

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Company are of the opinion that during 2017, the Group has properly operated in accordance with the “Corporate Governance Code and Corporate Governance Report” (the “**CG Code**”) which sets out (a) the code provisions (which are expected to comply with); and (b) the recommended best practices (which are for guidance only) in Appendix 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The Group has complied with the code provisions and one of the recommended best practices of the CG Code for the period from 1 January 2017 to 31 December 2017 except for one deviation of code provisions as stated in the section headed “Compliance with CG Code” below.

The Board is committed to the principles of transparency, accountability and independence highlighted by the CG Code to better enhance the value of the Shareholders and proper management of corporate assets in the following ways:

1. ensuring the decision-making process, risk management process, internal audit and controls, disclosure of information and the communication with stakeholders are carried out in accordance with good management practices and compliance with the respective regulatory standards;
2. cultivating a culture of integrity, transparency and accountability for the Company, its staff and the Directors and emphasising the importance of their roles in such an environment; and
3. adopting quality standards widely recognised to foster quality management in every aspect of daily operations to enhance the performance and value of the Company as a whole.

Corporate Strategy

The primary objective of the Company is to enhance long-term business return for Shareholders. To achieve this objective, the Group’s strategy is to place high emphasis on achieving long-term financial performance and maintaining the Group’s strong financial profit. The Chairman’s Statement and the Management Discussion and Analysis contain discussions and analyses of the Group’s performance and the basis on which the Group generates or preserves value over the longer term, and the basis on which the Group will execute its strategy for achieving the Group’s objectives.

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COMPLIANCE WITH CG CODE

The Directors confirm that, for the financial year ended 31 December 2017, the Company was in compliance with the code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules save for the deviation mentioned below:

Since 22 March 2016, Mr. Liu Tingan has been acting as an executive Director, the chairman as well as the chief executive officer of the Company up to 19 April 2018, being the latest practicable date prior to the printing of this annual report (the “**Latest Practicable Date**”). This arrangement deviates from the provision of A.2.1 of the CG Code, which provides that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

The Directors are of the opinion that the current arrangement can enable the Group to have a more efficient and effective management and can enable the Group to have a solid business and strategic planning. The Directors believe that it does not have a material adverse impact on the corporate governance of the Company.

The Board will carry out a regular review and propose any amendment, if necessary, to ensure compliance with the CG Code provisions as set out in the Listing Rules.

The Company has in practice complied with the new requirements under the amendments to C.3.3 of the CG Code relating to risk management and internal control during the year 2017. The Board has complied with the existing terms of reference for the audit committee of the Board (the “**Audit Committee**”) so as to fulfill the requirements under C.3.3 of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE “**MODEL CODE**”)

The Company has adopted its own code of conduct (the “**Own Dealing Code**”) regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code in Appendix 10 of the Listing Rules.

The Company, having made specific enquiries, confirms that members of the Board complied with the Own Dealing Code throughout 2017. Members of the Company’s management, who, due to their positions in the Company, are likely to be in possession of inside information, also complied with the provisions of the Own Dealing Code.

The updated Own Dealing Code has been uploaded on the Company’s website.

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THE BOARD OF DIRECTORS

As at 31 December 2017, the Board consisted of six Directors, with a variety and a balance of skills and experience in accounting, banking, manufacturing, marketing, finance and investment professions. Their biographical particulars are set out on pages 58 to 66 of this annual report. List of Directors and Their Role and Function, which sets out the members and composition of the Board, has been uploaded on the Stock Exchange's website and the Company's website.

Members of the Board and their respective attendance to Board meetings and general meetings held during the year ended 31 December 2017 are as follows:

Names of Directors	Number of attendance at Board meetings	Number of attendance at general meetings
Executive Directors		
Mr. Liu Tingan (<i>the Chairman and Chief Executive Officer</i>)	6/6	3/3
Mr. Cheok Ho Fung (<i>Deputy Chairman</i>)	3/7	1/3
Mr. Zhou Huorong (<i>resigned on 26 July 2017</i>)	3/4	0/2
Non-executive Director		
Mr. Mao Yumin (<i>appointed on 10 March 2017</i>)	5/6	1/2
Independent non-executive Directors		
Mr. Ng Man Kung	7/7	3/3
Dr. Ngai Wai Fung (<i>resigned on 18 April 2018</i>)	7/7	3/3
Mr. Lau Fai Lawrence	7/7	3/3

The number of Board meetings held during the year ended 31 December 2017 was 7.

