on April 1, 2020.
- Mr. Hu Dien Chien resigned as an executive director of the Company on November 30, 2020.
- Mr. Yu Huan-Chang was appointed as an executive director of the Company on April 27, 2020.
- Mr. Chen Chia-Shen was appointed as an independent non-executive director of the Company on January 10, 2020.
- Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh) retired as an independent non-executive director of the Company on March 25, 2020.



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Corporate Governance Functions

The Board is primarily responsible for performing the corporate governance functions of the Company.

The following is a summary of the work performed by the Board for the year ended December 31, 2020:

- Reviewed the Statement of Policy on Corporate Governance of the Company;
- Reviewed the training and continuous professional development of the Directors;
- Reviewed the practices on compliance with legal and regulatory requirements and the CG Code; and disclosure in the Corporate Governance Report as inherent in 2019 Annual Report;
- Reviewed the effectiveness of the Company's Shareholders' Communication Policy; and
- Reviewed the Code of Conduct of the Company.

The Board adopted a Statement of Policy on Corporate Governance which sets out the key corporate governance principles observed by the Company and illustrates the practices and systems established by the Board in line with those principles. It serves as a framework guideline to assist the Board in supervising the management of the business and affairs of the Group.

Board Diversity Policy

The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. As mentioned in the Board Diversity Policy adopted by the Company, selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates may bring to the Board. Further details of the Board's composition with their diversity perspectives are included in the section "Biographical Details of Directors and Senior Management" of this report.

Nomination Policy

The Company adopted a Nomination Policy on November 13, 2018. The Nomination Policy incorporated the selection criteria and nomination procedures for nomination of Directors. When considering a candidate nominated for directorship or a director's proposed re-appointment, the Nomination Committee will have regard to the following factors:

- with reference to the Company's Board Diversity Policy, a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;



Corporate Governance Report

Nomination Policy (continued)

- commitment to devote sufficient time and attention to the Company's affairs;
- character and integrity;
- accomplishment, experience and knowledge in the relevant industry; and
- in respect of an independent non-executive director, independence of the candidate.

The aforesaid criteria are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

The Nomination Committee identifies or selects candidates recommended to the Nomination Committee pursuant to the aforesaid criteria. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation. The Board maintains final decision on all matters relating to the selection and appointment of Directors and its recommendation of candidates to stand for election at any general meeting. Where the re-election or appointment of Directors is subject to shareholders' approval at a general meeting, a circular containing all the information of the candidates required under Rules 13.51(2) of the Listing Rules (as amended from time to time) and other applicable rules and regulations shall be sent to shareholders. No Director should be involved in deciding the recommendation of his/her own re-election.

Dividend Policy

The Company adopted a Dividend Policy on November 13, 2018. The Company is committed to maintaining a sustainable and stable absolute return to shareholders in the form of dividend. The Board has complete discretion on whether to pay a dividend, subject to shareholder's approval, where applicable. The Board shall decide the form, frequency and amount of the dividend payments.

The actual dividend payments will depend on a number of factors, including but not limited to the following:

- Financial performance of the Company;
- Conservation of adequate funds for the Company's capital expenditures or other strategic initiatives for growth and expansion prospects;
- Cash position and availability of funds for dividend payments;
- Financial position of the Company such as its capital structure and debt repayment capabilities;
- Any restraints on dividend payments as contained in the financing agreements; and
- Other factors that the Board may consider relevant.

The Company's ability to make distributions is also subject to the requirements of Bermuda law, the Bye-laws, the Listing Rules and any other applicable laws and regulations.



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Auditor's Remuneration

During the year ended December 31, 2020, the remuneration paid or to be payable to the Company's external auditor, Deloitte, is set out as follows:

| | US\$'000 |
|--------------------|--------------|
| Audit services | 1,399 |
| Non-audit services | 332 |
| Total | 1,731 |

The above non-audit services include the review of interim financial statements, professional advisory on taxation and professional services rendered in connection with review of consolidation system and advisory on environmental, social and governance reporting requirement.

Directors' Responsibility and Auditor's Responsibility in Respect of Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements which give a true and fair view of the state of the Group's affairs and results. In doing so, the generally accepted accounting standards and suitable accounting policies in Hong Kong are adopted and applied consistently. The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Company's ability to continue as a going concern.

The statement of the auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 72 to 77 of this annual report.

Company Secretary

The Company Secretary is an employee of the Company and is appointed by the Board. The Company Secretary confirmed that he has taken at least 15 hours of relevant professional training during the year under review in compliance with Rule 3.29 of the Listing Rules.

Shareholders' Rights

The general meetings of the Company provide a communication channel between the Shareholders and the Board. An annual general meeting of the Company is held in each year and at the place as may be determined by the Board. General meetings other than an annual general meeting are called special general meetings. The Board may whenever it thinks fit convene special general meetings.