The number of general meetings held during the year ended 31 December 2017 was 3.

During the year, the Company had reached the minimum requirement of three independent non-executive Directors forming more than one-third of the Board, all of whom have accounting and related financial management expertise. They dedicated to provide the Company with professional advice with respect to the steady operation and development of the Company. They also exercised supervision and coordination to safeguard the interests of the Company and its shareholders.

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Each independent non-executive Director during the year ended 31 December 2017 had provided an annual confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on such annual confirmation received from each of the independent non-executive Directors, the Company considers that all independent non-executive Directors are still considered to be independent during their tenure of office in the Company for the purpose of Rule 3.13 of the Listing Rules.

All existing independent non-executive Directors have signed letters of appointment with the Company for a term of not more than three years, and will be subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Bye-laws of the Company and the requirements of the Listing Rules.

The remuneration of non-executive Directors is reviewed by the remuneration committee of the Board (the “**Remuneration Committee**”) and is fixed from time to time by the Board subject to the authority granted pursuant to the Company’s Bye-laws by the Shareholders at the Company’s general meetings.

As at the Latest Practicable Date, the members of the Board are Mr. Liu Tingan (executive Director, Chairman of the Board and Chief Executive Officer), Mr. Cheok Ho Fung (executive Director and Deputy Chairman), Mr. Mao Yumin (non-executive Director), Mr. Ng Man Kung (independent non-executive Director) and Mr. Lau Fai Lawrence (independent non-executive Director).

Dr. Ngai Wai Fung resigned as independent non-executive Director effective on 18 April 2018. He ceased to act as chairman of the Remuneration Committee, and a member of the Audit Committee and Nomination Committee respectively on 18 April 2018.

THE OPERATION OF THE BOARD

One of the main responsibilities of the Board is to supervise and direct the management of the Company to operate under good corporate governance in order to maximise value of the Shareholders while balancing the interest of its various stakeholders. The Board holds meetings quarterly so as to monitor the performance and discuss the business development of the Company against the budget, to discuss and decide on major corporate, strategic and operational issues, and to evaluate any available investment opportunities.

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The major duties performed by the Board are as follows:

1. setting the Company's values and standards;
2. setting the objectives of the Company and responsibilities of the Board and its various committees;
3. establishing the strategic direction for the Company;
4. setting targets for the management of the Group;
5. monitoring the performance of the management of the Group;
6. reviewing the annual and interim results of the Group;
7. ensuring that a framework of prudent and effective internal control is in place to assess and manage the risk of the Group and implementing appropriate systems to manage these risks;
8. overseeing the Company's relationships with its Shareholders, customers, the community, various government authorities, interest groups and others;
9. identifying and assessing any matters of a substantial Shareholder or a Director resulting in conflict of interest;
10. determining material acquisitions and disposals of assets, investments, capital, projects, authority levels, major treasury policies, risk management policies and key human resources issues; and
11. considering and determining issues which are the responsibilities of the Board pursuant to the Company's Memorandum of Association and Bye-laws and the relevant laws and regulations in force by which the Company is governed from time to time.

The Board is also responsible for the following corporate governance duties:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations on any amendment or updating (if any);
2. to review and monitor the training and continuous professional development of Directors and the Company's senior management;

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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 the Company's employees and Directors;
5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report (the "**CG Report**") under the CG Code; and
6. to be responsible for performing any other corporate governance duties and functions set out in the CG Code and the Listing Rules (as amended from time to time), or delegating the responsibility to a committee or committees (if applicable).

During the year, the Company had reviewed its corporate governance policy by the Board in achieving high standards of corporate governance duties. The Board will further develop and review this policy regularly and at least annually so as to make recommendations on any amendment or updating (if any).

During the year, the Board had delegated its authority to the nomination committee of the Board (the "**Nomination Committee**") to review its board diversity policy for the Company and the terms of reference of the Nomination Committee. The Board (via the reporting from the Nomination Committee) had reviewed and considered the measurable objectives that it has set for implementing the Company's board diversity policy during the year and would, together with its Nomination Committee, regularly review the progress on achieving those objectives.

The Board delegates to the management of the Company in respect of the major corporate matters as stated below:

1. preparation of the annual and interim results of the Group to be approved by the Board;
2. execution of the corporate strategies and directions of the Group adopted by the Board;
3. implementation of sufficient systems of internal controls and risk management procedures of the Group; and
4. carrying out daily business operations and decision-makings of the Group, etc.

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BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established various committees to oversee particular aspects of the Company's affairs. These committees are governed by their respective terms of reference, which describe the authorities and duties of these committees and will be regularly reviewed and updated by the Board. These committees include the Audit Committee, the Remuneration Committee, the Nomination Committee, and executive committee (the "**Executive Committee**") of the Board whose terms of reference had been set out in writing respectively.

AUDIT COMMITTEE

The Audit Committee is composed of three independent non-executive Directors throughout the year.

The chairman of the Audit Committee is an independent non-executive Director who has the appropriate professional qualifications and experience in accounting or related financial management expertise as required by the Listing Rules. The Audit Committee discharges its responsibilities as follows and in accordance with its existing terms of reference being adopted by the Board:

1. reviewing and monitoring the integrity of the interim and annual results and financial statements of the Company and of the Group and reviewing significant financial reporting judgements;
2. reviewing and monitoring the reporting, accounting and financial policies and practices of the Group;
3. reviewing and primarily responsible for making recommendation to the Board on the appointment, re-appointment, retirement, resignation or removal of the Company's external auditor and reviewing their remuneration and terms of engagement, discussing their audit plan and scope of audit, and monitoring the external auditor's independence, objectivity and effectiveness of the audit process up to applicable standard, and also reporting the issues raised by the external auditor, including but not limited to those stated in their management letter addressed to the Board, implementing policy on engaging external auditor to supply non-audit services;
4. acting as the key representative body for overseeing the Company's relations with the external auditor;
5. reviewing the fairness and reasonableness of connected transaction(s) or continuing connected transaction(s) of the Company, if any;
6. ensuring full access by the respective responsible teams of the Group under corporate governance function of any concerns that may have arisen during the course of their corporate governance works;

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7. conducting annual review of the effectiveness of the Group's internal control and risk management systems as delegated by the Board and considering any findings of major investigation of its internal control and risk management matters; and ensuring the Group's management has discharged its duty to have an effective internal control and risk management system including the adequacy of resources, qualifications and experience of staff from the Group; and
8. reviewing arrangements which can be used by employees of the Company, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and the whistleblowing policy and system for employees which has been adopted by the Board on 27 March 2012.

During the year ended 31 December 2017, three Audit Committee meetings were held (whereas all of which had been held with the attendance of the Company's external auditor) to review the financial results and reports for the year ended 31 December 2016 and for the six months ended 30 June 2017, risk management and internal control processes, related party transactions, continuing connected transactions and discloseable transactions (if any), roles and responsibilities as well as works performed by the teams under corporate governance function, and the re-election of the Company's external auditor.

The Audit Committee has reviewed the consolidated annual results and financial statements of the Group for the year ended 31 December 2017, including the significant accounting principles and practices adopted by the Group.

This annual report has been reviewed by the Audit Committee.

The attendance record of each member of the Audit Committee at its meeting during the year ended 31 December 2017 is set out below:

Members of Audit Committee	Attendance
Mr. Lau Fai Lawrence (<i>Chairman</i>)	3/3
Mr. Ng Man Kung (<i>Member</i>)	3/3
Dr. Ngai Wai Fung (<i>Member</i>)	3/3

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Auditor's Remuneration

The Audit Committee of the Company is responsible for considering the appointment and re-election of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect to the Company. During the year under review, the remunerations paid/payable to the external auditor, BDO Limited, were as follows:

Type of services provided by the external auditor	Fee paid/payable (HK\$'000)
<i>Audit services:</i>	
Audit of the consolidated financial statements for the year ended 31 December 2017	2,200
<i>Non-audit services:</i>	
Review of continuing connected transaction(s)	10
Agreed-upon procedures on preliminary announcement of results	20
Agreed-upon procedures on interim financial statements for the six months ended 30 June 2017	100
Report on environmental, social and governance	138
Other professional services	200
Subtotal:	2,668
<i>Internal audit service:</i>	
Subcontracting internal audit function to a consultancy firm for the year ended 31 December 2017	917
	3,585

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REMUNERATION COMMITTEE

Throughout the year, three members of the Remuneration Committee were independent non-executive Directors.