The Procedures for Shareholders to Convene a Special General Meeting

Pursuant to Bye-law 58 of the Bye-laws, Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary at the Company's principal place of business in Hong Kong, to require a special general meeting to be convened by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act of Bermuda.



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Shareholders' Rights (continued)

The Procedures for Sending Enquiries to the Board

The enquiries must be in writing with the detailed contact information of the requisitionists and deposited with the Board or the Company Secretary at the Company's principal place of business in Hong Kong as below:

Yue Yuen Industrial (Holdings) Limited
22nd Floor, C-Bons International Center
108 Wai Yip Street, Kwun Tong
Kowloon, Hong Kong

The Procedures for Shareholders to Put Forward Proposals at Shareholders' Meetings

Pursuant to Sections 79 and 80 of the Companies Act of Bermuda, registered Shareholders are entitled to put forward proposals at general meetings if they (i) represent not less than one-twentieth of the total voting rights at general meetings of the Company at the date of deposit of the requisition; or (ii) are not less than 100 registered Shareholders. The written requisition stating the resolution(s) should be duly signed by the registered Shareholder(s) concerned, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with must be deposited at the Company's principal place of business in Hong Kong. The requisition will be verified by the Company's branch share registrar in Hong Kong and upon their confirmation that the same is proper and in order, the Company Secretary will arrange to include the proposed resolution in the agenda of the general meeting.

The Procedures for Shareholders to Propose a Person for Election as a Director

As regards the procedures for proposing a person for election as a Director, please refer to the procedures made available under the "Corporate Governance" section of the Company's website.

Information Disclosure and Investor Relations

The Board maintains an on-going dialogue with the Shareholders and the investment community mainly through the Company's financial reports, annual general meetings and by making available its corporate communications and publications on the Company's website.

There is no change in the Memorandum of Association and Bye-laws of the Company during the year ended December 31, 2020. The aforesaid constitutional document is available for public inspection at the Company's website.

Shareholders Communication Policy

The Company adopted a Shareholders Communication Policy setting out the Company's procedures in providing the Shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, with a view to enabling the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and the investment community to engage actively with the Company.



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Risk Management and Internal Control

The Board is responsible for maintaining sound and effective risk management and internal control systems for the Group, as well as reviewing the effectiveness of these systems. These systems are designated 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, and to assist in the achievement of the Group's objectives. These systems also ensure the maintenance of proper accounting records and compliance with operating procedures as well as relevant laws and regulations.

During the year under review, the internal audit function of the Group was performed by the internal audit department, which was responsible for the analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Group. At the same time, it also assessed the risks inherent to the business and operation, and conducted reviews or audits to provide reasonable, and not absolute, assurance that adequate governance and controls are in place to address such risks. The Board had reviewed, through the Audit Committee, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. The Board had also reviewed, through the Audit Committee, the effectiveness of the Group's risk management and internal control systems including financial control, operational control and compliance control, for the year ended December 31, 2019 and for the six months ended June 30, 2020, in March and in August 2020 respectively, and considered such systems to be effective and adequate.

Main Features of the Risk Management and Internal Control Systems

The Board performs its duties by formulating policies and procedures, including parameters for delegated authorization, which provide a framework for identification and management of risks. The Board takes responsibility to oversee all major matters of the Group, including the formulation and approval of all policies, overall strategies, risk management and internal control systems after taking into consideration of the recommendations made by the relevant committees, as well as monitoring the performance of the senior management and approving the detailed operational and financial report, budget and business plan submitted by the management. Meanwhile, the managing director conducts regular reviews with the management team of each core business unit on their authorized functions and work.

The management (including relevant heads of business units, departments and divisions) appropriately designs, implements and monitors the risk management and internal control systems, and ensures the effective performance of these systems; monitors risks and takes measures to mitigate risks in daily operations; provides timely responses and follow-up actions to findings on internal control matters raised by internal audit department or by external auditors; and provides confirmation to the Board on the effectiveness of these systems.

The Audit Committee is responsible for the ongoing review of the Group's risk management and internal control functions. On behalf of the Board, the Audit Committee regularly reviews the Group's risk management and internal control systems; ensures that the management has performed its duty to have effective systems; considers major investigation findings on risk management and internal control matters and management's responses to these findings; ensures co-ordination between the internal audit department and external auditor; and ensures that the internal audit function is adequately resourced and has appropriate standing within the Group, and reviews and monitors the effectiveness of the internal audit function.