The Remuneration Committee performs the following roles and functions in accordance with its terms of reference and its written remuneration policy adopted by the Board:

1. ensuring formal and transparent procedures for overseeing, developing and determining policies on the remuneration packages of Directors and the Company's senior management;
2. assessing the achievement and performance and reviewing the performance-based remuneration of executive Directors and the Company's senior management by reference to the Company's corporate goals;
3. approving the terms of executive Directors' service agreements or letters of appointment (as appropriate);
4. providing effective supervision and administration of the Company's share award or option schemes and other share incentive schemes (if available);
5. determining with delegated responsibility on the remuneration packages of individual executive directors and the Company's senior management or recommending to the Board on executive Directors' and the Company's senior management's remuneration packages, and reviewing the remuneration of Non-executive Directors; and
6. ensuring that no Director or any of his associates is involved in deciding his own remuneration.

During the year, the Company has made recommendations to the Board on the remuneration packages of Directors and the Company's senior management.

During the year ended 31 December 2017, two Remuneration Committee meetings were held to discuss and review the remuneration packages and bonus (if any) of executive Directors and other Directors and the terms of their service agreements and letters of appointment, and the remuneration policy of the Company and the Group as well as the adoption of the share award scheme (with reference to Remuneration Committee's terms of reference and Listing Rules).

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The attendance record of each member of the Remuneration Committee at its meeting for the year ended 31 December 2017 is set out below:

Members of Remuneration Committee	Attendance
Dr. Ngai Wai Fung (<i>Chairman</i>)	2/2
Mr. Ng Man Kung (<i>Member</i>)	2/2
Mr. Lau Fai Lawrence (<i>Member</i>)	2/2

NOMINATION COMMITTEE

Throughout the year, three members of the Nomination Committee were independent non-executive Directors.

The Nomination Committee performs the following roles and functions in accordance with its nomination procedures and criteria as follows and in accordance with its terms of reference and its written nomination policies adopted by the Board:

1. determining the policy for the nomination of Directors during the year;
2. adopting the nomination procedures and the process and criteria to select and recommend candidates for directorship during the year by considering the candidates' past performance and experience, academic and working qualifications, general market conditions in accordance with the requirements set out in the Listing Rules and the Company's Bye-laws so as to make the composition of the Board filled with a variety and a balance of skills and experience;
3. reviewing regularly the roles of Directors and considering any issue on conflict of interest, their performance and conduct;
4. assessing the independence of Independent Non-executive Directors; and
5. reviewing regularly the nomination policy and board diversity policy of the Company to ensure the effectiveness of these policies and to review any progress on achieving those objectives in these policies.

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The Board has adopted a board diversity policy (the “**Policy**”) to enhance its effectiveness. In designing the Board’s composition, the Policy has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, regional and industry experience, professional experience, skills, knowledge, length of services and time to be devoted as a director of the Company. The Company will consider all measurable objectives for implementing the Policy, and also take into account factors relating to its own business model and specific needs from time to time. The Board strives to ensure that it has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies and in order for the Board to be effective. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. Further details of the Policy were set out in the 2015 annual report despatched to the Shareholders previously and there is no further update since the adoption of the Policy.

During the year ended 31 December 2017, one Nomination Committee meeting had been held to discuss and review (i) the retiring Directors to be re-elected at the 2017 annual general meeting of the Company; (ii) the independence of the independent non-executive Directors; (iii) the terms of appointment of Directors; (iv) the structure, size and composition (including the skills, knowledge and experience) of the Board; (v) the role, performance and conduct of the existing Directors (including but not limited to the issues on any conflict of interest); (vi) any nomination of potential candidate in place of the resigned Director(s) to the Board; and (vii) the nomination policy and board diversity policy (including its measurable objectives and progress on achieving those objectives) of the Company (with reference to the Nomination Committee’s terms of reference and Listing Rules).

The attendance record of each member of the Nomination Committee at its meeting for the year ended 31 December 2017 is set out below:

Members of Nomination Committee	Attendance
Mr. Ng Man Kung (<i>Chairman</i>)	1/1
Dr. Ngai Wai Fung (<i>Member</i>)	1/1
Mr. Lau Fai Lawrence (<i>Member</i>)	1/1

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Under the CG Code provision A.4.2, every Director including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Bye-laws of the Company has provided that at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation such that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

Under the CG Code provision A.4.2, all Directors appointed to fill a casual vacancy should be subject to election by the Shareholders at the first general meeting of the Company after appointment. The Bye-laws of the Company has provided that the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

EXECUTIVE COMMITTEE

The Executive Committee operates with overall delegated authority from the Board. The Executive Committee carries out the following tasks for the purposes of dealing with the affairs relating to the day-to-day operations of the Group:

1. determining group strategies;
2. setting targets for the management;
3. reviewing business performance;
4. ensuring adequate funding; and
5. examining major investments.

For the period from 1 January 2017 to 31 December 2017 and up to the Latest Practicable Date, the members of the Executive Committee are Mr. Liu Tingan (Chairman)(executive Director), Mr. Cheok Ho Fung (Deputy Chairman)(executive Director) and Mr. Zhou Huorong (executive Director)(resigned on 26 July 2017).

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The attendance record of each member of the Executive Committee at its meeting for the year ended 31 December 2017 is set out below:

Member of the Executive Committee	Attendance
Mr. Liu Tingan (<i>the Chairman and Chief Executive Officer</i>)	1/1
Mr. Cheok Ho Fung (<i>Deputy Chairman</i>)	1/1
Mr. Zhou Huorong (<i>resigned on 26 July 2017</i>)	0/0

During the year ended 31 December 2017, one Executive Committee meeting was held, together with 17 written resolutions in lieu of Executive Committee meeting were passed, to consider and approve the affairs regarding the daily transactions and business operations of the Group.

TRAINING AND SUPPORT FOR DIRECTORS

The Group provides briefings, reading materials and other training opportunities to develop and refresh the Directors' knowledge and skills so as to keep them abreast of their collective responsibilities and to put more emphasis on the importance of roles, functions and duties of Directors.

The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices, and to ensure that their contribution to the Board remains informed and relevant.

During the year as required by CG Code, the Directors participated in the following trainings:

Name of Directors	Types of Training		
Executive Directors			
Mr. Liu Tingan (<i>Chairman and Chief Executive Officer</i>)	A	—	C
Mr. Cheok Ho Fung (<i>Deputy Chairman</i>)	A	—	C
Mr. Zhou Huorong (<i>resigned on 26 July 2017</i>)	—	—	C
Non-executive Director			
Mr. Mao Yumin	A	—	C
Independent non-executive Directors			
Mr. Ng Man Kung	—	—	C
Dr. Ngai Wai Fung (<i>resigned on 18 April 2018</i>)	A	B	C
Mr. Lau Fai Lawrence	A	—	C

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- A : attending seminars/conferences/forums (via different means)
- B : giving talks at seminars/conferences/forums
- C : self-reading: (newspapers, journals & updates re: global & Hong Kong economy, business of the Group, updates on Listing Rules, directors' duties, relevant statutory requirements)

CORPORATE MANAGEMENT, RISK MANAGEMENT AND INTERNAL CONTROL

The Board established a Whistleblowing Policy on 27 March 2012 which deals with and governs properly and fairly concerns raised by the Group's employees about any suspected malpractice or misconduct regarding financial reporting, internal control or other matters within the Group. The Audit Committee shall review regularly this Policy and ensure that arrangements are in place for independent and fair investigation of these matters and for appropriate following-up action.