Corporate Governance Report

Risk Management and Internal Control (continued)

Risk Management

The Group has put in place a set of internal audit planning and risk assessment systems, for the identification, assessment and management of significant risks. The processes are:

1. Audit Planning
 - a. Audit Subject Selection – The Group's risks are assessed according to financial risk factor and non-financial risk factor, and different factors are weighted according to their respective importance. At the same time, the Group's businesses are categorized into eight industry groups, according to the characteristics of the respective product, for the assessment of risks and the selection of business units as audit subjects accordingly. Apart from selecting audit subjects according to the risks assessment system, the auditing work will also be carried out according to the instructions of the Board and the senior management of the Group, or according to the requests of the heads of the business units.
 - b. Audit Preparation – After an annual refreshment of relevant data, the risk levels of each business units are recalculated, the audit of the new financial year is planned, and the Group's risk assessment report and the internal audit plan are presented to the Audit Committee by the head of the internal audit department.
2. Information Inspection and Evaluation – According to the annual internal audit plan and audit procedures, to understand, examine and evaluate the situation of internal control. According to the needs revealed from internal control assessment, the test is broadened to discover problems, after which the audit report will be produced and recommendations are made.
3. Audit results are communicated to the audited business units.
4. The head of the internal audit department reports to the Audit Committee half-yearly and annually on the results of audit work.
5. Improvements on defects discovered and mitigation of risks are requested and progresses are continuously tracked.

Internal Control Measures

Executive directors are appointed to the boards of all significant operating subsidiaries and associates to oversee the operations of these companies, which include the participation in their board meetings, approval of budgets and operating strategies, as well as the identification of related risks and formulation of key performance indicators. The management team of each core business unit is responsible for every business in their respective department. Similarly, the management team of each business unit is also responsible for their own conduct and performance. The Group's managing director continuously monitors the Group's performance and reviews the risk conditions of these companies through these measures.

The Group's internal control procedures include a set of comprehensive reporting system, through which informative reports are produced to the management team of each core business unit and to the executive directors.



Corporate Governance Report

Risk Management and Internal Control (continued)

Internal Control Measures (continued)

As part of the Group's annual business plan, business plans and budgets are prepared annually by individual business units, which are subject to approval by the management team and the managing director. Regular reviews of the differences between projections and actual financial data are conducted, and comparisons of variances against the original budgets are made and approved. In preparing budgets and making revised forecasts, the management will identify, assess and report on the likelihood of significant risks facing the business units and their potential financial impacts.

The executive directors of the Company review the monthly management reports which cover the financial performance and major operating statistics of each business unit, and meet regularly with the operation management team and senior business management team of the business units to review such reports, compare the business performances against the budgets and perform business forecasts as well as material risks assessments and strategies. In addition, the heads of the management team of the core business units meet quarterly with the managing director and their respective team members to review and carry out risk assessments, decisions and related matters of the major issues.

Inside Information

In respect of compliance with the requirements of the SFO and the Listing Rules to identify, handle and disseminate inside information (having the meaning under the SFO), the Group has adopted the Inside Information Policy to ensure that inside information of the Group is disseminated to the public in equal and timely manner and in accordance with the applicable laws and regulations. It is the obligation of the Board to ensure the Company's compliance with its disclosure responsibilities. The Company must disclose inside information to the public as soon as reasonably practicable, unless the "safe harbor" provisions under the SFO apply. The Board shall take reasonable precautions for preserving the confidentiality of inside information and the relevant announcement (if applicable) before publication. The Company has implemented procedures and adopted the "Guidelines for Securities Transactions by Relevant Employees". To guard against mishandling of inside information, the Group's securities transactions by the Directors and relevant employees are subject to pre-clearance and the Directors and relevant employees are notified of the regular blackout period and securities dealing restrictions. If there are rumours in the public, concern should be addressed to the disclosure committee of the Company for determination as to whether the nature of such rumours falls into the category of insider information as mentioned above. No persons other than those authorized by the Board shall disclose or clarify any inside information, or attempt to do so, in particular to the media, analysts or investors. Any disclosure of inside information must be made through the electronic publication system operated by the Stock Exchange's and the Company's website.



Corporate Governance Report

Risk Management and Internal Control (continued)

Internal Audit

The head of the Group's internal audit department reports to the managing director on the department's daily duties, and directly reports to the Audit Committee. The internal audit department formulates its annual audit plan based on the risks assessment method, taking into consideration the operational mechanism of the Group. The plan is reviewed by the Audit Committee and re-assessed during the year, if necessary, to ensure that sufficient resources are available for use and the objectives of the plan are achieved. The internal audit department is responsible for the assessment of the risk management and internal control systems of the Group, provision of impartial advices on the system, reporting the assessment results to the Audit Committee, managing director and relevant senior management, and following up on all reports to ensure the satisfactory resolution of all issues. Depending on the business nature and risks of the individual business unit, the work of internal audit function includes reviews on finance/information technology and operation, recurring and ad hoc audits and fraud investigations, etc. In addition, the internal audit department also communicates with the Group's external auditors on a regular basis.

For the year under review, the Audit Committee considered that the Group's risk management and internal control systems were adequate and effective.