The responsible teams of different sections or departments within the Group under corporate governance function play a major role in monitoring the internal corporate governance of the Group. They have unrestricted access to the information that allow them to review all aspects of the Group's risk management and governance processes in connection with nature of compliance and legal requirements. It also has the power to consult directly with the Audit Committee without the consent of the Company's management.

During the year, the Group has complied with Principle C.2 of the CG Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

Risk Management System

The Group adopts a risk management system which manages the risk associated with its businesses and operations. The system comprises the following phases:

- *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- *Evaluation:* Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

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Based on the enterprise risk assessments conducted in 2017, no significant risk was identified which might materially affect the Group's businesses and operations.

Internal Control System

The Company has an internal control system in place which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follows:

- *Control Environment:* A set of standards, processes and structures that provide the basis for carrying out internal controls across the Group.
- *Risk Assessment:* A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.
- *Control Activities:* Actions established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- *Information and Communication:* Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
- *Monitoring:* Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures to the Group's directors, officers and all relevant employees. The term "relevant employee" refers to employee of the Group, because of his office or employment, who is likely to be in possession of the unpublished inside information. The above mentioned persons are also recommended to make reference to the "Guidelines on Disclosure of Inside Information" issued by the SFC in June 2012. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

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- Confidentiality agreements are in place when the Group enters into significant negotiations.
- The Executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.
- Internal controls on handling and dissemination of inside information are set out under the section headed “Inside Information”.

Based on the internal control reviews conducted in 2017, no significant control deficiency was identified, which might affect the reliability and effectiveness of the Group’s internal controls.

Internal Auditors

The Group has an internal audit (“IA”) function, which is consisted of professional staff with relevant expertise (such as Certified Public Accountant). The IA function is independent of the Group’s daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An IA plan has been approved by the Board. According to the established plan, a review of the risk management and internal control systems is conducted annually and the results are reported to the Board through the Audit Committee.

Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for the risk management and internal control systems of the Group and ensuring review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board’s review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group’s ability to respond to changes in its business and the external environment (ii) the scope and quality of management’s ongoing monitoring of risks and of the internal control systems.

The Board, through its review and the review made by IA function and the Audit Committee during the year, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, 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. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

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OPERATION RISKS

The Group has implemented appropriate policies and procedures for all major operations. The Company's management closely monitors the procurement process and performs due diligence check on vendors. The quality assurance department and the reliability department ensure the stability of the manufacturing process and monitor products quality. The Group also strives to promote human resources reforms and comprehensively enhances cost management. At the same time, management of the Company also keeps close eyes on every investment process so as to ensure that they have exercised due care towards those investments made. By establishing clear policies and requiring well-documented business process, the exposure to operation risks is considered as minimal.

INVESTOR RELATIONS AND COMMUNICATION

The Board established a shareholders' communication policy on 27 March 2012 for maintaining an on-going dialogue with the Shareholders and other stakeholders and encouraging them to communicate actively with the Company. This policy sets out the principles of the Company in relation to shareholders' communications, with the objective of ensuring that its communications with the Shareholders and other stakeholders (including potential investors) with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable the Shareholders and other stakeholders to exercise their rights in an informed manner mainly through the Company's corporate communications (such as interim and annual reports, announcements and circulars, notices of meetings, proxy forms and listing documents), annual general meetings and other general meetings, as well as disclosure on the website of the Company.

Interim reports, annual reports and circulars and associated explanatory documents etc are sent to the Shareholders and are also posted on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.hkbridge.com.hk) under a dedicated "Investor Relations" section as soon as practicable in plain language and in both English and Chinese versions or where permitted, in single language, and will be updated on a regular basis and in a timely manner. The Company's website provides the Shareholders with the corporate information, such as principal business activities, the development of corporate governance and the corporate social responsibilities of the Group such as environmental protection, etc.

Shareholders are provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address (as indicated below), in order to enable them or even the Board to make any enquiry that they may have with respect to the Company or the Group. In addition, if the Company's registered shareholders have any enquiries about their shareholdings and entitlements to dividend, they can contact Tricor Tengis Limited, the Company's Hong Kong Branch Share Registrar and Transfer Office through the online holding enquiry service at www.tricoris.com or by email to is-enquiries@hk.tricorglobal.com or hotline at (852) 2980 1333 or in person at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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The Company will not normally deal with verbal or anonymous enquiries. However, Shareholders may send their enquiries to the following contacts:

Principal place of business in : Room 3601-02, Bank of America Tower, 12 Harcourt Road Central, Hong
Hong Kong Kong

For the attention of Chairman of the Board/Chief Executive Officer/
Company Secretary

Telephone : (852) 2710 2323
Fax : (852) 2323 8137
Email : investor.relations@hkbridge.com.hk

The Company's general meeting allows the Directors, its members of the Audit Committee, the Remuneration Committee and the Nomination Committee, respectively and its external auditor to meet and communicate with its Shareholders and to answer Shareholders' questions. The Company will ensure that the Shareholders' views can be properly communicated to the Board. For each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting, for instances, nomination of persons as Directors by means of a separate resolution. The Procedures for Shareholders to Propose a Person for Election as a Director of the Company has been uploaded on the website of the Company in the section "Corporate Governance" under "Investor Relations" section.

The proceedings of general meeting are reviewed from time to time to ensure that the Company follows good corporate governance practices. Notice of an annual general meeting (whether for the passing of a special resolution and/or an ordinary resolution) shall be called by not less than twenty business days' notice or twenty-one days' notice (whichever is longer) in writing at the least and a special general meeting called for the passing of a special resolution shall be called by twenty-one days' notice in writing at the least, and a general meeting of the Company (other than an annual general meeting or a meeting for the passing of a special resolution) shall be called by ten business days' notice or fourteen days' notice (whichever is longer) in writing at the least (whereas the notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given), and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules.

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The chairman of the general meeting exercises his power under the Company's Bye-laws to put each proposed resolution to the vote by way of a poll, save for the resolutions (if any) proposed by the chairman of the meeting regarding the approval on the procedural and administrative matters as defined in the Listing Rules. The procedures for demanding and conducting a poll are explained at the general meeting prior to the polls being taken. Shareholders who are entitled to attend and vote at a general meeting are entitled to ask about the poll voting procedures and details of the proposed resolutions at the general meeting whose questions should be answered during the general meeting prior to the conduction of poll voting. Announcement on poll voting results of general meeting will be posted on the Stock Exchange's website and the Company's website.

During the year, there was no significant change in the Company's Memorandum of Association and Bye-laws except for change in the Company's name on 25 January 2017.

The Company continues to commit to a proactive policy of promoting investor relations and effective communication with the Shareholders and analysts by better utilising the Company's website (www.hkbridge.com.hk) as a channel to disclose the Company's updated information and corporate communications to the Shareholders, stakeholders and the public on a timely basis.

Shareholders Rights

The Directors, pursuant to Bermuda Companies Act and notwithstanding anything in the Company's Bye-laws shall, on the requisition of the Shareholders holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company.

The requisition must state the purposes of the general meeting, and must be signed by the requisitionists and deposited at the Company's registered office, and may consist of several documents in like form each signed by one or more requisitionists.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a general meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a general meeting, but any general meeting so convened shall not be held after the expiration of three months from the said date.

A general meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which general meetings are to be convened by the Directors.

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Any number of Shareholders representing not less than one-twentieth (1/20) of the total voting rights of all the Shareholders or not less than 100 Shareholders, may make a requisition in writing to the Company to do the following (which will be done at the expense of the requisitionists unless the Company otherwise resolves):

- (i) to give to the Shareholders entitled to receive notice of the next annual general meeting and notice of any resolution which may properly be moved and is intended to be moved at that meeting; and/or
- (ii) to circulate to the Shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand (1,000) words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

A copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, must be deposited at the registered office of the Company.

- (i) in the case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and
- (ii) in the case of any other requisition, not less than one week before the meeting,

and there must be deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

However please note that if, after a copy of the requisition requiring notice of a resolution has been deposited at the registered office of the Company, an annual general meeting is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the time limit stated above shall be deemed to have been properly deposited for the purposes thereof.

Any reasonable expenses incurred by the requisitionists by reason of the failure of the Directors duly to convene a general meeting shall be repaid to the requisitionists by the Company.